# 2 International Economic Performance and Cooperation

# International Economic Performance and Cooperation



## Overview

### *Modest global expansion*

Global economic activity is set to moderate in 2011, amid heightened uncertainties over the pace of recovery in advanced economies. During the first half of 2011, global growth was increasingly uneven. Most emerging and developing economies continued to register strong growth. The tightening in monetary policy through higher interest rates and statutory reserve requirements as well as currency appreciation impacted the growth performance of some countries. In contrast, major advanced economies posted slower growth. The United States (US) and the euro area continued to grapple with high unemployment, slow financial sector reforms as well as high fiscal deficits and debts. Production and supply chain disruptions following the earthquake disaster in Japan combined with oil output shortfall due to the uprisings in the Middle East and North Africa (MENA) region also affected global economic activity.

Global economic conditions are expected to remain increasingly challenging during the second half of 2011. On the positive side, the strong growth momentum in China, India and other emerging and developing economies is expected to continue, supported by resilient domestic demand. However, the growth in major advanced economies such as the euro area, the US and Japan are expected to weaken further. Downside risks have increased due to limited fiscal space in advanced economies with high fiscal deficits and debts. Further monetary measures are also limited as interest rates are currently at low levels. The large household debt in the US continues to erode consumer confidence and is holding back consumption. In addition, the risks of the sovereign debt crisis spreading to other euro area countries have impacted business and investor confidence. The ensuing slowdown in the US and euro area is likely to restrain growth in export-reliant emerging and developing economies. In view of these uncertainties, overall global growth is projected lower at 4% in 2011 (2010: 5.1%).

TABLE 2.1

**Real Gross Domestic Product (GDP) for Selected Economies 2010 – 2012**

| | Change (%) | | |
|---|---|---|---|
| | **2010** | **2011[1]** | **2012[2]** |
| **World** | ***5.1*** | ***4.0*** | ***4.0*** |
| **Developed economies** | ***3.1*** | ***1.6*** | ***1.9*** |
| United States | *3.0* | *1.5* | *1.8* |
| Euro area | *1.8* | *1.6* | *1.1* |
| Japan | *4.0* | *-0.5* | *2.3* |
| **Emerging and developing economies** | **7.3** | **6.4** | **6.1** |
| China | *10.3* | *9.5* | *9.0* |
| Republic of Korea | *6.2* | *3.9* | *4.4* |
| India | *10.1* | *7.8* | *7.5* |
| **ASEAN** | | | |
| Singapore | *14.5* | *5.0 – 6.0* | *4.8* |
| Thailand | *7.8* | *4.0* | *4.5* |
| Indonesia | *6.1* | *6.5* | *6.8* |
| Philippines | *7.6* | *7.0 – 8.0* | *5.1* |
| Vietnam | *6.8* | *6.0* | *6.5* |
| **Malaysia** | ***7.2*** | ***5.0 – 5.5*** | ***5.0 – 6.0*** |

[1] Estimate.
[2] Forecast.

Source: International Monetary Fund, Asian Development Bank and national authorities.

## Global Economic Performance

### *Asia leads growth*

Growth in the **US** expanded at a slower pace of 1.9% in the first half of 2011 (January – June 2010: 2.8%) due to moderate household consumption expenditure and a contraction in government spending. Household consumption expenditure which accounts for more than 70% of Gross Domestic Product (GDP) continued to be subdued, increasing 2.5% plagued by persistently high unemployment which averaged 9% (January – August 2010: 9.6%). Rising food and fuel prices also weighed on household spending. Government consumption expenditure and gross investment fell 1.7% (January – June 2010: 1%) due to budgetary cuts which led to lower defence as well as state and local government spending.

The weak labour market conditions continued to exert downward pressure on house prices causing residential investment to decline further by 5% (January – June 2010: -1.3%). Housing starts and building permits contracted 2.9% and 4.3% (January – August 2010: 11.5%; 10.2%), respectively as there was a glut of foreclosure properties. There was a marginal growth in commercial construction at 2.5% (January – June 2010: -22.8%) due to tight lending practices by banks. However, the economy benefited from business investment in new equipment and software which continued to record a double-digit growth of 11.6% (January – June 2010: 12%) spurred by robust corporate profits. The steady increase in exports of 8.1% (January – June 2010: 12.1%) also contributed positively to overall growth.

Manufacturing activity, as measured by the Institute for Supply Management manufacturing index, fell 10.8 percentage points from 61.4% in February 2011 to 50.6% in August 2011, the lowest reading since July 2009. The downtrend was attributed to higher commodity prices and supply chain disruptions, particularly in the automobile industry. Similarly, the non-manufacturing index was lower at 53.3% in August 2011 from 59.7% in February, which was the highest level recorded since 2008. Meanwhile, inflation increased from 1.6% in January 2011 to 3.8% in August (August 2010: 1.1%) due to rising energy prices as a result of disruptions to oil supply following the turmoil in the Middle East.

Consistent with rising downside risks, the Federal Reserve Board has kept its policy rate between 0% and 0.25% since December 2008 and is committed to maintaining it through mid-2013. Other downside risks include high unemployment, fiscal deficit issues, housing slump and rising food prices. Furthermore, business and consumer confidence was eroded by the delay in reaching a deal on the fiscal debt ceiling. This also prompted Standard & Poor's to downgrade the US government credit rating from AAA to AA+ with a negative outlook. Triggered by the downgrade and concerns of higher risk of global slowdown, weak US second quarter growth and worsening euro area sovereign debt crisis, the Dow Jones Industrial Average (the Dow Jones) fell 512.76 points on 4 August 2011. It was the biggest one-day decline since 1 December 2008 when the Dow Jones plunged 679.95 points. For the year, the US is expected to register a slower growth of 1.5% (2010: 3%).

The **euro area** recorded a growth of 2.1% (January – June 2010: 1.4%) during the first half of 2011. However, growth was uneven among the 17 member countries with Germany and France performing better. Portugal, Ireland and Greece continued to register weak performance on account of their sovereign debt problems. The European Central Bank raised its policy rate twice by 25 basis points each time to 1.5% this year to curb rising inflation, which stood at 2.5% (August 2010: 1.6%). For the year, the euro area is expected to expand 1.6% (2010: 1.8%).

**Germany**, the largest economy in the euro area, registered a sturdy growth of 3.7% (January – June 2010: 3.7%) mainly attributed to strong export performance. Exports grew 15.7% (January – June 2010: 16.2%) supported by strong demand, in particular for motor vehicles, machinery, chemical products and electrical devices. Growth was also supported by domestic demand with investment growing strongly by 9.6%, while private consumption registered a moderate increase of 1.7%. The unemployment rate fell to 7% (end-August 2010: 7.6%) following rising demand for labour, particularly in the automobile industry. Inflation rose 2.3% (August 2010: 1%) due to increased energy and electricity charges following higher oil prices. Overall growth for the year is expected at 2.7% (2010: 3.6%).

