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INTERNATIONAL ECONOMIC PERFORMANCE AND COOPERATION

ECONOMIC REPORT **2013/2014**

International Economic Performance and Cooperation

Overview

Growth remains modest

In the first half of 2013, global economic growth remained modest, averaging 2.5%. Emerging and developing economies grew moderately but still contributed significantly to global growth, while advanced economies strengthened gradually. A combination of factors led to the moderation in emerging and developing countries. The export-reliant countries were affected by weaker demand from advanced economies, particularly due to the prolonged recession in the European Union (EU). Many emerging markets such as Brazil, China and India experienced a surge in credit, leading to high inflation and rising interest rates which slowed down investment and growth. Commodity exporters who had enjoyed favourable terms of trade were affected by lower prices of raw materials. China's growth moderated as exports decelerated amid policy shift towards more balanced and sustainable development. The slowdown in China is impacting the global economy, particularly commodity exporters such as Australia and Brazil. India's growth slowed significantly due to large capital outflows since May, which led to a marked depreciation of its currency.

In the US, private demand, supported by a highly accommodative monetary policy contributed to growth, while the fiscal consolidation measures had a negative effect. Economic activity in Japan picked up in response to Abenomics monetary easing and fiscal stimulus measures aimed at ending deflation and boosting growth. The euro area growth remained subdued, though on a quarter-on-quarter basis, GDP was positive in the second quarter of 2013 after six quarters of recession. The euro area continues to be affected

by high unemployment as well as large public and private debts which restrain borrowing and affect growth.

Global economic activity is expected to strengthen moderately during the second half of 2013, with the whole year growth projected at 2.9%. Economic expansion will continue to be supported by growth in major emerging and developing economies, reinforced by strengthening in the advanced economies, particularly in the US where activity is expected to intensify as fiscal consolidation eases and monetary conditions stay supportive. However, there are downside risks including the tapering of quantitative easing (QE) in the US and ensuing increase in long-term yields which could lead to further capital outflows and balance of payments problems in some emerging markets. Additionally, uncertainty over the US budget and raising of the debt ceiling could weigh on global economic growth. Weaknesses in the euro area's financial system and high public debts in major advanced economies could affect growth prospects. Insufficient fiscal consolidation and structural reforms in Japan as well as the continued slowdown in China, as the economy adjusts towards a more sustainable quality growth also pose downside risks. Furthermore, prolonged political tensions in the Middle East and North Africa (MENA) region could disrupt crude oil production.

Global Economic Performance

Emerging economies decelerate

The **US** economy grew at a modest pace of 1.3% in the first half of 2013 (January – June 2012: 3.1%). The reduction in government spending, including the sequester or across-the-board budget cuts, beginning March 2013, has weighed down growth. However, resilient consumer spending, a

TABLE 2.1

**Real Gross Domestic Product (GDP)
for Selected Economies
2012 – 2014**

	Change (%)		
	2012	2013 ¹	2014 ²
World	3.2	2.9	3.6
Advanced Economies	1.5	1.2	2.0
United States	2.8	1.6	2.6
Euro area	-0.6	-0.4	1.0
Japan	2.0	2.0	1.2
Emerging and developing economies	4.9	4.5	5.1
China	7.7	7.6	7.3
Republic of Korea	2.0	2.8	3.7
India	3.2	3.8	5.1
ASEAN			
Singapore	1.3	3.5	3.4
Thailand	6.5	3.1	5.2
Indonesia	6.2	5.3	5.5
Philippines	6.8	6.8	6.0
Viet Nam	5.2	5.3	5.4
Malaysia	5.6	4.5 – 5.0	5.0 – 5.5

¹ Estimate.² Forecast.

Source: International Monetary Fund and national authorities.

pickup in private investment, improvements in the labour market and a rebound in the housing market contributed to growth. Personal consumption expenditure continued to grow 1.9% (January – June 2012: 2.3%) despite an increase in the payroll tax since January 2013, as household net wealth improved, driven by higher stock market and housing wealth. Private investment, particularly in residential property remained high, increasing 13.9% (January – June 2012: 11.2%). The housing sector improved significantly, with the Standard and Poor's 20-City Composite Index increasing sharply by 12.4% during the first seven months of 2013. Other housing indicators such as building permits, housing starts and sales continued to register double-digit growth of 22.5%, 24.9% and 23.3%, respectively (January – July 2012: 30.4%; 25.3%; 20.1%). The unemployment rate has decreased gradually

from a peak of 10% in October 2009 to 7.3% in August 2013, mainly due to job creation in the private sector and lower number of people seeking employment.

Supply side indicators have been encouraging; manufacturing activities picked up with the Purchasing Managers' Index (PMI) increasing to 55.7 points in August 2013 (August 2012: 50.7 points), while the non-manufacturing PMI also rose to 58.6 points (August 2012: 54.3 points). Retail sales increased at a lower pace of 4.5% (January – July 2012: 5.5%), supported by strong sales of motor vehicle and parts. Inflation has been trending down to 1.6% in the first eight months of 2013 (January – August 2012: 2.2%) due to falling gasoline prices.

The US Federal Reserve's (the Fed) highly accommodative monetary policy has kept interest rates close to zero since December 2008 and continues to support economic recovery. With the economy gaining strength, in June 2013, the Fed signalled the possible reduction in the pace of asset purchases under its third round of QE programme by late 2013, contingent on assured economic recovery. As a result, government bond yields rose more than 80 basis points in early September due to strong investor demand.

Overall growth for the year is projected lower at 1.6% (2012: 2.8%), supported by an accommodative monetary policy as well as housing and labour market gains. However, the ongoing fiscal consolidation, the Federal Government partial shutdown in October due to the political impasse over the budget for the new fiscal year; and raising of the debt ceiling continue to pose downside risks to economic growth.

In the **euro area**, GDP continued to contract 0.8% during the first half of 2013 (January – June 2012: -0.3%). Economic activity was restrained by the ongoing fiscal consolidation, weaknesses in the financial system and policy uncertainty. Private investment declined 4.6% (January – June 2012: -1.1%), reflecting subdued demand and tight credit supply in some member countries. Household consumption and government expenditure also fell

1% and 0.1%, respectively (January – June 2012: -0.2%; 0.2%). The euro area's biggest economy, Germany, recorded a marginal growth of 0.1% while France contracted 0.1%. Meanwhile, Greece and Portugal contracted 5.1% and 3.1% (January – June 2012: -6.4%; -2.8%), respectively. The unemployment rate has remained persistently high and averaged 12.1% in the first seven months of 2013 (January – July 2012: 11.5%). Austria recorded the lowest unemployment rate at 4.8%, while Spain and Greece registered significantly higher rates at 26.3% and 27.6%, respectively. Inflation remained subdued at 1.3% in August (August 2012: 2.6%), mainly due to the decline in energy prices. In September 2013, the European Central Bank maintained the interest rate for refinancing operations and the overnight deposit rate at 0.50% and 0%, respectively. These rates are aimed at promoting stable money market conditions and supporting a gradual recovery in economic activity which may remain low into 2014. For 2013, GDP in the euro area is forecast to contract 0.4% (2012: -0.6%).

GDP growth in **Germany** slowed down to 0.1% (January – June 2012: 1.1%), dragged down by the dismal performance in the first quarter at -0.3% as the harsh winter affected economic activity, particularly in the construction sector. However, economic activity improved in the second quarter, supported by higher capital investment and increased consumption. In the first seven months of 2013, exports contracted significantly by 0.5% (January – July 2012: 5.4%) given the weak external demand, affecting Germany's export-oriented economy. Imports contracted 1.3% (January – July 2012: 2.3%), largely due to the slowdown in construction activity and industrial output. Despite the slow growth, unemployment decreased marginally to 5.3% (August 2012: 5.5%), which was among the lowest in the euro area. Factors that contributed to the low unemployment rate include the dual education system, which allows young people to learn practical skills before they start their first job. Inflation decelerated to 1.6% (August 2012: 2.2%) due to lower energy prices. In 2013, Germany's economy is expected to grow 0.5% (2012: 0.9%).

TABLE 2.2

Inflation Rate for Selected Economies 2012 – 2013

	Change (%)	
	2012	2013 ¹
World	4.0	3.8
Advanced economies	2.0	1.4
United States	2.1	1.4
Euro area	2.5	1.5
Japan	0.0	0.0
Emerging and developing economies	6.1	6.2
China	2.6	2.7
Republic of Korea	2.2	1.4
India	10.4	10.9
ASEAN		
Singapore	4.6	2.3
Thailand	3.0	2.2
Indonesia	4.3	7.3
Philippines	3.2	2.8
Viet Nam	9.1	8.8
Malaysia	1.6	2.0 – 2.5

¹ Forecast.

Source: International Monetary Fund and national authorities.

In **France**, growth contracted 0.1% (January – June 2012: 0.3%) affected by a decrease in household consumption and lower investment. Exports grew at a slower pace of 1% (January – June 2012: 4.4%), supported by sales of transport equipment. Imports fell 0.7% (January – June 2012: 0.9%) due to lower purchases of energy and manufactured goods. Unemployment increased to 11% (July 2012: 10.2%) although various measures including state-subsidised job contracts were implemented by the government. Meanwhile, inflation was lower at 0.9% (August 2012: 2.1%) driven by the fall in prices of petroleum and medical products as well as transport and communication service charges. Overall growth in 2013 is expected to increase 0.2% (2012: 0%).

