ASEAN ECONOMIC UPDATE

Market Report

JULY 2022

Rāpopoto - Summary

- Since The ASEAN region has weathered the economic effects of COVID-19 better than expected. While there is some cause for optimism in the near term, the path ahead remains uncertain. A range of destabilising factors continue to threaten the region's prospects for a sustainable recovery, including inflationary pressures and the impacts on energy and food prices of Russia's invasion of Ukraine.
- There are also opportunities to work more closely with the region on specific sectors of mutual interest that carry benefits for New Zealand, particularly around regional halal certification and economic responses to climate change.
- This report provides a summary of the key economic developments and topics of interest affecting the ASEAN region over the last six months. It has been compiled from open source reporting and from conversations with regional stakeholders.

Pūrongo - Report

Economic overview

ASEAN remains an important market for New Zealand. ASEAN was New Zealand's third largest overall trade partner in 2021, with two-way trade at NZ$17.46 billion for the year, slightly ahead of the United States in fourth with NZ$17.16 billion. ASEAN also ranked fourth for export value (accounting for 9.1% of all New Zealand's exports), and third for highest imports (14.5% of all New Zealand's imports), although imports from the region outstripped exports by NZ$4.08 billion.

Dairy continues to be New Zealand's standout export sector for the region - accounting for nearly 44% of total exports - markedly ahead of travel services (6%) and other primary goods, such as nuts, wood and meat products. In return, ASEAN remains an important exporter of vehicles, fuels and transportation services for New Zealand.

ASEAN and China have a long established trade relationship, with each recently becoming the others largest trading partner (USD520 billion in 2019 and with double digit growth rates some estimates place current trade at USD880 billion by 2021). ASEAN's overall market share with China remains relatively modest at 18% of total trade, due to the strong role that intra-regional trade within ASEAN plays.

Economically – and with Myanmar the notable exception - the ASEAN region has not struggled as badly as expected from the effects of the pandemic. Both businesses and economic commentators are optimistic of a post-pandemic economic 'bounce' coupled by renewed growth (estimated at 4.9% for ASEAN this year, and 5.2 in 2023) as a result of easing COVID-19 restrictions, the return of tourist flows, and the release of pent-up consumer spending.

Despite some positive signs, the region's economic path ahead remains far from certain. While economic pressure is not manifesting in the same way - or at the same rate - across all the countries within the region, the cost of living is rising. Average regional inflation has steadily increased, with preliminary data suggesting a rise to 3.9% in April, up from 3% at the start of this year. Projections suggest this trend is expected to continue in the near term.

Russia's invasion of Ukraine and its destabilising effect on global food and energy pricing has exacerbated post-pandemic recovery issues, and magnified supply chain hangovers still plaguing the region. Faster than expected price increases and higher than average regional inflation is now evident among the largest of the region's economies, driven by shortages in supply, recovering domestic demand and higher energy costs.

Recent research by the Economic Research Institute for ASEAN and East Asia (ERIA) has found that the limited fiscal space available to low and middle-income countries as they seek to recover from COVID means the rising geopolitical tensions have widened inequality and hampered recovery processes. The research also confirmed that women, youth, and less educated groups of the population remain disproportionately affected by COVID-19 responses, and most vulnerable to future economic shocks.

Regional energy demands

While there was a temporary drop in demand as a result of the pandemic, energy demand across the region now sits at twice 2017 levels. According to the ASEAN Centre for Energy, a further 2% growth above pre-pandemic levels is forecast for this year.

The region remains heavily dependent on hydrocarbon fuels for electricity production, particularly coal (31.3% of total electricity production) and gas (30.9%). Oil is used for only 4.2% of electricity generation, but features heavily in transportation. The International Energy Agency estimates ASEAN consumes approximately six billion barrels per day, making it the fourth largest consumer behind the US, EU and China. According to the ASEAN Centre for Energy, around 72% of oil was consumed in the transport sector, with Indonesia and Thailand accounting for 55.6% of ASEAN's total consumption in 2020.

As regional petroleum and coal reserves dwindle, along with the reducing likelihood of new discoveries, there is concern among regional analysts that the region will become increasing reliant on fossil fuel imports, including for electricity production. While work is ongoing to develop renewable sources, most notably hydropower (currently 21% of electricity production), solar (8%), bioenergy (2.1%), geothermal (1.4%), wind (0.9%), scalability in the face of rising demand remains problematic.

Efforts are underway across the region to increase the percentage of renewables through new capacity, but the region is tracking approximately 8% behind agreed regional targets. (Comment: Percentages do not adequately show scale however. In emissions terms, New Zealand's total annual CO2 emissions equate to less than 2% of ASEANs).

Regional halal standards

South East Asia is home to approximately 240 million Muslims, equating to approximately 42% of the region's population. This makes the region a significant and valuable market for halal products.

One potential area of opportunity lies in the harmonisation of halal certification and standardisation across ASEAN. Currently halal standards are set by national authorities and there is limited standardisation between regulatory regimes.

The establishment of a common, ASEAN-wide certification and regulatory regime may help improve the quality, access and transparency of halal exports to the region. Such a scheme would likely provide some reassurance and quality control for regional consumers, although the road to securing a regional agreement would likely be long.

Climate

While approaches to climate issues vary across the region, there are some indications climate is gradually starting to feature in the regional economic dialogue. Within the ASEAN Secretariat, work is under way to migrate work on ASEAN's Carbon-Neutral Strategy to the Secretariat's Economic Pillar; a move that is expected to see a greater level of engagement with industry and other regional economic stakeholders in climate discussions.

Regional carbon pricing mechanisms

ASEAN is also seeking to capitalise on the economic benefits of climate action, by leveraging the region's rich natural resources to provide carbon offsets and attract climate financing opportunities.

Options are being explored to develop a single regional carbon trading facility to complement national carbon market development efforts. Conceptually, the facility would be located within ASEAN's time zone, tasked with setting the global carbon trading price in the same way as the oil price is set in the US. Work to explore this concept is underway, with the first phase now complete.

A number of countries in the region - most notably Indonesia and Singapore - are already in the process of developing domestic national carbon markets. Singapore and New Zealand have recently agreed to work together to provide joint capacity-building training on carbon markets to ASEAN countries. This initiative is expected to help address some of the current capacity shortfalls within the region and is a step towards realising a regional pricing facility in the future.

RCEP

Work continues to implement RCEP as regional signatories' progress domestic ratification processes. The ratification process for the Philippines had been put on hold pending the outcome of their General Election. With the Philippines election now complete, work on the ratification process has resumed with conclusion expected soon.

In the longer-term, comments by regional stakeholders suggest the door remains open for India to reengage with the FTA, but expectations remain low. There is also some interest in seeing Bangladesh and the UAE invited to join.

AANZFTA upgrade

Progress on the AANZFTA upgrade has been slow, hampered by the practical considerations of negotiating during a pandemic. The most recent round in Jakarta – the first to be held in-person – helped immensely to help build momentum. While the push for conclusion in September continues, there are some suggestions a longer timeframe for conclusion would be well received in regional capitals given the small pool of ASEAN trade negotiators and the number of high level agreements being negotiated at present.

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