**France**'s GDP expanded 1.9% (January – June 2010: 1.4%) mainly driven by higher investment and private consumption, which grew 3.5% and 1.2% (January – June 2010: -3.4%; 1.3%), respectively. Manufacturing production expanded 5.1% due to the increase in machinery, electrical and electronic products (8%) as well as transport equipment (5.3%). Inflation rose 2.2% (August 2010: 1.4%) largely due to high global energy and commodity prices. France's GDP growth is expected to increase 1.7% in 2011 (2010: 1.4%).

**Japan**'s economy declined 1% (January – June 2010: 4.4%) due to deteriorating private consumption and a sharp contraction in the manufacturing sector following the earthquake and tsunami disaster on 11 March 2011. On the demand side, private consumption shrank 0.8% (January – June 2010: 2.2%) on account of spending cuts by households following weaker consumer confidence. The consumer confidence index continued to show a reading below 50 points, from 41.1 points in January 2011 to 36.2 points in June 2011. In addition, exports registered a moderate growth of 8% (January – June 2010: 43.5%) due to supply chain disruptions which decreased sales abroad. Private investment, however, picked up following reconstruction efforts, with residential and business investment rebounding 4.2% and 1.1% (January – June 2010: -14.3%; -1.5%), respectively.

On the supply side, the manufacturing sector contracted as reflected in the Purchasing Managers' Index (PMI) which averaged 49.7 points (January – June 2010: 53.3 points). The contraction was largely due to supply chain disruptions which affected major manufacturers at Iwate, Miyagi, Fukushima and Ibaraki prefectures. Power shortages following the shutdown of Fukushima nuclear power plant also impacted production. Retail sales contracted 2.3% (January – June 2010: 3.7%) primarily due to a decrease in motor vehicle and machinery sales. The unemployment rate was lower at 4.7% (July 2010: 5.1%) as the government extended the temporary financial assistance programme introduced in September 2010 to 2011. Under the programme, companies are offered USD1,200 per month to temporarily employ graduates and an additional one-off payment of USD6,000 if they are employed as full-time workers after three months. The Consumer Price Index (CPI) rose 0.2% (July 2010: -1%) mainly due to higher energy and transportation costs. The Bank of Japan continued to keep its policy rate between 0% and 0.10% to facilitate credit growth. Japan's GDP is expected to

TABLE 2.2

**Inflation Rate for Selected Economies 2010 – 2011**

| | Change (%) | |
|---|---|---|
| | **2010** | **2011[1]** |
| **World** | ***3.7*** | ***5.0*** |
| **Developed economies** | ***1.6*** | ***2.6*** |
| United States | *1.6* | *3.0* |
| Euro area | *1.6* | *2.5* |
| Japan | *-0.7* | *-0.4* |
| **Emerging and developing economies** | ***6.1*** | ***7.5*** |
| China | *3.3* | *5.5* |
| Republic of Korea | *3.0* | *4.5* |
| India | *12.0* | *10.6* |
| **ASEAN** | | |
| Singapore | *2.8* | *3.7* |
| Thailand | *3.3* | *4.0* |
| Indonesia | *5.1* | *5.7* |
| Philippines | *3.8* | *4.5* |
| Vietnam | *9.2* | *18.8* |
| **Malaysia** | ***1.7*** | ***3.0 – 3.5*** |

[1]Estimate.

Source: International Monetary Fund and national authorities.

contract marginally by 0.5% in 2011 (2010: 4%) amid slight improvements in the manufacturing sector in the second half of the year.

**China**'s GDP growth remained robust at 9.6% (January – June 2010: 11.1%) propelled by strong domestic demand. Private consumption increased on account of higher urban and rural per capita expenditure which grew 13.2% and 20.4% (January – June 2010: 10.2%; 12.6%), respectively. Public investment remained strong at 25.6% (January – June 2010: 25%) largely attributed to the implementation of the government's low-cost housing plan. Similarly, private investment in real estate grew 32.9% (January – June 2010: 38.1%) mainly due to strong demand for residential units. Exports continued to expand at a double-digit pace of 24% (January – June 2010: 35.2%) despite a stronger yuan and the slow recovery in exports to the US and the European Union (EU).

The manufacturing sector grew at a slower pace following modest external demand. This was reflected in the manufacturing PMI which averaged 52.4 points (January – June 2010: 54.1 points). Retail sales growth moderated slightly to 16.8% (January – June 2010: 18.2%) following the slowdown in automobile sales as the government removed the nationwide subsidy for purchases of fuel-efficient cars and introduced a limit on the purchase of new cars. The CPI surged to 6.2% (August 2010: 3.5%) due to higher food prices (13.4%), particularly hogs (45.5%) as well as housing (5.5%). The People's Bank of China raised the deposit reserve requirement ratio for large financial institutions six times since January 2011 to 21.5% to curb loan growth. In 2011, the policy rate was raised thrice by 25 basis points each time to 3.50% as at end-July to contain inflation. China's GDP is projected to grow 9.5% in 2011 (2010: 10.3%).

In the **Republic of Korea** (ROK), GDP grew 3.8% (January – June 2010: 8%). Growth was supported by strong exports, which expanded 24.2% (January – June 2010: 34.3%) following higher demand for electronics, motor vehicles and petrochemicals. Private consumption continued to increase 3% (January – June 2010: 5%) mainly due to higher spending on automobiles and audio-visual products while private investment, particularly in manufacturing facilities increased 9.5% (January – June 2010: 29.8%). The manufacturing sector grew 8.5% (January – June 2010: 19.8%) supported by higher output of electrical and electronic products, transport equipment and petroleum products. This was reflected in the manufacturing PMI which averaged 52.3 points (January – June 2010: 55.7 points).

Meanwhile, the wholesale and retail trade sub-sector expanded 7.7% (January – June 2010: 9.1%) mainly due to higher consumer spending as income increased. In addition, the unemployment rate fell to 3% in August 2011 from a high of 4.5% in February 2011 (August 2010: 3.3%) due to better employment opportunities in the private sector. Inflation remained high at 5.3% (August 2010: 2.6%) attributed to higher prices of agriculture produce and cost of transportation. The Bank of Korea raised its benchmark policy rate thrice to 3.25% since January 2011 to contain inflationary pressures. Growth for 2011 is expected to remain steady at 3.9% (2010: 6.2%) on account of anticipated better performance in exports, particularly to China and Japan as well as stronger domestic demand in the second half of the year.