The **UK** economy turned around to register a growth of 0.8% (January – June 2012: 0.5%) backed by a resilient services sector which grew 1.7% (January – June 2012: 1.4%). The growth

was supported by the increase in distribution, hotels and catering (3.2%) as well as business services and finance (1.7%) subsectors. Growing consumer demand, as well as increases in public and private investment also contributed to the growth. In August, inflation went up to 2.7% (August 2012: 2.5%) as petrol and diesel prices rose. The Bank of England has maintained its interest rate at 0.50% since March 2009 and is not expected to raise the rate until the unemployment rate falls below 7%. In August 2013, the unemployment rate stood at 7.7%. GDP in UK is projected to grow 1.4% in 2013 (2012: 0.2%).

GDP in **Japan** expanded at a slower pace of 0.6% in the first half of 2013 (January – June 2012: 3.6%). This was largely on account of lower private investment, which contracted 4.9% (January – June 2012: 7.2%) as business confidence was affected by weak external demand. In contrast, public investment expanded 12.1% (January – June 2012: 7.5%), mainly due to an increase in stimulus and reconstruction spending. Private consumption grew at a slower pace of 1.5% (January – June 2012: 3.6%), following uncertainty over economic prospects despite the announcement to increase sales tax from 5% to 8% in 2014. Although the yen was weaker, exports contracted 1.8% (January – June 2012: 4.9%) due to lower demand for electrical equipment, general machines, manufactured goods, as well as vehicle and transport equipment.

On the supply side, growth in the manufacturing sector declined 5.4% (January – June 2012: 7%) as companies curbed production due to weak demand. This was reflected in the lower PMI which averaged 50.3 points (January – June 2012: 50.6 points). The wholesale and retail subsector declined 0.4% (January – June 2012: 0.5%), primarily due to a decrease in sales of motor vehicles, furniture and house furnishings as well as farm and aquatic products. The unemployment rate moderated to 4.1% (August 2012: 4.2%) as the labour market gradually improved. Inflation rose to 0.9% (August 2012: -0.4%), mainly due to increases in imported energy as well as transport and communication prices.

The Bank of Japan (BOJ) has kept its policy rate unchanged between 0% and 0.10% to sustain economic growth since 2009. In December 2012, the government introduced Abenomics which has three elements: flexible fiscal policy, monetary easing and structural reforms. Abenomics aims to end deflation, increase growth and reduce the high public debt. In April 2013, the BOJ introduced monetary easing policies, aimed at achieving an inflation target of 2% and increasing the money supply from JPY138 trillion at end-2012 to JPY270 trillion at end-2014. Japan's GDP is projected to remain stable at 2% in 2013 (2012: 2%).

GDP growth in **China** moderated to 7.6% (January – June 2012: 7.8%) amid restructuring and transformation of its economy since 2008 towards a more balanced and sustainable growth path; away from over dependence on exports and investment. Investment in fixed assets grew at a marginally slower pace of 20.1% (January – June 2012: 20.4%) supported by private investment in the real estate sector, which increased 20.3%. Exports increased 9.5% (January – July 2012: 7.8%) while imports grew 7.3% (January – July 2012: 6.4%).

Supply side indicators further reinforced the moderation in growth. Industrial production moderated to 9.4% (January – July 2012: 10.3%), mainly due to a slowdown in the manufacturing sector particularly for railways, shipbuilding, aerospace and other transport equipment as well as textile. Meanwhile, the subdued growth in the sector was also reflected in the marginal expansion of the manufacturing PMI, which averaged 50.5 points (January – June 2012: 51.4 points), affected by lower overseas orders. Similarly, retail sales grew at a slower pace of 12.8% (January – July 2012: 14.2%), largely on account of lower sales of communication appliances, office equipment as well as petroleum and related products. Inflation was lower at 2.5% (January – July 2012: 3.1%), largely attributed to softening of global commodity prices and excess production capacity. The People's Bank of China has maintained its policy rate at 6.00% since July 2012. China's GDP is projected to register a growth of 7.6% in 2013 (2012: 7.7%).

GDP growth in the **Republic of Korea (ROK)** slowed to 1.9% during the first half of 2013 (January – June 2012: 2.6%) following weak private investment, high household debt and subdued export performance. Despite sluggish exports of ships and steel, overall exports grew 0.6% (January – June 2012: 0.7%), largely on account of higher sales of wireless communication devices and rising demand from Association of Southeast Asian Nations' (ASEAN) countries and China. Private consumption also grew marginally by 1.6% (January – June 2012: 1.2%) due to a slight increase in household consumption. Consumer confidence improved as reflected in the consumer sentiment index, which rose to an average of 103.2 points (January – June 2012: 102.5 points). However, private investment particularly on plant expansion and transport equipment, contracted significantly by 8.5% (January – June 2012: 2.3%).

Growth in the manufacturing sector decelerated to 1.6% (January – June 2012: 3.4%) as production in the construction and telecommunication industries decreased. The wholesale and retail trade, restaurant and hotel subsector grew at a modest pace of 1.7% (January – June 2012: 2.5%) backed by fiscal measures to stabilise consumer prices, despite being constrained by high household debt and weak economic prospects. Inflation moderated marginally to 1.4% (July 2012: 1.5%) attributed to lower prices of energy, apparel, food and non-alcoholic beverages. The unemployment rate was stable at 3.1% (August 2012: 3.1%), supported by job creation in the health and social welfare services sectors. The government introduced an additional stimulus budget of USD15.4 billion in April and front-loaded about 60% of the main budget spending to the first half of 2013. These measures are envisaged to cover expected shortfalls in revenue, aid small and medium enterprises (SMEs) and lift the sluggish real estate market. The Bank of Korea continues to maintain its policy rate at 2.50% since May 2013 to spur economic growth. The ROK's growth for 2013 is expected to expand moderately by 2.8% (2012: 2%).

India registered a slower growth of 4.6% in the first half of 2013 (January – June 2012: 5.2%), largely due to weaker domestic demand following monetary tightening measures as well as lacklustre performance of the mining and manufacturing sectors. In addition, the widening of external and fiscal deficits following the sharp depreciation of the rupee also affected growth. Private consumption expenditure and gross fixed capital formation were lower at 2.7% and 1.2% (January – June 2012: 7.5%; 3.6%), respectively due to tighter credit conditions as well as subdued consumer sentiment and business confidence. The manufacturing sector registered a marginal growth of 0.8% (January – June 2012: -0.4%) but is expected to recover further due to improvements in industrial production in July, which grew 2.6%. Meanwhile, mining activity contracted 2.9% (January – June 2012: 2.9%), largely attributed to lower production of coal. Growth was, however, supported by the robust services subsectors, namely finance, insurance, real estate and business services, which grew 9% as well as community, social and personal services at 6.5%. Weaker global demand has also affected India's export performance, which declined 0.9% (January – June 2012: 8.1%). However, the Indian government's efforts in reducing imports, particularly by raising taxes on imports of gold, including mandating at least 20% of imported gold to be re-exported; the ongoing rationalisation of fuel subsidies; and the pickup in export revenue in July, are expected to continue to reduce the overall current account deficit and support growth.

Inflation, as measured by the wholesale price index, trended upwards in August 2013 to 6.1%, after a brief respite in the first half of the year at 5.8% (January – June 2012: 7.5%), following sharp increases in food and fuel prices as well as the depreciation of the rupee. Since May 2013, the Reserve Bank of India (RBI) has announced a series of measures to stem further depreciation of the rupee and widening of the current account deficit. In July, the RBI initiated auctioning of government securities; raised short-term interest rates for domestic

banks; and lowered the availability of funds under its liquidity adjustment facility. In August, the RBI undertook further steps to attract capital inflows and curb outflows through the liberalisation of external commercial borrowing and non-resident deposit schemes as well as imposition of capital control to restrict resident outflows. In its latest move to contain inflation, the RBI raised its main policy rate by 25 basis points to 7.50% in September 2013, its fourth revision since January 2013. In an effort to further boost investment, the government relaxed the foreign investment limits in several sectors, including telecommunications, insurance and defence. For the year, India's growth is projected to be higher at 3.8% (2012: 3.2%), supported by robust agriculture production following continuous favourable rainfall from the Southwest Monsoon, which started in June.

Australia registered a modest growth of 2.6% in the first half of 2013 (2012: 4%) due to a marked slowdown in domestic demand, particularly weaker investment in the mining sector. Despite an easy monetary policy, private consumption grew at a slower pace due to weaker consumer sentiment. Consequently, the household savings rate rose 10.7% in the first half of 2013, reflecting underlying consumer caution to save and pay debt. The subdued growth of the mining sector reflected falling commodity prices and waning demand for natural resources, particularly iron ore from China. Growth in the manufacturing and construction sectors dipped, while agricultural output such as beef, dairy products and wine increased. The unemployment rate increased in September to 5.6% (September 2012: 5.4%) as jobs were shed in the manufacturing, mining and construction sectors. Inflation increased to 2.4% in the first half of 2013 (January – June 2012: 1.4%) and is expected to remain well between the target band of 2% and 3% set by the Reserve Bank of Australia (RBA). The RBA has gradually lowered its main policy interest rate since November 2011 by 225 basis points to 2.50% in October 2013, aimed at depreciating the strong Australian dollar to further boost export earnings and competitiveness

of the domestic economy. For 2013, Australia's GDP is expected to decelerate to 2.5% (2012: 3.7%), largely weighed down by the declining performance of the mining sector.

