Bangkok Post Business

Published on 06/04/2015

Asean's next decade

As less developed economies start to catch up with richer neighbours, major challenges will include ageing populations, labour skills and regional connectivity.

Almost one-third of Thailand's population will be over age 60 by 2050. Rapid ageing means the country must rely on more foreign labour at the low end, while also improving training of the local workforce to make sure skills match real needs.

Development gaps are being narrowed gradually in Asean as the group's emerging economies expand at a faster rate than their more advanced peers. However, narrowing disparities and improving connectivity will remain essential for the region to enjoy stable growth in the years to come, says the Japan International Cooperation Agency (JICA).

According to Irigaji Hidetoshi, director-general of the Southeast Asia and Pacific Department at JICA headquarters in Tokyo, per capita gross domestic product (GDP) growth rates are forecast at 8-9% for the CLMV (Cambodia, Laos, Myanmar, and Vietnam) economies between 2015 and 2025. The other six Asean countries will expand in a range of 3.5% to 6.5% during the same period.

Asean's overall GDP is expected to grow at 6% a year to US$4.6 trillion by 2025. The Asean-4 (Indonesia, Thailand, the Philippines and Malaysia) will account for more than 70% of regional GDP, with Indonesia alone at 40%.

Asean's trade volume including exports and imports will increase by 2.3 times over the 2015-25 period while domestic markets will expand by four times to $3.75 trillion, with the most pronounced growth in Indonesia and Vietnam.

"As the CLMV economies have been showing higher GDP growth rates than the other six members in recent years, the development gaps among Asean countries are gradually narrowing," Mr Hidetoshi said.

Overall, he said, the percentage of middle- and higher-income residents of the region is forecast to rise to 76.5% in 2025 from 56.4% in 2010.

"Though the development gap among Asean countries is narrowing, disparities have increased within some countries," added Mr Hidetoshi. "Regional disparities, meanwhile, have been increasing since 2009.

"Gini ratios above 40 (in the Philippines and Malaysia) are precursors of social unrest and instability."

The Gini ratio is a universally used indicator, with zero representing perfect equality and 100 absolute inequality. A reading of 30 or lower is considered good, though even many developed economies do not achieve such scores.

Mr Hidetoshi said the challenges for Asean in the coming decade also included dealing with an ageing society, urbanisation, infrastructure development, better education and labour shortages.

The population of the 10-country bloc is expected to grow at an annual rate of 1% from around 610 million in 2012 to 695 million in 2025. The working-age population is also increasing, especially in Indonesia and the Philippines, he said.

However, elderly dependency ratios — the number of people over 65 for each working-age citizen — are rising in some countries including Thailand. The current ratio in Thailand is 13.9%, compared with 6.9% in 1990.

"The growth of the elderly population will be accelerate from 2015," said Mr Hidetoshi. "Singapore and Thailand will enter the aged society group and most other Asean countries will enter the ageing society group."

In Thailand, the share of the population aged over 65 will be 16.1% in 2025, compared with 9.8% in 2013. The working-age population, meanwhile, will start to decrease in 2018, he added.

Urbanisation will increase by 1.4 times between 2010 and 2025 with 52% of the Asean population living in urban areas in 2025. Vehicle populations will also surge as more people move into cities, even with mass-transit development.

The Asian Development Bank (ADB) has estimated that Southeast Asia needs to spend more than $1 trillion on infrastructure including energy, transport, telecommunications, water and sanitation to maintain the current pace of economic growth. As well, upgrading of soft infrastructure such as transport and trade will help lift the region's competitiveness in the global community, Mr Hidetoshi said.

THAILAND'S CHALLENGES

To avoid remaining stuck in the middle-income trap, Thailand needs to foster industries with high profitability by increasing expenditures for research and development (R&D), according to JICA. The country also needs to create a framework for protecting intellectual property to enhance its international competitiveness as an R&D base.

"The quality of higher education is crucial for sustainable growth," said Mr Hidetoshi, noting that Malaysia has one-third as many researchers as Singapore and Japan, while the figure is only about one-tenth in Thailand and other Asean countries.

By 2025, Thailand's total GDP is projected at $690.8 billion with GDP per capita of $9,734, compared with $5,800 in 2013. Incomes are set to rise by approximately 2.3 times between 2013 and 2025. Sales of durable consumer goods are projected to increase with the vehicle ownership ratio rising from 16.8% in 2013 to 19.7% in 2025.

Challenges will persist, however, in the agricultural and labour sectors. For instance, Thailand is the world's leading rice-producing country but its rice productivity is low.

"Labour shortages have become a pressing issue for Thailand but the percentage of the population engaged in agriculture has trended at around 40% from 2005 onward and it is not declining," noted Mr Hidetoshi.

While the unemployment rate is low in Thailand and Singapore, the ratio is projected to be as high as 7% or more in the Philippines where the young population continues to grow rapidly. Consequently, creating job opportunities will become an issue for some countries by 2018, he said.

On the infrastructure front, as electricity demand is forecast to exceed supply, Thailand will need to import more power and/or increase local generating capacity. Primary energy expenditure is forecast to increase by 1.7 times between 2011 and 2030. The ratio will increase by a range of 1.7 and 2 times in other Asean countries along with economic growth, while it will be very high in Vietnam at 2.4 times.

Shuichi Ikeda, chief representative of JICA's Thailand office, said Thailand benefited from its geographic and economic importance in the Greater Mekong Sub-region (GMS) which has a population exceeding 200 million.

"Thailand is located in the centre of this region, surrounded by Cambodia, Laos, Myanmar and Vietnam. There is simply no way to execute any economic development strategies for this region without recognising the connectivity between the Thai economy and its neighbouring countries," he said.

The thousands of Japanese companies operating in Thailand should play an important role in the economic development of the region, Mr Ikeda added.

In Myanmar, investments are expected to expand to accelerate economic development but it is essential to exploit links with industrial clusters including Japanese companies in Thailand.

"It is also obviously important for Thailand to improve connectivity with neighbouring countries and to strengthen its involvement in the economic development of this region in order to realise sustainable economic growth," said Mr Ikeda.

Thailand, therefore, should not be regarded as a recipient country for JICA's conventional assistance but as a strong partner to contribute to sustainable development of the region and beyond, he added

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