**India**'s economy grew 7.8% (January – June 2010: 9.1%) mainly supported by higher expansion in the services and agriculture sectors which rose 9.3% and 5.7% (January – June 2010: 10.2%; 1.7%), respectively. The trade, hotel, transport and communication sub-sector recorded a strong growth of 11% (January – June 2010: 12.9%), while farm production was boosted by the favourable monsoon season. Stable growth in private consumption, government expenditure and investment also contributed to the expansion. Inflation, as measured by the wholesale price index, remained high at 9.8% (August 2010: 8.9%) due to high food and fuel prices. Persistently high inflation has led the Reserve Bank of India to continue with a tight monetary policy since January 2010. In the first nine months of 2011, the policy rate was raised six times to 8.25%. For 2011, growth is expected at 7.8% (2010: 10.1%) supported by infrastructure development, private investment and consumer demand.

The Association of Southeast Asian Nations (ASEAN) economies continued to register positive growth on account of increasing external and domestic demand, reflecting the overall economic and financial resilience in the region. **Indonesia**'s GDP grew 6.5% (January – June 2010: 5.9%) largely driven by robust exports, buoyant investment and strong private consumption. Exports grew 14.9% following higher demand for commodities such as rubber and palm oil. Similarly, investment rose 8.3% largely contributed by the expenditure on imported machinery and equipment. Private consumption grew 4.5% on account of falling unemployment and rising wages. Inflation moderated to 4.8% (August 2010: 6.4%), reflecting the easing of prices across all expenditure categories, in particular food. Bank Indonesia has maintained its policy rate at 6.75% since February amid lower inflationary pressures. For the year, the economy is expected to grow 6.5% (2010: 6.1%).

The **Philippines**' economic growth moderated to 4% (January – June 2010: 8.7%) mainly due to lower public investment and lacklustre performance in external trade. There was a sharp reduction in public sector construction activity while exports, particularly electronic components were affected by the global supply chain disruptions following the March earthquake in Japan. Inflation rose 4.7% (August 2010: 4%) mainly due to rising fuel and food prices. In May, Bangko Sentral ng Pilipinas raised its policy rate to 4.50%. Philippines' GDP is expected to grow between 7% and 8% in 2011 (2010: 7.6%).

**Singapore**'s GDP growth moderated to 4.9% (January – June 2010: 18%) mainly attributed to slower manufacturing output and the high-base effect of economic growth last year. Manufacturing output increased moderately by 4.2% (January – June 2010: 41.5%) mainly contributed by the biomedical and electronic industries. Growth in the services sector (5.7%) was largely driven by financial services activities which grew 10.7% following increased lending to consumers and businesses. Inflation increased 5.7% (August 2010: 3.3%) on account of higher transport costs, housing and food prices. Singapore experienced a larger capital outflow in the second quarter of 2011 at SGD9.7 billion (April – June 2010: SGD4.4 billion) due to more attractive interest rates abroad. For the year, the economy is anticipated to grow between 5% and 6% (2010: 14.5%).

**Thailand**'s GDP expanded at a slower pace of 2.9% (January – June 2010: 10.6%) largely due to lower private consumption expenditure and public investment. Private consumption grew 3% (January – June 2010: 5.2%) mainly attributed to a slowdown in motor vehicle sales, following disruptions to the supply of automotive electronics. Public investment contracted 5.9% (January – June 2010: 0.3%) as a result of lower disbursement for projects under the stimulus package. Inflation was higher at 4.3% (August 2010: 3.3%) mainly due to rising oil and food prices. The Bank of Thailand raised its policy rate six times consecutively to 3.50% since January 2011 to contain rising inflationary pressures. For the year, growth is expected at 4% (2010: 7.8%).

**Vietnam**'s GDP grew 5.6% (January – June 2010: 6.2%) mainly contributed by the buoyant performance in the manufacturing (7.6%), agriculture (3.3%) and services sectors (6.1%), particularly the retail trade sub-sector (22.6%). Inflation accelerated 23% (August 2010: 8.2%) as food, transportation and construction material costs trended higher. In July, the State Bank of Vietnam lowered its policy rate to 14.00% to support growth, the first reduction since October 2010. For 2011, GDP growth is expected at 6% (2010: 6.8%).

Growth in other ASEAN economies such as Cambodia, Lao PDR and Myanmar is expected to be strong at 6.8%, 8.1% and 5.3% (2010: 6.3%; 7.5%; 5.3%), respectively. Meanwhile, Brunei Darussalam is anticipated to record a slower expansion of 1.7% (2010: 2%).

Growth in the **MENA** region is projected to remain stable at 4% in 2011 (2010: 4.4%) although uneven across countries. The **oil exporting countries**, including Qatar, Saudi Arabia, United Arab Emirates and Algeria are expected to grow 4.9% (2010: 4.4%). In particular, the Gulf Cooperation Council members have benefited the most from surging oil prices and higher oil production. Qatar and Saudi Arabia are expected to continue to lead growth with GDP expansion of 18.7% and 6.5% (2010: 16.6%; 4.1%), respectively. Growth in Qatar will be contributed by higher natural gas output, investment in gas export capacity and physical infrastructure for education, health and transport, while Saudi Arabia will gain from government infrastructure investment. Growth in the **oil importing countries**, including Egypt, Tunisia, Lebanon and Jordan is anticipated to slow down to 1.4% (2010: 4.5%). In Egypt, growth is envisaged to be sluggish at 1.2% (2010: 5.1%) while Tunisia's growth is expected to be flat at 0% (2010: 3.1%) due to the impact of political uprisings earlier in the year which affected the tourism sector as well as investor confidence. However, prospects in the region will be boosted by the Deauville Partnership between the MENA countries, Group of Eight as well as international and regional financial institutions. The partnership launched in May 2011, is aimed at supporting the region's economic development and stability, particularly in Egypt, Tunisia and Libya.

Growth in **Sub-Saharan Africa** is projected to remain stable at 5.2% in 2011 (2010: 5.4%) contributed by robust domestic demand, higher oil production, improving agriculture output and investment in infrastructure. Ghana is expected to register the highest pace of growth at 13.5% (2010: 7.7%) mainly due to oil production from the Jubilee Field which commenced operations in December 2010. Angola's GDP is expected to increase 3.7% (2010: 3.4%) buoyed by higher oil prices and resumption of the government's Public Investment Programme. However, South Africa, the largest economy, is projected to continue to register a modest growth of 3.4% (2010: 2.8%), reflecting weak domestic demand as investment continues to be impacted by excess capacity.