In **New Zealand**, growth was modest at 2.6% during the first half of the year (January – June 2012: 4.5%) as a severe drought affected agricultural output and processing of primary products. Growth in the agriculture sector declined 3.4% (January – June 2012: 15.1%), while the manufacturing sector increased moderately by 1.1% (January – June 2012: 3.8%), mainly due to lower production of wool, milk and other dairy products. The retail trade sector sustained its growth momentum at 4% (January – June 2012: 4.1%), largely on account of improved consumer sentiment and rising sales of construction-related materials, reflecting the revival of the residential property market and reconstruction activity in the Canterbury region. A vibrant tourism sector, following a 5.8% increase (January – July 2012: 2.3%) in international tourist arrivals in the first seven months of 2013, is also expected to support growth. In the first half of 2013, the unemployment rate stood at 6.3% and is anticipated to recover following rebuilding efforts after the earthquake. Inflation is expected to rise slightly and remain in the range of 1% – 3% (2012: 1.1%) as domestic demand and imports of construction material increase. Meanwhile, fiscal consolidation efforts are expected to impact growth as government spending continues to decline. In September 2013, the Reserve Bank of New Zealand kept its official policy rate unchanged at 2.50% to encourage residential construction and to contain persistently high house prices in Auckland and the Canterbury region. In 2013, GDP in New Zealand is expected to grow 2.5% (2012: 2.7%), supported by improvements in domestic demand and continued robust construction activity.

During the first half of 2013, the ASEAN economies registered a moderate growth, contributed by strong domestic demand, particularly in Indonesia, Malaysia and the Philippines. **Indonesia's** GDP

growth remained strong, albeit at a slower pace of 5.9% (January – June 2012: 6.3%), supported mainly by transport and communication as well as trade, hotel and restaurant industries, which grew 10.7% and 6.5%, respectively. Meanwhile, the manufacturing sector which expanded 5.9% also continued to support growth. In August, inflation accelerated to 8.8% (August 2012: 4.6%), the highest level in more than four years, driven by increased prices of gasoline and diesel, which rose 44% and 22%, respectively due to the reduction in fuel subsidies. Indonesia has increased imports of food and removed import quotas on products such as beef and soybeans to address the surge in inflation. In addition, Bank Indonesia increased its policy rate four times since June 2013 by a total of 150 basis points to 7.25% in September 2013. In 2013, Indonesia is expected to grow 5.3% (2012: 6.2%).

The **Philippines'** economy grew 7.6% (January – June 2012: 6.3%) during the first half of 2013 driven by the services and industry sectors, which grew 7.2% and 10.6%, respectively. The industry sector was backed by substantial growth in the manufacturing and construction subsectors, which grew 10% and 25%, respectively. On the demand side, growth was mainly attributed to consumer and public spending, supported by increased investment in fixed capital. Inflation was at its lowest since August 2009 at 2.1% (August 2012: 3.8%), mainly due to the decrease in housing, water, electricity and gas price indices. Following stable inflation and strong growth, Bangko Sentral ng Pilipinas maintained its policy rate at 3.50% since October 2012. In 2013, Philippines economic growth is expected to remain at 6.8% (2012: 6.8%).

Thailand recorded a significant growth of 4.1% (January – June 2012: 2.3%) driven by domestic demand. Household consumption expenditure and investment expanded 3.4% and 5.1%, respectively. However, inflation has trended downwards to 1.6% (August 2012: 2.7%) reflecting moderation in food and non-alcoholic beverage prices. Beginning September 2013, inflation is expected to increase as electricity charges along with road tolls and

cooking gas prices were adjusted upwards. The Bank of Thailand has maintained the policy rate at 2.50% since May 2013 to support economic growth. Overall growth for 2013 is expected to be slower at 3.1% (2012: 6.5%).

Singapore's GDP remained stable at 2% (January – June 2012: 1.8%), largely contributed by robust construction; wholesale and retail trade; transport and storage; as well as finance and insurance sectors. The construction sector which grew 5.5% (January – June 2012: 6.1%) was spurred by stronger public housing, infrastructure construction works and several major projects such as the Sports Hub, Orchard Gateway and Westgate. The wholesale and retail trade subsector expanded 2.9% (January – June 2012: -0.4%) due to an expansion in the wholesale trade segment, which was supported by an increase in re-exports of electronic products. Meanwhile, the manufacturing sector declined sharply by 3.3% (January – June 2012: 1.8%), reflecting the contraction in the output of biomedical manufacturing and transport engineering clusters. In August 2013, inflation moderated to 2% (August 2012: 3.9%), which was contributed by lower car prices and housing rental market. Overall growth for 2013 is expected to be higher at 3.5% (2012: 1.3%).

Viet Nam's economy expanded 4.9% in the first half of 2013 (January – June 2012: 4.8%) with moderate expansion in main sectors. The services sector which contributed 43.1% to the economy grew 5.9%, while the industry and construction as well as agriculture sectors expanded 5.2% and 2.1%, respectively. Exports, which were mostly from foreign investment, moderated 16.1% (January – June 2012: 23%). Cell phones and parts became the largest export item, surpassing traditional exports such as crude oil, garment and footwear. In August, inflation rose to 7.5% (August 2012: 5%) due to increasing healthcare costs, as well as higher food and transport prices. In May 2013, the State Bank of Viet Nam lowered its policy rate to 7.00% in an effort to support growth, amid restructuring of the financial sector. It was the eighth reduction since March

2012 when the rate stood at 15.00%. For 2013, Viet Nam's growth is expected to increase marginally by 5.3% (2012: 5.2%).

Growth in **Cambodia** is projected at 7% in 2013 (2012: 7.3%) due to expectation of improvement in exports. European demand for Cambodian garments and footwear is expected to boost Cambodia's growth, supported by duty-free access to the EU. Meanwhile, higher foreign investment is expected to increase the production capacity of new industries, including the manufacture of automotive parts and processing of agricultural products, as well as diversification of garment production into high value-added products. In 2013, the industry sector is expected to expand 10.5%, while the services sector, 7%.

The economy of **Lao PDR** is expected to expand 8.3% in 2013 (2012: 7.9%). The expansion will be supported by substantial investment in hydropower and mining, coupled with the construction of hotels, offices and housing. An upturn in the tourism and other services industries, including financial services as well as wholesale and retailing are also expected to support growth. In 2013, the GDP of **Myanmar** and **Brunei Darussalam** is forecast to grow 6.8% and 1.4% (2012: 6.4%; 0.9%), respectively. Myanmar's growth will be boosted by higher gas exports, greater access to international markets and positive economic growth in key export markets. Meanwhile, Brunei Darussalam is broadening its economic base for longer-term development. Several industries have been identified for development such as tourism; Islamic businesses including halal products and financial services; as well as information and communication technology services.

Growth in the **MENA** region is projected to be lower at 2.1% in 2013 (2012: 4.6%) due to reduced oil production in tandem with modest global demand as well as domestic supply disruptions. Continued political uncertainty and social unrest, especially in Egypt, Iran, Iraq, Libya and Syria are also expected to impact negatively on growth.

The **oil exporting economies**, including Saudi Arabia, Iraq and Qatar are projected to grow at a substantially slower pace of 1.9% (2012: 5.4%). Saudi Arabia is expected to register a moderate growth of 3.6% (2012: 5.1%), mainly due to subdued demand for oil exports, resulting in lower production. However, growth is expected to be supported by sustained public spending on employment, construction of schools, hospitals and transport infrastructure as well as the building of more affordable homes. Private investment is expected to remain healthy with some petrochemical and downstream projects coming onboard. Qatar's growth is forecast to ease to 5.1% (2012: 6.2%), partly due to moderating oil and gas prices and the completion of the latest round of investment in gas export capacity. However, increased public investment in education, health and transport services will support growth. In Iraq, growth is projected to decelerate substantially to 3.7% (2012: 8.4%), weighed down by political instability and deteriorating security conditions following social unrest, especially in central areas of Baghdad. However, Iraq is expected to gain from higher government spending aimed at improving basic services to the public as well as increase in private investment as works on huge oilfields and infrastructure projects gather pace. Inflation in the oil exporting countries is expected to gradually increase to 13.8% (2012: 11.4%) following higher food prices and housing rentals in certain Gulf Cooperation Council countries. However, in Iran, the weaker exchange rate resulting from the international sanctions coupled with fiscal issues is expected to further elevate inflation to 42.3% (2012: 30.5%).

Meanwhile, the **oil importing economies**, including Egypt, Lebanon and Tunisia are envisaged to grow 2.8% (2012: 2%) given some improvements in tourism activity, exports and foreign direct investment (FDI). However, rising negative regional spillovers, especially from Syria and sluggish demand from trading partners in the euro area are expected to hold back growth. Egypt is expected to register a lower growth of 1.8% (2012: 2.2%) due to the prolonged political transition crisis as well as increased fiscal and external imbalances that are anticipated to affect

investment, tourism and the employment market. In Syria, political unrest followed by civil war has significantly impacted the economy. Growth in Syria is anticipated to contract further mainly due to poor agricultural harvest and decrease in oil production following international sanctions and damage to oil fields. Syria also suffers from weak domestic demand resulting from the migration of refugees to neighbouring countries. Among the oil importing economies, Mauritania is expected to lead growth at 6.4% (2012: 6.9%) buoyed by higher investment in the mining sector and increased public infrastructure projects. Growth in Morocco is expected to pick up by 5.1% (2012: 2.7%) due to a rebound in agricultural production after poor harvests caused by drought in 2012. An improvement in the euro area is anticipated to further boost growth prospects, especially in the tourism and export sectors, which rely heavily on European demand. Inflation is expected to rise, especially in Jordan, Morocco and Tunisia as governments implement more subsidy cutbacks to contain large fiscal deficits and debts.