The economies of the **Commonwealth of Independent States** (CIS) are expected to maintain steady growth at 4.6% in 2011 (2010: 4.6%) despite notable differences across countries in the region. Growth is supported by higher commodity prices. The Russian economy is projected to expand 4.3% (2010: 4%) partly contributed by higher oil prices. Higher oil revenue is expected to reduce the budget deficit to 1.3% of GDP from the earlier estimate of 3.6% (2010: 5.3%). However, higher inflation is expected to constrain private consumption. In June 2011, the inflation was 9.4% (June 2010: 5.8%) due to increased food prices. Russia's imminent accession to the World Trade Organisation is expected to attract more investment and export opportunities. Meanwhile, growth in Turkmenistan and Uzbekistan is estimated to remain high at 9.9% and 7.1% (2010: 9.2%; 8.5%), respectively mainly contributed by higher gas prices, strong domestic demand, public investment and commodity exports. However, higher food prices are expected to push up the CPI to 6.1% and 13.1% (2010: 4.4%; 9.4%), respectively. Extensive subsidies and price caps are used to contain inflation in Turkmenistan, while in Uzbekistan the government imposes price controls on basic food and energy.

GDP growth in the **Latin America and Caribbean** (LAC) region is projected to average 4.5% in 2011 (2010: 6.1%). South America's commodity exporters are expected to continue to lead the expansion backed by high commodity prices and capital inflows which will bolster domestic demand. Argentina, Chile, Paraguay and Peru are expected to record a strong growth of over 6% in 2011. Inflation continued to be low in Chile and Peru due to monetary tightening and currency appreciation. However, in Argentina the

CPI averaged 9.9% during the first half of 2011 driven by growing demand and supply constraints, particularly for food. Brazil is expected to register a modest growth of 3.8% (2010: 7.5%) partly due to monetary policy tightening to mitigate rising inflation. The Banco Central do Brasil increased the tax on international bond sales and loans by 6% in March and maintained the policy rate around 12% since January as well as set reserve requirements on short dollar positions held by banks. In Mexico, growth is anticipated to moderate to 3.8% (2010: 5.4%) as external demand, particularly from the US remains constrained. Meanwhile, the Central American and Caribbean economies are expected to post a moderate growth of 3.9% and 3.3% (2010: 3.7%; 3.3%), respectively due to the slow recovery in remittances and tourism as well as less favourable terms of trade.

## Investment Flows

### *Modest recovery*

Global foreign direct investment (FDI) flows increased modestly in 2010, after declining sharply in 2009 and 2008. Despite world production and trade rebounding to pre-crisis levels, FDI flows were about 15% below the average pre-crisis levels and 37% below the peak achieved in 2007. The World Investment Report 2011 by the United Nations Conference on Trade and Development indicated that FDI inflows rose 4.9% to USD1,243.7 billion (2009: -32.1%; USD1,185 billion). This was largely contributed by higher reinvested earnings due to better global economic conditions and increased profits of foreign affiliates in 2010. The value of cross-border mergers and acquisitions (M&As) rose 35.7% in 2010, while greenfield investments, despite declining 15.3% accounted for the major share of total FDI at 64.9%.

The positive growth in global FDI flows was accompanied by a major shift in its patterns. For the first time, the share of developing and transition economies accounted for more than half of global FDI inflows. FDI flows to developing countries rose 12.3% to USD573.6 billion (2009: -22.4%; USD510.6 billion). The major factors contributing to the robust expansion were the fast pace of economic recovery, strong domestic demand and rapidly increasing South-South flows. The value of M&As, an increasingly important mode of FDI entry into developing countries, increased significantly due to the high value of company assets, strong earnings and market growth. FDI inflows to developing countries were uneven across regions. East and Southeast Asia as well as Latin America experienced robust

TABLE 2.3

**FDI Inflows by Selected Host Regions and Major Host Economies 2009 – 2010**

| | USD billion | | Change (%) |
|---|---|---|---|
| | 2009 | 2010 | |
| **World** | **1,185.0** | **1,243.7** | ***4.9*** |
| **Top 5 recipients** | | | |
| United States | 152.9 | 228.2 | *49.3* |
| China | 95.0 | 105.7 | *11.3* |
| Hong Kong, China | 52.4 | 68.9 | *31.5* |
| Belgium | 23.6 | 61.7 | *161.6* |
| Brazil | 25.9 | 48.4 | *86.7* |
| **Developed economies** | **602.8** | **601.9** | ***-0.2*** |
| Europe | 387.8 | 313.1 | *-19.3* |
| European Union | 346.5 | 304.7 | *-12.1* |
| Japan | 11.9 | -1.3 | *-110.5* |
| **Developing economies** | **510.6** | **573.6** | ***12.3*** |
| Asia and Oceania | 309.4 | 359.4 | *16.1* |
| India | 35.6 | 24.6 | *-30.9* |
| **ASEAN** | **37.9** | **79.1** | ***108.6*** |
| Singapore | 15.3 | 38.6 | *152.9* |
| Thailand | 5.0 | 5.8 | *16.8* |
| **Malaysia** | **1.4** | **9.1** | ***536.6*** |
| Vietnam | 7.6 | 8.2 | *7.5* |
| Indonesia | 4.9 | 13.3 | *172.8* |
| **Transition economies** | **71.6** | **68.2** | ***-4.8*** |
| South-East Europe | 7.8 | 4.1 | *-47.3* |
| Commonwealth of Independence States | 63.8 | 64.1 | *0.4* |

Source: United Nations Conference on Trade and Development.

growth driven by strong economic performance, sound macroeconomic fundamentals and higher commodity prices. Meanwhile, FDI to Africa and South Asia continued to fall. FDI into Asia rose 16.4% to USD357.8 billion and accounted for 28.8% of total FDI inflows. China received the bulk of FDI at USD105.7 billion. Rising wages and costs of production have, however, slowed low-cost manufacturing FDI into China with a shift towards high-technology sectors, services and real estate. FDI into India fell sharply by 30.9% to USD24.6 billion partly due to concerns on the current account deficit, inflation and delays for approval of large projects. FDI in ASEAN surged to USD79.1 billion due to sharp increases to Malaysia, Indonesia and Singapore. Conducive investment policies including liberalisation of industries and a supportive public sector contributed to the favourable performance. Indonesia and Vietnam gained ground as destinations for low-cost manufacturing while Cambodia, Lao PDR, Myanmar and Vietnam benefited from regional FDI, particularly from China.

Inflows of FDI to developed countries continued to decline at a slower pace of 0.2% to USD601.9 billion (2009: -37.5%; USD602.8 billion). This was due to continued weak business and consumer confidence, fears of sovereign debt crisis spreading throughout the euro area and the lower-than-expected economic growth rates in some countries. Among the developed economies, the US, however, experienced the largest increase of 49.3% to USD228.2 billion (2009: -50.1%; USD152.9 billion) largely due to a significant recovery in reinvestment of earnings by foreign affiliates. Among the sub-regions, Europe suffered the largest decline of 19.3% to USD313.1 billion (2009: -24.7%; USD387.8 billion) mainly due to uncertainties over the deteriorating sovereign debt crisis. Meanwhile, FDI inflows to Japan continued to shrink further by 110.5% to -USD1.3 billion (2009: -51.1%; USD11.9 billion) mainly due to large divestments.