The **Sub-Saharan Africa** region is projected to increase its growth momentum at 5% (2012: 4.9%), driven by rising private consumption and investment as well as higher construction, agriculture and mining activities. Investment activities are anticipated to be concentrated in the oil and extractive industries as well as infrastructure, energy and telecommunication sectors. In southern Africa, Mozambique is expected to attract investments on account of its large coal deposits and offshore gas discoveries, while in Zambia, investments will continue to increase in the copper sector. The booming extractive industries, especially oil in Niger and iron ore in Sierra Leone are also expected to contribute to growth. The construction sector is also anticipated to remain upbeat, especially with the building of a financial district in Angola and the construction of large infrastructure projects in Côte d'Ivoire. The agriculture sector is expected to gradually recover in countries affected by drought in 2011 and floods in 2012 although food scarcity and nutrition crisis still persist in some parts of the Sahel region.

Inflation is anticipated to be lower at 6.9% (2012: 9%) in most countries, reflecting stable commodity prices; improved weather conditions in the eastern and western regions, which would favour food production. In addition, Ethiopia, Kenya and Uganda are enforcing tighter monetary policy to contain inflationary pressures. However, the high unemployment rate, especially among the youth is expected to persist as jobs remain focused in the less attractive informal and agriculture sectors.

Nigeria is forecast to experience a steady growth of 6.2% in 2013 (2012: 6.6%) as the effect of floods in 2012 that impacted its oil and non-oil sectors subsided. In July 2013, Nigeria attracted USD3 billion worth of investment into the sugar industry and is ranked among the top five sugar exporters in Africa. In addition, the International Finance Corporation (IFC), an agency under the World Bank Group (WBG) has made investment commitments to reform the power sector in Nigeria. South Africa, the region's largest economy, is expected to grow at a slower pace of 2% (2012: 2.5%) following continuous labour unrest in the mining sector, weak private investment and consumption as well as lower demand from the euro area, a major export destination. Sierra Leone is expected to continue to register a double-digit growth of 13.3% (2012: 15.2%), buoyed by higher investments as well as increased production in agriculture, mining and tourism-related activities.

Growth in the **Commonwealth of Independent States (CIS)** is forecast to decelerate to 2.1% in 2013 (2012: 3.4%), in tandem with the slower growth in the global economy and weak domestic investment. Russia's growth moderated sharply in the first half of 2013 to 1.7% (January – June 2012: 4.3%) due to a decline in exports, particularly to the euro area; weak industrial output; subdued investment; slower consumer demand; and a cutback in government spending. Exports contracted 2.9% (January – July 2012: 5.5%) amid falling fuel prices and fragile demand from major export markets. High interest rates have constrained investment while inflation has affected consumer demand. Retail sales growth

has moderated between 3% to 4% in the first half of 2013 (January – June 2012: 7% to 8%). Inflation increased to 6.5% in August 2013 (August 2012: 5.9%) as food prices continue to rise, exceeding the Central Bank of the Russian Federation's (CBR) range of 5% to 6%. Hence, the CBR has maintained the policy rate at 8.25% since September 2012 to contain inflationary pressures. Meanwhile, the unemployment rate decreased marginally to 5.6% (January – July 2012: 5.7%). In June 2013, the government launched a stimulus package worth USD14 billion to finance infrastructure projects and provided tax incentives for SMEs to revive growth. Russia's growth is projected to increase at a slower pace of 1.5% in 2013 (2012: 3.4%) dampened by sluggish global demand and subdued investment.

GDP of Kazakhstan grew 5.1% in the first half of 2013 (January – June 2012: 5.5%), supported by higher investment spending and implementation of an expansionary fiscal policy. The inflation rate has been trending upwards to 5.8% in August 2013 (August 2012: 4.7%), resulting in the National Bank of Kazakhstan maintaining its policy rate at 5.50% since August 2012. Kazakhstan is expected to benefit from the accession to World Trade Organization by end-2013. GDP is anticipated to grow 5% in 2013 (2012: 5.1%), supported by an upturn in oil production and robust activity in the industrial and services sectors. In Ukraine, GDP shrank 1.2% in the first half of 2013 (January – June 2012: 2.6%) attributed mainly to lower exports of steel. Tighter monetary conditions and political instability further constrained economic growth. Ukraine's industrial output declined 5.3% (January – June 2012: 1.7%) triggered by unfavourable global market conditions. Inflation remained low at 0.2% in the first half of 2013 as food prices fell. The economy is expected to grow 0.4% in 2013 (2012: 0.2%).

GDP growth in **Latin America and the Caribbean** region is projected to moderate to 2.7% in 2013 (2012: 2.9%) due to domestic vulnerabilities coupled with tepid global economic conditions which restrained exports. Brazil, the largest

economy in Latin America, expanded 1.6% in the first half of 2013 (January – June 2012: 0.6%), primarily supported by a large fiscal stimulus, lower import tariffs on selected goods and a private concession programme for roads, railways, ports and airports. Although investor confidence improved briefly in May 2013 due to successful equity and bond issuances, growth was dampened by the weaker economic outlook in China and disruptions due to mass public protests in June and July 2013. Exports decreased at a slower pace of 2.5% in the first eight months of 2013 (January – August 2012: -3.7%) as depreciation of the real made exports more competitive, especially in the automotive industry. Meanwhile, imports surged 8.9% (January – August 2012: 0.2%) due to higher oil imports. Inflation increased from 5.2% in August 2012 to 6.1% in August 2013 due to higher food, fuel and transport prices; depreciation of the real; and the implementation of fiscal stimulus. As a result, the Central Bank of Brazil (BCB) has increased the target lending rate since September 2012 by 150 basis points to 9.00% at end-August 2013 to ease inflationary pressures and bolster investor confidence. Additionally, BCB also intervened to strengthen the real through the implementation of a USD60 billion programme targeting currency swaps. Brazil is forecast to achieve a growth of 2.5% in 2013 (2012: 0.9%).

Mexico's growth decelerated to 1.2% during the first half of 2013 (January – June 2012: 4.7%), affected by the slowdown in government spending due to the change in administration; poor demand for exports; and reduced consumption. The inflation rate dropped to 3.5% in August 2013 (August 2012: 4.6%) due to the decline in commodity prices following good harvests, converging to the central bank's 2% – 4% target range. Consequently, the Banco de Mexico reduced its overnight lending rate three times since August 2012 by 75 basis points to 3.75% in September 2013. Additionally, the government unveiled a reform package in September 2013, which includes taxes on fuel, stock market gains and sugary items to reduce income disparity and enhance revenue. Mexico's GDP is projected to decelerate to 1.2% in 2013 (2012: 3.6%).

Investment Flows

Global FDI plummeted amid uncertainties

Global foreign direct investment (FDI) flows contracted substantially by 18.2% to USD1.4 trillion in 2012 (2011: 17.3%; USD1.7 trillion), recording the first decline since the 2008/09 global financial crisis. Weaker growth prospects coupled with policy uncertainty in major economies undermined investor confidence. Strategic divestments by major transnational corporations (TNCs) also contributed to the sharp decline.

Greenfield investments as well as cross-border mergers and acquisitions (M&As) across all economic sectors were affected by the deterioration in the global economy, particularly the deepening of the euro area crisis in 2012 and moderating growth in emerging economies such as China and India. Greenfield investments and M&As fell sharply by 33% and 44.5% (2011: 1.4%; 61.4%), respectively. In terms of sectoral performance, FDI in the primary sector shrank significantly driven by a slump in mining, quarrying and petroleum industries following falling commodity prices and declining demand in developing economies. Meanwhile, FDI in manufacturing industries related to processing of extractive materials and consumer industries such as motor vehicles as well as electrical and electronic equipment were adversely affected. FDI in the services sector, however, declined marginally due to the fundamental resilience of strategic industries such as trade, business, transport and storage as well as communication services.

FDI inflows declined across all regions with developed economies posting the sharpest contraction of 31.6% to USD561 billion, followed by transitional economies (-9.3% to USD87 billion) and developing economies (-4.4% to USD703 billion). Despite registering a marginal decline, flows to developing economies surpassed developed economies for the first time ever, accounting for 52% of global FDI inflows (2011: 44.5%) against developed countries' 41.5% (2011: 49.7%). Four developing economies were ranked among the five largest FDI recipients in the world, led by

TABLE 2.3

FDI Inflows by Selected Host Regions and Major Host Economies 2011 – 2012

	USD billion		Change (%)
	2011	2012	
World	1,651.5	1,350.9	-18.2
Top 5 recipients			
United States	226.9	167.6	-26.1
China	124.0	121.1	-2.3
Hong Kong, China	96.1	74.6	-22.4
Brazil	66.7	65.3	-2.1
British Virgin Islands	62.7	64.9	3.5
Advanced economies	820.0	560.7	-31.6
Europe	472.9	275.6	-41.7
European Union	441.6	258.5	-41.5
Japan	-1.8	1.7	198.6
Developing economies	735.2	702.8	-4.4
Asia and Oceania	438.2	408.9	-6.7
India	36.2	25.5	-29.4
ASEAN	109.0	111.3	2.1
Singapore	55.9	56.7	1.3
Indonesia	19.2	19.9	3.2
Malaysia	12.2	10.1	-17.4
Thailand	7.8	8.6	10.6
Viet Nam	7.4	8.4	12.6
Transition economies	96.3	87.4	-9.3
Southeast Europe	7.2	4.2	-41.2
Commonwealth of Independent States	88.0	82.3	-6.5

Note: Total may not add due to rounding.

Source: United Nations Conference on Trade and Development.

China (2nd), Hong Kong (3rd), Brazil (4th) and British Virgin Islands (5th). Meanwhile two developing economies, namely China (3rd) and Hong Kong (4th) were among the largest source of foreign investment. These indicators reflect the changing patterns of investment flows worldwide.

Among the developing regions, flows to Asia as well as Latin America and the Caribbean remained at high levels despite registering a weaker performance. Inflows to Asia fell 6.7% to

USD406.8 billion (2011: 8.9%; USD436.2 billion), accounting for 57.9% of total FDI flows to developing countries. Meanwhile, FDI to Latin America and the Caribbean declined slightly by 2.2% to USD243.9 billion (2011: 31.4%; USD249.4 billion), comprising 34.7% of flows to developing economies. Flows to South America increased 11.6% (2011: 40.5%) but declined in Central America and the Caribbean by 27.3% and 13.7%, respectively. Chile, Columbia, Argentina and Peru, witnessed higher inflows due to better economic prospects, higher investments in extractive industries and a growing middle-class population which attracted market-seeking FDI. Flows to Africa, the only region which experienced higher FDI, increased 5.1% to USD50 billion (2011: 9.2% to USD47.6 billion), spearheaded by investments in extractive industries as well as the manufacturing and services sectors. Among the developing countries, Malaysia, South Africa, China and India were the largest investors in Africa with Malaysia having substantial FDI in the agribusiness and finance sectors across the region.

Inflows to ASEAN rose 2.1% to USD111.3 billion (2011: 11.4%; USD109 billion) attributed to enhanced regional integration and incipient opportunities in low-income countries (LICs) such as Myanmar. Most countries, including Indonesia, the Philippines, Singapore and Thailand experienced increased FDI, while Cambodia, Myanmar and Viet Nam were attractive spots for labour-intensive FDI activities in the region. However, investment into Malaysia declined to USD10.1 billion (2011: USD12.2 billion) amid lower M&A activity and cautious investment sentiment of major TNCs. The East Asia region registered a negative flow of 8.1% to USD214.8 billion (2011: 9%; USD233.8 billion) as FDI in major economies such as China, Hong Kong and ROK declined. Despite registering a decline, China continues to be one of the key FDI recipients among developing economies with inflows remaining elevated at USD121.1 billion. Meanwhile, FDI flows to West Asia dipped for the fourth consecutive year by 4% to USD47.1 billion (2011: -17.5%; USD49.1 billion), affected by the persistent uncertain political environment and subdued economic prospects. Similarly, flows to

South Asia contracted 24.2% to USD33.5 billion due to sinking inflows to India, Pakistan and Sri Lanka. Despite being the main FDI recipient in the region, flows to India contracted 29.4% to USD25.5 billion (2011: 71.3%; USD36.2 billion), largely due to eroding investor confidence following sluggish growth prospects and inflationary pressures.

FDI flows to transition economies of Southeast Europe and CIS declined as the value of cross-border M&As fell. Flows to Southeast European countries, including Croatia and Albania declined 41.2% to USD4.2 billion (2011: 56.8%; USD7.2 billion) attributed to a significant reduction of investment from the EU. Although flows to CIS fell slightly by 6.5% to USD82.3 billion (2011: 26.4%; USD88 billion), overseas investors continued to be lured by the growing consumer markets and abundant natural resources in the region.

In developed economies, FDI flows fell sharply by 31.6% to USD560.7 billion (2011: 17.7%; USD820 billion), largely resulting from significantly lower investments into Europe and the US following sluggish economic activity and subdued outlook, particularly in the euro area. Flows to the EU decreased 41.5% to USD258.5 billion (2011: 16.4%; USD441.6 billion) as Belgium and Germany saw sharp declines in inflows. In Belgium, FDI flows were inflated with increasing and highly volatile transfer of intra-company revenues and loans by TNCs to manage their retained earnings, while Germany experienced huge divestments resulting from the prolonged sovereign debt problems in the Southern European countries (Greece, Italy, Portugal and Spain). Flows into the US declined 26.1% to USD167.6 billion (2011: 14.7%; USD226.9 billion) following reduced cross-border M&As. Nevertheless, the US remained the single largest recipient of FDI inflows globally, accounting for 12.4% of total FDI inflows (2011: 13.7%). In contrast, flows to Japan rebounded to USD1.7 billion after two years of successful net divestments.

Global FDI outflows declined 17.1% to USD1.4 trillion (2011: 11.5%; USD1.7 trillion), largely due to weaker outflows from developed economies. In contrast, developing economies continued their

investment momentum to expand abroad, thus increasing their share of global outflows to 30.6% in 2012 (2011: 25.2%).

Outflows from developed countries fell significantly by 23.1% to USD909.4 billion (2011: 14.9%; USD1.2 trillion), mainly due to the lingering euro area crisis. The uncertain economic environment in the region has also discouraged investors, especially from the US to invest in Europe, while most European TNCs in the financial sector divested their assets abroad. Outflows from the EU declined significantly by 39.8% to USD323.1 billion (2011: 7.8%; USD536.5 billion), while outward FDI of US contracted 17.1% to USD328.9 billion (2011: 30.3%; USD396.7 billion). However, Japan continued to increase its investment abroad by 13.9% to USD122.6 billion (2011: 91.2%; USD107.6 billion) and remained the second largest investor in 2012. A large portion of outward FDI from developed countries originated from reinvested earnings, accounting for 61% of total outflows, signalling the preference of TNCs to finance overseas expansion from foreign earnings and hold large cash reserves in their foreign affiliates in the form of retained earnings.

Outflows from developing countries increased marginally by 1% to USD426.1 billion (2011: 2.1%; USD422.1 billion). Among the regions, Africa's outflow increased 166% to USD14.3 billion (2011: -42.3%; USD5.4 billion) due to large flows from South Africa into the mining, wholesale and healthcare sectors. Meanwhile, flows from Asia declined marginally by 0.8% to USD308.2 billion (2011: 9.4%; USD310.6 billion). China remained the largest driver of FDI from Asia with outflows increasing 12.8% to USD84.2 billion (2011: 8.5%; USD74.7 billion). Outflows of Malaysia, ROK, Saudi Arabia, Thailand and Turkey increased, while outward FDI of Hong Kong, India and Singapore declined. Malaysia's outflows continued to register a double-digit growth of 12.2% to USD17.1 billion (2011: 13.8%; USD15.2 billion), driven by intra-regional investments. The outflows from transition economies declined 23.9% to USD55.5 billion (2011: 17.8%; USD72.9 billion) due to lower investments by Russians abroad.

According to the United Nations Conference on Trade and Development projections, global FDI flows are expected to rise moderately to USD1.5 trillion in 2013 and increase further in 2014 to USD1.6 trillion as macroeconomic conditions and investors' confidence improve. Nevertheless, persistent downside risks to the global FDI flows remain. These include structural weaknesses in the global financial system; weaker growth in the EU; and significant policy uncertainties in areas crucial for investor confidence.

Trade Flows

Trade flows increased modestly

World trade volume is projected to expand modestly by 2.9% in 2013 (2012: 2.7%), reflecting a gradual pickup in the global demand. Underpinning the increase in trade activity is the resilient growth in emerging and developing economies, strengthening of the euro area and ongoing steady recovery in the US. Trade among developing countries is expected to be more dynamic and account for 30% of global trade, with East Asia increasing its role as a major trading bloc.

The **US** total trade increased marginally by 0.3% during the first seven months of 2013 to USD2,902.2 billion (January – July 2012: 4.9%; USD2,891.9 billion). Exports increased at a slower pace of 2% to USD1,311.3 billion (January – July 2012: 6.1%; USD1,285.1 billion), reflecting increases in industrial supplies and materials, capital goods, automotive vehicles, parts and engines, as well as consumer goods. Imports decreased 1% to USD1,590.9 billion (January – July 2012: 4.6%; USD1,606.8 billion) due to the decline in industrial supplies and materials as well as capital goods. The trade balance contracted 13.1% to USD279.6 billion (January – July 2012: -1%; USD321.7 billion). Major export destinations continued to be Canada (19.2%), Mexico (14.3%), China (7%), Japan (4.1%), the UK (3.1%) and Germany (3%). In 2013, the US exports are projected to register a moderate growth of 2.6% (2012: 5.1%) while imports to increase marginally by 0.4% (2012: 2.8%).