Global FDI outflows rose 13.1% to USD1,323.3 billion in 2010 (2009: -38.7%; USD1,170.5 billion). Outward flows from developed countries increased 9.9% and continued to form the bulk of outward FDI (70.7%). The US and Europe registered 16.3% and 9.6% of outward FDI, respectively while Japanese FDI fell 24.7%. Over 50% of the FDI from developed countries was invested in emerging markets. FDI from developing and transition economies rose sharply by 24.1% to USD60.6 billion (2009: -19.2%; USD48.8 billion), reflecting the strength of the economies, dynamism of their companies and the growing willingness and confidence to compete in new markets. The largest source of FDI outflow was from China, surpassing Japan.

In 2011, FDI inflows are projected to reach between USD1.4 trillion and USD1.6 trillion as cash rich companies seize new investment opportunities. Emerging economies, particularly Brazil, China, India and Russia are expected to be increasingly important sources of FDI. However, heightened uncertainties in global economic conditions may dampen the positive investment outlook.

## Trade Flows

### *Slight deceleration*

Global trade volume is anticipated to grow at a slower pace of 7.5% in 2011 after surging 12.8% in 2010. The modest performance is consistent with slower global economic growth, particularly in major advanced economies such as the US, Japan and the euro area which have a larger share of world trade. Persistent unemployment in major advanced economies has limited income growth, consumption and import demand. Supply chain disruptions in Japan following the earthquake, tsunami and nuclear disasters have also dampened trade. Fiscal consolidation and austerity measures in the peripheral countries in the euro area, rising prices of food and fuel as well as political unrests in the Middle East will continue to impact trade.

The trade imbalance is expected to widen further between commodity exporters led by the emerging and developing economies, and commodity importers, particularly in advanced economies. The emerging and developing economies are

TABLE 2.4

**Exports and Imports for Selected Countries**
**January – August**

| | Exports | | | Imports | | | Total Trade | | |
|---|---|---|---|---|---|---|---|---|---|
| | USD billion | | Change (%) | USD billion | | Change (%) | USD billion | | Change (%) |
| | 2010 | 2011 | | 2010 | 2011 | | 2010 | 2011 | |
| United States[1] | 1,042.3 | 1,209.3 | *16.0* | 1,334.0 | 1,539.1 | *15.4* | 2,376.3 | 2,748.4 | *15.7* |
| Euro area[2] | 2,259.8 | 2,738.3 | *21.2* | 2,224.9 | 2,708.1 | *21.7* | 4,484.6 | 5,446.4 | *21.5* |
| Japan | 489.4 | 531.7 | *8.7* | 443.4 | 551.6 | *24.4* | 932.8 | 1,083.3 | *16.1* |
| China | 989.7 | 1,222.6 | *23.6* | 885.8 | 1,129.9 | *27.5* | 1,875.6 | 2,352.5 | *25.4* |
| Singapore | 225.8 | 272.6 | *20.7* | 202.4 | 244.6 | *20.8* | 428.2 | 517.2 | *20.8* |

[1] Includes goods and services as at end July.
[2] January – July.

Source: World Trade Organisation and national authorities.



expected to continue to lead export growth at 9.4% (2010: 13.6%) while advanced economies are anticipated to register lower growth at 6.2% (2010: 12.3%). Imports to emerging and developing economies are estimated to grow 11.1% while advanced economies, 5.9% (2010: 14.9%; 11.7%).

The **US** total trade increased 15.7% to USD 2,748.4 billion during the first seven months of 2011 (January – July 2010: 20%; USD2,376.3 billion). Exports rose 16% to USD1,209.3 billion (January – July 2010: 17.6%; USD1,042.3 billion) while imports increased 15.4% to USD1,539.1 billion (January – July 2010: 22%; USD1,334 billion). Major exports comprised motor vehicles and parts, construction machinery, petroleum and chemical products as well as agriculture produce. Meanwhile, imports were mainly contributed by high demand for crude and fuel oil, apparel and household goods, semiconductors as well as pharmaceutical preparations. The total trade deficit remained high at USD329.8 billion (January – July 2010: USD291.7 billion). Major export destinations were Canada with a share of 19.2% of total exports, Mexico (13.2%), China (6.9%), Japan (4.5%), the United Kingdom (UK) (3.8%) and Germany (3.3%). For the year, exports are projected to increase 7.1% while imports 4.6%.

The **euro area**'s total trade increased 21.5% to USD5,446.4 billion (January – July 2010: 13.9%; USD4,484.6 billion). The main trading partners were the UK, followed by the US, China and Russia. Exports continued to expand 21.2% (January – July 2010: 13.9%) mainly comprising machinery and vehicles, manufactured goods, chemicals as well as food and beverages. Meanwhile, imports which included machinery and vehicles, manufactured goods, energy and chemicals rose 21.7% (January – July 2010: 14%). For the year, exports are projected to record 6.9% while imports, 5.3%.

**Japan**'s total trade continued to register an increase of 16.1% to USD1,083.3 billion (January – August 2010: 33.8%; USD932.8 billion) despite export contracting 1.9% in April (April 2010: 48.9%) following the earthquake disaster. China continues to be the major trading partner with a share of 20.6% followed by ASEAN (14.8%), the US (11.7%) and the EU (10.5%). Japan's exports grew 8.7% to USD531.7 billion (January – August 2010: 39.6%; USD489.4 billion) following sustained demand for machinery, electrical and electronic components as well as motor vehicles and parts. Meanwhile, imports increased significantly by 24.4% to USD551.6 billion (January – August 2010: 27.9%; USD443.4 billion) mainly attributed to higher demand for liquefied petroleum gas and petroleum products, as Japan rebuilds and closes the energy gap caused by the shutdown of some nuclear plants. Japan's exports of goods and services are projected to increase 0.9% while imports, 7.7% in 2011.

**China**'s total trade increased 25.4% to USD2,352.5 billion (January – August 2010: 40%; USD1,875.6 billion). China's main trading partners were the EU (15.8%), the US (12.1%), ASEAN (10%) and Japan (9.4%). Within the EU, Germany was the largest trading partner with USD111.7 billion while in ASEAN, Malaysia contributed the most at USD58.4 billion. Trade between China and the EU rose 21.8% to USD372.1 billion, while trade with the US grew 17.8% to USD285.7 billion. China continued to register a trade deficit with Japan, albeit at a slower pace of 18.8% to reach USD221.9 billion. Meanwhile, trade with ASEAN expanded 26.6% to USD234.6 billion. Major exports included automatic data processing machines, garments and clothing, textiles as well as mobile phones. Imports included crude petroleum, iron ore, plastics and motor vehicles. China's exports of goods and services are envisaged to increase 30.2% while imports, 25.5% in 2011.