TABLE 2.4

Exports and Imports for Selected Countries January – July

	Exports			Imports			Total Trade		
	USD billion		Change (%)	USD billion		Change (%)	USD billion		Change (%)
	2012	2013		2012	2013		2012	2013	
United States	1,285.1	1,311.3	2.0	1,606.8	1,590.9	-1.0	2,891.9	2,902.2	0.3
Euro area	1,412.3	1,436.4	1.7	1,366.7	1,318.3	-3.5	2,779.0	2,754.7	-0.9
Japan	476.3	418.4	-12.2	519.6	481.5	-7.3	995.9	899.9	-9.6
China	1,131.6	1,239.1	9.5	1,036.5	1,112.0	7.3	2,168.1	2,351.1	8.5
Singapore ¹	273.1	269.6	-1.3	253.7	245.9	-3.1	526.8	515.6	-2.1

¹ Includes goods and services as at end-August.

Source: World Trade Organisation and national authorities.

Total trade for the **euro area** contracted 0.9% during the first seven months of 2013 (January – July 2012: 6.1%). Exports continued to rise although at a slower pace of 1.7% to USD1,436.4 billion (January – July 2012: 9%; USD1,412.3 billion), with major exports comprising chemicals as well as machinery and vehicles. Meanwhile, imports contracted 3.5% to USD1,318.3 billion (January – July 2012: 3.3%, USD1,366.7 billion), with main imports including energy as well as machinery and vehicles. The trade surplus increased 158.7% to USD118 billion (January – July 2012: 267.9%; USD45.6 billion). Major export destinations were the UK with a share of 10.6%, the US (9.9%), China (5.3%) and Switzerland (5%). Meanwhile, major sources of import were China (9.6%), the UK (8.1%) and the US (7.4%). Exports are projected to continue to expand 3.1% (2012: 2.1%) and imports to increase 2.7% in 2013 (2012: -0.2%).

China's total trade increased 8.5% to USD2,351.1 billion (January – July 2012: 7.1%; USD2,168.1 billion) supported by an improvement in trade with partners such as the US and Japan as well as continued strong expansion in trade with Southeast Asia. Exports grew 9.5% to USD1,239.1 billion (January – July 2012: 7.8%; USD1,131.6 billion) while imports increased 7.3% to USD1,112 billion (January – July 2012: 6.3%;

USD1,036.5 billion). Major exports comprised electrical machinery; machinery; as well as knit and woven apparels. Meanwhile, major imports included electrical machinery; mineral fuel and oil products as well as machinery. The trade surplus increased 33.6% to USD127.1 billion (January – July 2012: 26.5%; USD95.1 billion). China's major trading partners were the US with a share of 12.1%, Hong Kong (10%), Japan (7.4%), ROK (6.6%) and Taiwan (5%). Within ASEAN, Malaysia was the largest trading partner with a share of 24.1% to USD59.7 billion followed by Singapore with 17.2% to USD42.6 billion. In 2013, China's exports are projected to increase 6.5%, while imports, 7.6% (2012: 5.7%; 5.1%).

Total trade of **Japan** contracted 9.6% to USD899.9 billion (January – July 2012: 6.3%; USD995.9 billion) following weaker demand from key export markets particularly, China. Exports declined 12.2% to USD418.4 billion (January – July 2012: 2.9%; USD476.3 billion) following subdued demand from China, Europe, the EU, ROK and Taiwan, especially for transport equipment, machinery, electrical machinery, iron and steel, non-ferrous metals as well as rubber products. Meanwhile, imports contracted 7.3% to USD481.5 billion (January – July 2012: 9.7%; USD519.6 billion), mainly due to higher import costs following the weaker yen.

The US emerged as the largest export destination with a share of 18.3%, followed by China (17.4%), ASEAN (15.8%) and the EU (9.7%). For 2013, exports of goods and services are projected to increase 4.8% (2012: -0.1%) while imports are expected to grow at a slower pace of 2.2% (2012: 5.4%).

For **Singapore**, total trade decreased 2.1% to USD515.6 billion in the first eight months of 2013 (January – August 2012: 2%; USD526.8 billion) with exports and imports declining 1.3% and 3.1% (January – August 2012: 0.3%; 3.8%), respectively. Among the reasons for the decrease was the decline in oil trade and electronic exports, including personal computers, integrated circuits and disk media products. Singapore's major exports included refined petroleum products, electrical machinery and chemicals. Imports comprised of machinery and transport equipment, crude petroleum as well as chemical products. Singapore's major trading partners were Malaysia (11.5%), China (11.3%), the EU (9.9%) and the US (7.8%). For 2013, exports are projected to increase 1%, while imports moderate to 1.6% (2012: 0.3%; 3.2%).

International Economic Cooperation

Enhanced coordination and cooperation

The lacklustre global economic performance since 2008 has strengthened the need for greater policy coordination and structural reforms to restore growth, promote job creation and support balanced recovery across regions. With greater integration and interdependence among economies, joint action at the regional and global level is essential in mitigating negative spillovers and managing major risks. Regional cooperation through ASEAN, ASEAN+3 (China, Japan and ROK) and Asia-Pacific Economic Cooperation (APEC) will continue to broaden and deepen integration in various areas, aimed at protecting economic stability and accelerating growth in

the region. In addition, International Financial Institutions, such as the International Monetary Fund (IMF) and WBG continue to play a key role in assisting member countries to address challenges and ensure fiscal sustainability and financial stability through concerted policy actions at both the national and international levels.

In this regard, the **IMF** has been actively involved in crisis resolution and prevention through improving its lending capacity by increasing quota subscriptions and securing temporary borrowing arrangements from member countries. In addition, the IMF has also enhanced economic and financial surveillance as well as provided technical assistance according to countries' needs. Apart from focusing on LICs, the IMF has continued to undertake quota and governance reforms to better reflect the role of emerging and developing countries. In terms of lending facilities, the IMF provides various borrowing arrangements to support member countries tackle balance of payments problems, stabilise economic conditions and restore sustainable growth. As at end-August 2013, IMF lending arrangements amounted to SDR151.6 billion. Loans to Greece, Ireland and Portugal accounted for 44.2% of the total loans.

The IMF continues to support LICs through the provision of concessional loans at zero interest rates under the Poverty Reduction and Growth Trust Fund (PRGT). In ensuring lending is sustainable in the longer term, the IMF has encouraged members to contribute their share of the windfall profits from gold sales to the PRGT. The first distribution of SDR0.7 billion was completed in October 2012. Meanwhile, the second distribution of SDR1.8 billion was approved in September 2012. As of October 2013, a total of 151 countries, including Malaysia, representing more than 90% of the proposed second distribution, agreed to contribute to the PRGT.

Given the financial systemic risks of a globalised economy, the IMF strives to improve the effectiveness of its bilateral and multilateral surveillance. In September 2012, the IMF

Executive Board endorsed a new Financial Surveillance Strategy to further strengthen financial surveillance. This initiative has improved the Fund's capability in addressing possible effects of spillovers from members' policies, monitoring external sector stability and engaging members in constructive dialogues to support global economic and financial stability. In an effort to promote greater fiscal transparency and accountability in policy making, the IMF released a draft of Revised Fiscal Code in 2012 to solicit inputs from member countries. The Code, which aims to strengthen fiscal reporting standards, will incorporate a new Fiscal Transparency Assessment that will replace the existing Fiscal Reports on the Observance of Standards and Codes. The Code is expected to be published by end-2013.

The IMF continues to provide a broad range of technical assistance and training to assist countries in strengthening their capacity to implement effective policies. In this regard, a regional training centre was established in Mauritius in June 2013 to cater for increased demand among the Sub-Saharan African countries. This centre will complement the existing African Regional Technical Assistance Centre (AFRITAC) in Mauritius and help develop macroeconomic policymaking capacity, which is essential to reduce poverty in the region. Additionally, the IMF has signed the Memorandum of Understanding with Ghana to open its fifth AFRITAC in Accra. This centre is expected to serve six countries, extending the AFRITAC network to all Sub-Saharan African countries. The Fund has also enhanced its engagement with the Asian region given its increasing influence on the global financial system and economy. In 2013, the Fund will be establishing a new representative office in Myanmar to complement the efforts of the Thailand Technical Assistance Office, which was established in 2012.

The Fund continues to engage with Malaysia in various areas. Following the technical assistance on "Strengthening Debt Management" in August 2012, the Fund extended its expertise in identifying and quantifying fiscal risks facing the Malaysian economy. The study, entitled "Malaysia: Fiscal

Risks Assessment" was completed in March 2013. In July 2013, the Fund agreed to review the Accountant-General's strategy to implement accrual accounting at the federal level by end-2015. Malaysia also continues to benefit from an ongoing three-year initiative jointly financed by the Fund and the Japanese Government to assist regional economies improve the compilation and reporting of government financial statistics according to the Government Finance Statistics Manual 2001 framework. In this regard, several technical missions, including two workshops have been organised with relevant government agencies involved in the compilation, usage and dissemination of fiscal data since November 2012.

The **WBG** remains committed to ending extreme poverty by 2030, boosting shared prosperity by increasing the income of the bottom 40% population as well as achieving greater equity among developing economies. In realising these objectives, the WBG commitments for the financial year (FY) 2013 amounted to USD52.6 billion (FY2012: USD53.4 billion) and were channelled through its agencies in the form of loans, grants, equity investments and guarantees. The agricultural and related sectors received a higher commitment amounting to USD8 billion, in line with the projections under the Agriculture Action Plan 2013 – 2015. Among the WBG agencies, the International Bank for Reconstruction and Development (IBRD), which provides financing and other financial services to middle-income countries, committed USD15.2 billion, while the International Development Association (IDA), which funds the poorest countries, committed USD16.3 billion. The largest receivers of IBRD lending were Latin America and the Caribbean region (USD4.8 billion), followed by Europe and Central Asia (USD4.6 billion). As for IDA, the largest share of resources was committed to the African region, which received about 50% of total IDA lending facility in FY2013, followed by South Asia (25%).

Commitments by the IFC, the largest global institution focused on financing private sector development, were the highest at USD18.3 billion.

The IFC strategically concentrated on Sub-Saharan Africa where the IFC investments scaled up to nearly USD5 billion, including funds mobilised from other investors. The Multilateral Investment Guarantee Agency, the WBG political risk insurance agency, issued USD2.8 billion in guarantees to support 30 projects globally. Most of the guarantees issued supported investments in Sub-Saharan Africa, mainly focusing on resolving the energy deficit issues. Additionally, the WBG assisted countries to build resilience to external shocks caused by market volatility; develop and implement public debt and risk management strategy; as well as provided technical assistance to 49 countries and organisations to further strengthen their capacity in economic development.

In Malaysia, the Government has been actively engaging the WBG for capacity building and soliciting input for policy formulation. Towards this, the WBG has been involved in undertaking research and studies in various sectors critical to accelerate growth. These include enhancing high value-added activities in the manufacturing and services sectors; guiding the implementation of SME Masterplan to create a vibrant and competitive SME sector; enhancing the efficiency, effectiveness and sustainability of government expenditure; promoting sustainable urban development; managing migration; and strengthening social safety nets.

At the regional level, **ASEAN** Member States continued to cooperate in maintaining growth and improving economic stability amid global economic challenges. Concurrently, ASEAN remains committed to realising the goals of the ASEAN Economic Community (AEC) and has taken several concrete steps under the Roadmap for Monetary and Financial Integration of ASEAN. The ASEAN Finance Ministers agreed to intensify efforts to build stronger regional financial markets to achieve the goals of the AEC and encouraged the ongoing works under the ASEAN Financial Integration Framework and ASEAN Banking Integration Framework. In addition, ASEAN member states are identifying suitable projects to be financed under the ASEAN

Infrastructure Fund. All these efforts will be further intensified in the lead-up to the realisation of the AEC in 2015 when Malaysia assumes the chairmanship of ASEAN.

In May 2013, the **ASEAN+3** Finance Ministers and Central Bank Governors' Meeting agreed to further enhance the Chiang Mai Initiative Multilateralisation (CMIM) which is crucial in maintaining economic stability in the region, given the uncertainties surrounding the global economy. The Meeting also agreed to include the Central Bank Governors in the fundamental decision-making process of the CMIM. In an effort to further strengthen ASEAN+3 Macroeconomic Research Office's (AMRO) capacity as an independent regional economic surveillance unit, the Meeting also agreed to institutionalise AMRO as an international organisation. This would enable AMRO to conduct objective surveillance as a credible, independent international body, contributing further to the regional stability along with the strengthened CMIM. Furthermore, an Economic Review and Policy Dialogue matrix is being developed, consisting of economic indicators of all ASEAN+3 members, to assist members in evaluating their respective eligibility for accessing the CMIM's crisis prevention facility. Also, two studies are being planned aimed at exploring the possibilities of enhancing the use of local currencies for settlement of trade, investment as well as reducing the volatility of capital flows. In addition, the Meeting agreed to enhance the Asian Bond Markets Initiative (ABMI) by adopting the work plan to implement the ABMI New Roadmap+ which was adopted in May 2012. The ABMI continues to build on existing initiatives namely the Credit Guarantee Investment Facility, promotion of Asian bonds to institutionalised investors, regional settlement intermediaries as well as common bond issuance and technical assistance programmes to enhance the effectiveness of ASEAN+3 financial cooperation.

The **APEC** continues to provide an avenue to discuss issues of common concern and initiatives for capacity building among member economies. Indonesia hosted the 20th APEC Finance Ministers'

Progressing Towards the ASEAN Economic Community: An Update

Introduction

Founded in 1967, the Association of Southeast Asian Nations (ASEAN) is a regional organisation which has evolved into a strong grouping. ASEAN became a legal entity with the adoption and entry into force of the ASEAN Charter in 2008. The membership now includes Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam.

ASEAN's main objectives include the acceleration of economic growth, social progress and cultural development as well as promotion of regional peace, stability and shared prosperity. The 9th ASEAN Summit in Bali, Indonesia in October 2003 declared the establishment of an ASEAN Community, comprising three pillars, namely political security, economic and socio-cultural cooperation. Three roadmaps were adopted covering the three pillars, and outlined measures needed for the realisation of the ASEAN Community. In 2007, the ASEAN Economic Community (AEC) Roadmap was agreed upon, followed by the Roadmaps for the Political Security Community and Socio-Cultural Community in 2009.

The AEC marked the commitment of ASEAN leaders to build and promote four important pillars namely: a single market and production base; a highly competitive economic region tempered with equitable development; as well as a region fully integrated into the global economy. Towards this, in 2007, the AEC Blueprint which outlines specific measures and a clear timeline was launched. Furthermore, a AEC scorecard was developed to track the implementation at national and regional levels.

The Implementation of AEC

The AEC Blueprint is a comprehensive framework to provide clearly defined objectives for implementation. It comprises four separate phases: Phase 1 (2008 – 2009); Phase 2 (2010 – 2011); Phase 3 (2012 – 2013) and Phase 4 (2014 – 2015) aimed at the gradual realisation of the four AEC pillars. As at July 2013, Malaysia has successfully implemented over 88.2% of AEC Blueprint measures while ASEAN has implemented 79.5% of the AEC measures. Key areas and progress of the key initiatives include:

TABLE 1

Key Areas and Progress of Key Initiatives¹

Key Areas	Progress of Key Initiatives
Pillar 1: Single Market and Production Base	
A. Free flow of goods	
ASEAN Free Trade Area	ASEAN-6 ² has 99.2% of tariff lines in the Inclusion List (IL) at 0%, while 0.35% of the tariff lines in the IL have import duties. For CLMV ³ , 68.88% of the tariff lines in the IL are already at 0%.
ASEAN Single Window	Systematisation of trade transactions such as the implementation of the National Single Windows as well as conformance with Sanitary and Phytosanitary measures.
Customs Integration	Reduction and elimination of barriers to cross border supply and consumption abroad. Pilot project to implement ASEAN Single Window testing and the implementation of the ASEAN Harmonised Tariff Nomenclature 2012.

¹ For further information, please visit www.aseansec.org.

² ASEAN-6 consists of Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand.

³ CLMV consist of Cambodia, Lao PDR, Myanmar and Viet Nam.

Key Areas	Progress of Key Initiatives
Food, agriculture and forestry	Establishment of ASEAN+3 Emergency Rice Reserve in July 2012. ASEAN member states collaborate to control the level of pesticide to ensure food safety.
B. Free flow of services	
ASEAN Framework Agreement on Services (AFAS)	Endorsement of steps to enhance the AFAS.
Financial Services	The Protocol to implement the Sixth Package of commitments on Financial Services is scheduled to be signed in 2014.
C. Free flow of investment	
ASEAN Comprehensive Investment Agreement (ACIA)	The ACIA entered into force in 2012. Restrictions and limitations to investments in the manufacturing-related services sectors have been minimised making the investment regime in the region very liberal and open to ASEAN and non-ASEAN investors.
ASEAN investment website	Launch of the ASEAN investment website to serve as the platform and gateway to information about ASEAN as an investment destination.
ASEAN Finance Ministers' Investor Seminar (AFMIS)	The 9th AFMIS in 2012 was successfully held in Hong Kong attended by investors from various industries.
D. Freer flow of capital	
ASEAN Capital Market Development	The integration of capital markets by the ASEAN Capital Market Forum and the ASEAN Exchanges achieved significant progress, particularly on the launch of the ASEAN Trading Link.
E. Free flow of skilled labour	
Skilled labour movement	Facilitate skilled labour movement in seven services sectors through mutual recognition arrangement for areas such as engineering, accountancy, architecture, nursing services, medical practitioners, dental practitioners and surveying qualifications.
Pillar 2: Competitive Economic Region	
A. Competition Policy	
Competition Law	Six member countries ⁴ have adopted competition laws.
B. Consumer Protection	
Consumer Protection Act	Six member countries ⁴ have adopted a Consumer Protection Act.
C. Intellectual Property Rights (IPRs)	
ASEAN IPRs Action Plan	Facilitation towards the adoption of International IPRs laws.
D. Infrastructure Development	
Infrastructure development	Regional coordination towards development of transport, information and energy infrastructure through efforts such as: the ASEAN Transport Action Plan; regional partnerships to facilitate the Computer Emergency Response Teams; the ASEAN Power Grid and ASEAN Infrastructure Fund.

⁴ The six member countries are Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam.