Total trade of **Singapore** grew 20.8% to USD517.2 billion (January – August 2010: USD428.2 billion) with exports increasing 20.7% and imports, 20.8% (January – August 2010: 34.7%; 32.5%). Singapore's main trading partners were Malaysia, the EU, China, the US and Indonesia. Major exports included electronic valves, refined petroleum products as well as parts for office and data processing machines. Imports included crude petroleum, machinery and transport equipment as well as chemicals and chemical products. For the year, total trade is expected to expand 10%, with exports projected to increase 10.8% and imports, 9.1%.

## International Economic Cooperation

### *Enhanced cooperation amid challenges*

The recent financial market turmoil underscores the importance of coordinated policy responses and inter-regional cooperation to ensure financial market stability to foster sustainable economic growth. In this context, economic cooperation at multilateral and regional levels is pivotal in enhancing initiatives such as continuous macroeconomic surveillance, coordinated policy responses as well as regular regional and intra-regional consultation to manage global economic challenges.

At the global level, there are increased efforts by international institutions and forums such as the Group of Twenty (G20) to address world economic and financial issues. The International Monetary Fund (IMF) has undertaken various measures for crisis prevention to enhance global economic and financial stability by strengthening its surveillance capacity and ability to identify vulnerabilities. Towards this, the Financial Sector Assessment Program was made mandatory for 25 countries with financial sectors that have the greatest systemic risk to global financial stability. The 2011 Triennial Surveillance Review on bilateral and multilateral surveillance is ongoing to assess the Fund's effectiveness in detecting and communicating risks to the financial sector. The Fund also supports the G20's efforts in the Mutual Assessment Process, which is currently focusing on internal and external balances that are critical for global growth and stability. In view of the unrest and political uprisings in MENA, the Fund is working to include social factors that impact macroeconomic stability in its analysis and policy advice.

In terms of financial assistance, the IMF approved Special Drawing Rights (SDR) worth SDR98 billion during the first seven months of 2011 to support economic adjustments and growth programmes. To strengthen its technical assistance capabilities, the IMF also introduced two new topical trust funds for building capacity in tax policy and managing resource wealth as well as establishing a new regional training institute in Kuwait.

In December 2010, the Board of Governors of the IMF approved the 14th General Review of Quotas which aims to double the total quota of members to SDR476.8 billion, with a major realignment of shares by 6% from over-represented members to emerging and developing countries. Also, the review will lead to a more representative Executive Board for the Fund as constituencies with more than seven members can have two alternate executive directors. These reforms, which are expected to be implemented by end-2012, will enhance the credibility and effectiveness of the Fund.

The World Bank Group continues to support members by providing loans and grants for development projects and social safety nets. In the post-crisis period, the World Bank Group's programmes and projects are focused on targeting the poor and vulnerable, especially in Sub-Saharan Africa; creating opportunities for economic growth; promoting collective global action, strengthening governance; and managing risk and preparing for crisis. During the fiscal year 2011 (July 2010 – June 2011), the World Bank Group's financial support to developing countries amounted to USD57.4 billion. Of the total, USD4.1 billion was for social safety programmes while USD20 billion was for financing infrastructure development. An unprecedented USD1.4 billion was allocated to 34 natural disaster management projects.

As food prices soared close to the peak of 2008, the Bank implemented various initiatives to enhance food security. These included: assisting clients to better manage agriculture risk; doubling financing for agriculture to USD8 billion; intensifying the Global Food Crisis Response Program; and providing support for the Global Agriculture and Food Security Program (GAFSP) introduced by the G20. GAFSP offers assistance to country-led agriculture and food security plans and helps promote investments in smallholder farms.

Meanwhile, the Asian Development Bank (ADB) is dedicated to reducing poverty in Asia and the Pacific through inclusive and environmentally sustainable economic growth, as well as regional integration. In 2010, the ADB provided financial assistance of USD17.5 billion mainly through loans and co-financing of projects in Bangladesh, India and China. Similarly, the Islamic Development Bank Group (IDB Group), a south-south multilateral development financial institution established in 1975, continues to provide loans and grants to finance development activities in member countries as well as to Muslim communities, in accordance with shariah principles. In 2010, the IDB Group's net financing approvals stood at USD7 billion for 363 operations in both member and non-member countries. In addition, together with the IDB Group, Malaysia has played pioneering and supporting roles in the establishment of various Islamic financial services institutions. In this respect, two institutions were established in Malaysia, namely the Islamic Financial Services Board and the International Islamic Liquidity Management Corporation.

At the regional level, the ASEAN Roadmap for Monetary and Financial Integration continues to progress, among others, in the areas of financial services liberalisation and capital market development. Under the financial services liberalisation initiative, Malaysia is the current chair from 2011 to 2014 for the Working Committee on Financial Services Liberalisation and spearheads the initiative to further liberalise the capital market as well as the banking and insurance sectors. Under this initiative, the Protocol to implement the Fifth Package of Commitments was signed on 4 May 2011. This Package will allow ASEAN financial institutions greater access to regional insurance and capital markets.

On capital market development, several measures are being implemented to support an integrated capital market in promoting greater investment opportunities and enhancing ASEAN competitiveness in the global arena. The launch of the ASEAN Brand Identity and marketing initiative at the 15th ASEAN Finance Ministers' Meeting in Bali, Indonesia on 8 April 2011 established the framework for coordinated efforts to build and promote ASEAN as an asset class. Additionally, in promoting ASEAN as an attractive investment destination, Malaysia hosted the Seventh ASEAN Finance Ministers' Investors Seminar (AFMIS) in Kuala Lumpur on 30 November 2010. The event attracted 400 delegates from 16 different countries, comprising leading global fund managers, investment bankers, security brokers, stock exchanges, sovereign wealth funds, public listed companies and international financial institutions. The Finance Ministers of Indonesia, Lao PDR, Malaysia, Philippines, Thailand, Singapore, the Deputy Finance Minister of Brunei Darussalam, the Secretary of State of Cambodia and the ASEAN

Secretary-General participated in the Ministers' Panel Session. The Seventh AFMIS provided the platform for the Finance Ministers and delegates to interact with investors and intermediaries on regional integration and investment opportunities in ASEAN countries. Building on the success of previous seminars, Indonesia will host the Eighth AFMIS in Jakarta in November 2011.