Key Areas	Progress of Key Initiatives
Pillar 3: Equitable Economic Development	
A. Small and medium enterprises (SMEs)	
Development of SMEs	Establishment of ASEAN SME Council with representatives from government and private sector, as well as endorsement of the revised ASEAN Strategic Action Plan for SME Development (2012 – 2015).
Pillar 4: Integration with the Global Economy	
A. External Economic Relations	
Establishing external economic relations	ASEAN+1 Free Trade Agreements (FTA) with China, Japan, Republic of Korea (ROK), India, Australia and New Zealand.

Benefits of the AEC

In the face of increased competition from new economic powers, the ASEAN community stands to lose its significance in the global market if it does not band together. Individually, ASEAN Member States cannot compete against larger countries with a similar export-oriented development strategy. However, through concerted efforts, member states will gain a larger market base and working population, essential elements for continuous economic growth.

The AEC has benefited the people in the region through increased per capita income which rose from USD3,153 in 2010 to USD3,579 in 2012. The total trade of ASEAN grew 16.8% from USD2.1 trillion in 2010 to USD2.5 trillion in 2012. Intra-ASEAN trade represented 26% of total ASEAN trade or USD601 billion. ASEAN also continued to attract foreign investors, recording an inflow of USD108 billion in 2012. Additionally, ASEAN is among the fastest growing regions in the world with an annual average growth of over 5% in the last decade. Leading financial institutions such as the International Monetary Fund and Asian Development Bank have projected ASEAN to grow between 5% – 6% from 2013 to 2017.

Malaysia in particular, will benefit tremendously from the AEC. ASEAN remains a major trading partner to Malaysia accounting for over 25% of Malaysia's total trade in 2012. Additionally, ASEAN's market size is over 20 times larger than Malaysia's and its combined GDP worth eight times that of Malaysia's. As such, it becomes apparent why regional integration has become a national agenda for Malaysia. The AEC will support the National Transformation Programme's agenda which is to elevate Malaysia's status to become a high-income and developed nation by 2020.

TABLE 2

Selected Economic Indicators for Malaysia and ASEAN, 2012

	Malaysia	ASEAN
Market Size	30 million	600 million
GDP	USD288 billion	USD2,300 billion
Total Trade	USD420 billion	USD2,500 billion

Source: National authorities and ASEAN Secretariat.

AEC Beyond 2015: Challenges and Potential for Growth

Two studies for the next steps of AEC in the future have recently been undertaken. The first is “Moving ASEAN and AEC Beyond 2015” conducted by the East Asia Economic Research Institute (ERIA). The second study entitled “Vision Paper on the AEC Beyond 2015”, funded by Malaysia, Brunei Darussalam and Singapore, is conducted by Rajaratnam School of International Studies and Institute of Southeast Asian Studies.

The proposals from the two studies will be considered as a basis for future initiatives. These measures will build upon current deliverables in the AEC Blueprint and focus on economic integration measures that go beyond the 2015 framework. The full implementation of the AEC Blueprint is significant to Malaysia as the chair of the ASEAN Summit in 2015.

Though the AEC has achieved significant milestones, more needs to be done to accelerate the integration of the ASEAN economies. The Asian Development Bank Institute (ADBI) study has identified several challenges to the AEC beyond 2015. These challenges include: managing the stability of macroeconomic and financial institutions; promoting economic consolidation and equitable growth; producing a region of competition and innovation; and sustaining the environment and its resources.

i. Managing the Stability of Macroeconomic and Financial Institutions

The different levels of development among ASEAN Member States pose challenges to further economic integration in the AEC. Steps need to be taken to improve financial infrastructures to ensure congruity between members. Additionally, guidance should be given to member states that have yet to build a more stable economy.

ii. Promoting Economic Consolidation and Equitable Growth

The lack of standardisation and conformance of customs procedures has resulted in difficulties for businesses among ASEAN Member States. In this regard, the ERIA study recommended the formation of a Customs Union to facilitate a common method of standardisation and certification. However, given the differing capacities of member states, a Customs Union may be unlikely in the near future. Alternatively, the ERIA highlighted aspects in the blueprint which can be further enhanced post 2015.

iii. Producing a Region of Competition and Innovation

The AEC has to look beyond integration and move on to create a market based on competition and innovation. This would not only mean adopting regionally comprehensive IPR and competition policies, but to further develop technology and human capital. Ergo, ASEAN Member States would do well by allowing greater mobility of skilled workers as well as the integration of policies targeted at promoting innovation and specialisation of technology.

iv. Sustaining the Environment and its Resources

Finally, though discussions have not moved beyond 2015, the issues of sustainable development and management of natural resources have long been part of the AEC agenda. Notably, AEC measures have included policies on greenhouse gas emissions and discussions on sustainable fossil fuel and mineral management.

The Potential of ASEAN Beyond 2015

Research by the ADBI projects that ASEAN has the potential to triple its per capita income by 2030. Such findings are highly probable given ASEAN's strong factors of growth such as: strong macroeconomic fundamentals; diverse resources and productive capacities; as well as increased regional coordination and cooperation.

i. Strong Macroeconomic Fundamentals

ASEAN-5⁵ in particular, exhibit tremendous potential for strong growth and have stable financial infrastructures as evidenced by the success of Malaysian banks. Collectively, ASEAN countries have the capacity for greater development due to its growing foreign direct investment record, large population and young workforce.

ii. Diversity in Resources and Productive Capacity

ASEAN countries have an abundant supply of natural resources ranging from: oil and gas; coal; as well as land for agriculture. This is further complemented by diverse production capabilities, particularly in the agriculture, manufacturing and services sectors. Additionally, ASEAN countries have a growing number of SMEs. These factors can support a more vibrant regional economy.

iii. Increased Regional Coordination and Cooperation

Regional economic cooperation has been stimulated by the AEC Blueprint, which is further strengthened by FTAs between ASEAN and dialogue partners such as China, Japan and ROK. Furthermore, ASEAN partnership has been solidified via the ASEAN Charter, Roadmap for ASEAN Community and Master Plan on ASEAN Connectivity.

Conclusion

In an increasingly globalised environment, the AEC is expected to face many challenges beyond 2015. However, the strong commitment and past achievements of ASEAN in realising the AEC have placed the member states on the right track to face challenges. Hence, the AEC beyond 2015 comes with great opportunities for further economic integration and inter-connectivity among the ASEAN member countries.

⁵ ASEAN-5 includes Malaysia, Indonesia, the Philippines, Thailand and Viet Nam.

Meeting in September 2013 with the theme Resilient Asia Pacific, Engine of Global Growth. The meeting discussed the current economic outlook and policy challenges for the APEC region with a focus on four specific agenda items, namely infrastructure, trade finance, financial inclusion as well as treasury and budget reforms. The APEC Finance Ministers agreed to implement flexible fiscal policies to support economic growth while emphasising the need for structural reforms to boost investment; enhance productivity and competitiveness; increase labour force participation and employment; and resist all forms of trade protectionism.

APEC economies also affirmed their commitment to establish an APEC Public-Private Partnership (PPP) Experts Advisory Panel. This Panel will suggest a mechanism for enhancing infrastructure development in the region and in the longer term support the emergence of an APEC-wide market for infrastructure investment. This will create a regional network of PPP centres to share good practices on infrastructure investment. The APEC Finance Ministers were also committed towards promoting financial eligibility of the poor and SMEs which are essential in developing an inclusive financial system. Trade finance was also discussed among members, particularly on the availability and higher cost of trade finance in APEC economies due to the global financial crisis. In this aspect, Malaysia is well-positioned to manage trade finance for the SMEs in Malaysia. The impact of Basel III rules on access to trade finance is envisaged to be minimal as the banking institutions in Malaysia remain well-capitalised.

Prospects for 2014

Growth strengthens moderately

Global economic activity is forecast to strengthen moderately in 2014. The outlook for advanced economies is expected to improve with output expanding 2% (2013: 1.2%). Substantial easing of

fiscal consolidation and a highly accommodative monetary policy in the US and Europe are expected to support growth. The US economy is expected to gain momentum, backed by continued recovery in the property sector and higher household wealth. In the euro area, growth is forecast to recover to 1% (2013: -0.4%), driven by smaller fiscal reductions, stronger external demand and improvement of lending conditions to the private sector. In contrast, growth in Japan is projected to decelerate to 1.2% (2013: 2%), as the fiscal stimulus lapses and the consumption tax is increased.

Emerging market and developing economies are forecast to expand 5.1% (2013: 4.5%), with developing Asia continuing to lead the uptick. Growth prospects for other developing regions in Africa, Central and South America, CIS as well as Europe are generally brighter, supported by improvements in the advanced economies. Growth in China is projected to decelerate to 7.3% (2013: 7.6%) due to continued restructuring from investment-driven towards a more balanced and higher quality growth based on domestic consumption. India's growth is expected to accelerate to 5.1% (2013: 3.8%) as infrastructure improvements ease supply bottlenecks and external demand strengthens.

Global inflationary pressures are projected to remain subdued due to large output gaps in advanced economies. Also, commodity prices have declined amid improved supply conditions and lower demand from emerging markets. Inflation in advanced economies is forecast to increase to 1.7% (2013: 1.2%) while in emerging market and developing economies, inflation is likely to ease to 5.7% (2013: 6.2%). Meanwhile, world trade volume is expected to increase 4.9% (2013: 2.9%) with strengthening demand in the EU and US as well as intra-regional demand in East Asia.

Against these developments, global growth is anticipated to increase 3.6% (2013: 2.9%). However, downside risks that may affect the