As part of efforts to leverage on ASEAN savings to fund regional infrastructure projects and spur economic growth, Malaysia spearheaded the establishment of the ASEAN Infrastructure Fund (AIF) with the signing of the Shareholders Agreement on 24 September 2011. The AIF, which will be domiciled as a limited company in Malaysia represents a key ASEAN initiative towards achieving the ASEAN Economic Community (AEC) vision through the conduit of the Master Plan on ASEAN Connectivity. For the first time, ASEAN will be able to self-finance priority infrastructure projects.

Progress towards greater regional economic integration is on track. By 2015, ASEAN will transform into a competitive region with free movement of goods, services, investment, skilled labour and freer flow of capital. For Malaysia, the realisation of the AEC according to schedule is crucial as Malaysia is expected to assume the ASEAN Chairmanship in 2015.

Meanwhile, various initiatives endorsed by the ASEAN+3 (China, Japan and ROK) Finance Ministers in 2010 have been implemented. These include the establishment of the ASEAN+3 Macroeconomic Research Office (AMRO) and the Credit Guarantee and Investment Facility. AMRO, based in Singapore, is now operational with the appointment of its first Director from China. Meanwhile, ASEAN+3 is currently undertaking studies on future priorities, namely crisis prevention function, disaster risk insurance, local currencies for regional trade settlement and infrastructure financing. Currently, China, Indonesia and Malaysia as well as the ADB are jointly conducting a study on existing infrastructure financing mechanisms in member countries.

The Asia-Pacific Economic Cooperation (APEC) continues to provide a platform to highlight issues of common concern as well as initiatives for capacity building among member economies. APEC continues to explore financing for growth, particularly in areas such as green growth, small and medium enterprises and infrastructure development as agreed in the Kyoto Growth Report. The 18th APEC Finance Ministers' Meeting scheduled for 10 November 2011 in Honolulu will discuss the current economic outlook and policy challenges for the APEC region with a focus on the US fiscal deficit and debt management. Other topics for discussion include financial inclusion and infrastructure investment while various facets of green growth will also be deliberated.

## Prospects for 2012

### *Uncertainties remain*

In 2012, global growth is expected to remain moderate as world investment and trade continue to expand, albeit at a slower pace. The growth is anticipated to be largely driven by sustained expansion in emerging and developing economies, continued accommodative monetary policy in major advanced economies, and reconstruction activities in Japan. In addition, concerted efforts to address fiscal deficits and debt problems are expected to have a positive impact on financial markets and investor confidence. Growth in advanced economies as well as emerging and developing economies is expected to expand 1.9% and 6.1%, respectively. However, downside risks remain, particularly high unemployment, lingering sovereign debt crisis, weak fiscal and financial positions in advanced economies, geopolitical uncertainties and destabilising capital flows. In view of these vulnerabilities, global growth is projected at 4% in 2012 (2011: 4%).

## Progressing Towards the ASEAN Economic Community

### Introduction

The 1997/1998 Asian financial crisis highlighted the need for a more integrated ASEAN[1] to fully harness the potential of regional economic integration. The rising economies of China and India further reinforced the determination to create a stronger, more united and cohesive ASEAN. Against this backdrop, the ASEAN Vision 2020 was declared during the Informal ASEAN Summit held in Kuala Lumpur in 1997 to transform ASEAN into a stable, highly competitive and prosperous region with equitable economic development as well as reduced poverty and socio-economic disparities.

During the ninth ASEAN Summit in Bali in 2003, the leaders declared the ASEAN Economic Community (AEC) as the goal of regional economic integration towards achieving ASEAN Vision 2020. In view of rising challenges, the leaders in 2007 affirmed their strong commitment to accelerate the establishment of the AEC from 2020 to 2015.

The primary objective of the AEC is to transform ASEAN into a single market and production base with free flow of goods, services, investment, skilled labour and freer flow of capital. Hence, with the implementation of the AEC, ASEAN will become a competitive and dynamic region with strong linkages with the rest of the world.

### The AEC Blueprint – Key Characteristics and Elements

An important milestone in the establishment of the AEC was the launch of the AEC Blueprint in 2007. The Blueprint provides clear timelines for Member States to strive towards becoming an integrated economic community.

The AEC Blueprint comprises the following characteristics:

(a) a single market and production base;
(b) a highly competitive economic region;
(c) a region of equitable economic development; and
(d) a region fully integrated into the global economy.

These main characteristics are inter-related and mutually reinforcing. Incorporating the required elements of each characteristic in one blueprint will ensure consistency and coherence of these elements as well as facilitate effective implementation and coordination among relevant stakeholders.

The Blueprint is a pragmatic document and has taken into account the interest of all ASEAN Member States. The Blueprint is implemented and monitored in four phases: 2008 – 2009, 2010 – 2011, 2012 – 2013 and 2014 – 2015. The ASEAN Integration Monitoring Office will track implementation of the various measures in the Blueprint.

[1] The Association of Southeast Asian Nations (ASEAN) consists of Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

TABLE 1

**Characteristics and Elements of the AEC**

| Single Market and Production Base | Highly Competitive Economic Region | Equitable Economic Development | Integration Into the Global Economy |
|---|---|---|---|
| • Free flow of:<br>- goods;<br>- services;<br>- investment; and<br>- skilled labour.<br>• Freer flow of capital<br>• Priority integration sectors<br>• Food, agriculture and forestry | • Competition policy<br>• Consumer protection<br>• Intellectual property rights<br>• Infrastructure development<br>• Taxation<br>• e-Commerce | • SME development<br>• Initiatives for ASEAN integration | • Coherent approach towards external economic relations<br>• Enhanced participation in global supply network |

Source: ASEAN Economic Community Blueprint.

**Main Benefits of the AEC**

The AEC will enhance growth prospects for ASEAN Member States, especially through:

- **Economy size and population** – ASEAN with a combined Gross Domestic Product of USD1.85 trillion has about 600 million people. Collectively, it is the third largest in terms of economy and population in Asia, with 28% of its total population aged below 15 years. The region has a large middle-class with strong purchasing power following robust economic development and stable employment. This will create economies of scale for businesses and industries as well as greater demand for goods and services. In addition, economic cooperation will lead to better growth prospects and establish the region among the best global investment destinations.

- **Increased intra-regional trade and investment** – With the implementation of ASEAN Free Trade Area (AFTA), intra-ASEAN trade expanded rapidly from USD89.7 billion in 1993 to USD519.7 billion in 2010. In addition, intra-ASEAN net Foreign Direct Investment (FDI) inflow exceeded USD10 billion (16% of total ASEAN inflows) in 2008, the first time since the 1997/1998 Asian financial crisis. Similarly, net global FDI inflows into ASEAN increased significantly to USD79 billion in 2010 from USD38 billion in 2009. This augurs well for the region's long-term growth potential.

- **Significant demand for infrastructure development** – To achieve the AEC, ASEAN requires a higher level of infrastructure development. Total infrastructure investment required over the next decade is approximately USD60 billion per year. In this context, there is significant potential to leverage on ASEAN savings to finance infrastructure in the region. This will foster growth and narrow the development gap as well as promote freer flow of capital.

- **Abundant natural resources** – ASEAN is endowed with abundant natural resources, including minerals and energy resources, offering many opportunities and comparative advantages for investors.

**Highlights on the Progress of Major Initiatives Under the AEC Blueprint**

It has been four years since the launch of the Blueprint in 2007. The ASEAN Member States have made considerable progress along the many dimensions outlined in the Blueprint. For the period 1 January 2008 to 15 July 2011, under Phase I (2008 – 2009), 83.8% of ASEAN-wide measures have been implemented, including the operationalisation of the National Single Windows in ASEAN-6. Under Phase II (2010 – 2011), 62.1% of ASEAN-wide measures have been implemented, including the ASEAN Trade in Goods Agreement. For the period January 2008 to 15 July 2011, the progress for ASEAN-wide measures was 72%. Following the acceleration of the AEC in Malaysia, 83.8% of the measures due for both phases have been completed as of 15 July 2011.

TABLE 2

**Strategic Approach and Progress of Key Initiatives**[1]

| Strategic Approach | Progress of Key Initiatives |
|---|---|
| **Single Market and Production Base** | |
| **A. Free Flow of Goods** | |
| • AFTA | 99.7% of goods are duty free for ASEAN-6[2] while 98.9% of goods for CLMV[3] countries have 0% to 5% tariffs. |
| • Customs integration | Seventh Protocol relating to the ASEAN Framework on the Facilitation of Goods in 2011 will be finalised this year. |
| • ASEAN Single Window | All ASEAN Member States have endorsed the Memorandum of Understanding to implement the ASEAN Single Window Pilot Project. |
| • Trade facilitation | ASEAN Member States endorsed the comprehensive trade facilitation work programme in 2010. |
| **B. Free Flow of Services** | |
| • ASEAN Framework Agreement on Services (AFAS) | The Protocol to implement the Eighth Package of AFAS was signed at the 17th ASEAN Summit on 28 October 2010. |
| • Financial services | The Protocol to implement the Fifth Package of Commitments on Financial Services was signed in May 2011. |
| **C. Free Flow of Investment** | |
| • Eliminating restrictions and enhancing investor protection | The ASEAN Comprehensive Investment Agreement was signed in February 2009, comprising four main pillars:<br>o investment protection;<br>o facilitation and cooperation;<br>o promotion and awareness; and<br>o liberalisation of investment regime. |

[1] For further information please visit www.asec.org.
[2] ASEAN-6 consists of Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand.
[3] CLMV countries consist of Cambodia, Lao PDR, Myanmar and Vietnam.

| | |
|---|---|
| **D. Freer Flow of Capital** | |
| • ASEAN Capital Market Development – Allowing greater capital mobility | The ASEAN Brand Identity, ASEAN Exchanges website and ASEAN Stars were launched in Bali, April 2011 by seven regional stock exchanges[4]. |
| **E. Free Flow of Skilled Labour** | |
| • Movement of natural persons | Seven Mutual Recognition Agreements under AFAS have been concluded for restricted free flow of foreign professionals[5]. |
| **Towards a Highly Competitive Economic Region** | |
| **A. Competition Policy** | |
| • Competition Law | Five ASEAN[6] Member States have some form of Competition Act/Law. |
| **B. Consumer Protection** | |
| • Consumer Protection Act | Five ASEAN[7] Member States have a Consumer Protection Act. |
| **C. Intellectual Property Rights** | |
| • ASEAN Intellectual Property Rights (IPR) Action Plan | The ASEAN IPR Action Plan 2011 – 2015 was endorsed in August 2011. |
| **D. Infrastructure Development** | |
| • Financing mechanism for infrastructure projects | On 24 September 2011, the agreement to establish the ASEAN Infrastructure Fund (AIF) was signed in Washington D.C. The AIF is an important initiative to support, among others, physical connectivity which is key towards implementing the Master Plan on ASEAN Connectivity. |
| **E. Taxation** | |
| • Avoidance of double taxation | All ASEAN Member States (except Cambodia) have signed the Bilateral Agreements on Avoidance of Double Taxation. |
| **Towards a Region of Equitable Economic Development** | |
| **A. SME Development** | |
| • ASEAN Strategic Action Plan for SME Development (2010 – 2015) | Establishment of an SME Advisory Board to promote SME competitiveness and sustainability. |

[4] Bursa Malaysia, Hanoi Stock Exchange, Hochiminh Stock Exchange, Indonesia Stock Exchange, Philippine Stock Exchange, Singapore Exchange and Stock Exchange of Thailand.
[5] Engineering, Nursing, Architectural, Surveying and Accountancy Services and Medical and Dental Practitioners.
[6] Indonesia, Malaysia, Philippines, Thailand and Vietnam.
[7] Malaysia, Philippines, Singapore, Thailand and Vietnam.

| | |
|---|---|
| **B. Initiative for ASEAN Integration**<br><br>• Human resource development | <br><br>ASEAN-6 together with Dialogue Partners and development agencies have been actively providing capacity building to CLMV government officials in policy making and regulatory monitoring. |
| **Integration Into the Global Economy** | |
| **A. Coherent Approach Towards External Economic Relations**<br><br>• Free Trade Agreement (FTA) and Comprehensive Economic Partnership (CEP) | <br><br>ASEAN has signed FTAs/CEPs with China; Japan; Republic of Korea; India; as well as Australia and New Zealand. |
| **B. Enhanced Participation in Global Supply Networks**<br><br>• Adoption of best practices | <br><br>Participation in global supply networks will be enhanced through adoption of best practices and development of a comprehensive technical assistance package for CLMV countries to upgrade industrial capability. |

**The Way Forward**

In the light of rapid developments following globalisation, ASEAN will continue to strive towards achieving the AEC by 2015, which will reinforce the centrality of ASEAN in regional cooperation and integration. In this regard, ASEAN will accelerate its integration and community building efforts while intensifying relations with its external partners to place ASEAN at the centre of growth and development, as well as focusing on enhancing the well-being and livelihood of the people.

The realisation of the AEC is still work in progress, as ASEAN will continue to engage stakeholders through partnership arrangements, regular consultations with the private sector, industry associations and the wider community at the national and regional levels. Significantly, ASEAN will continue to play an active role in the global economy commensurate with its status as a vibrant economic region.