

# Connected growth: Asean and South Asia in 2037



ANNA MARRS

**T**WO decades ago Asia was in the grip of a broad economic crisis. Through the 1998 Asian financial crisis, regional stock markets lost more than 60 percent of their value. Already fragile government reserves ran dry. By May 1998, Indonesia's sovereign rating had fallen to CCC+.

This now seems a very long time ago. As 2017 draws to a close, let us reflect on the last two decades and envision what the next 20 years could be like. The recovery that followed the Asian financial crisis has been driven largely by domestic policy reforms, demographics in Asean (Association of Southeast Asian Nations) and South Asia, and infrastructure investment in China.

Corrective measures and market-friendly policies by governments strengthened economic foundations. From 1997-2016, GDP per capita across Asean-6 countries had grown by 155 percent. Indonesia's sovereign rating is now investment grade.

To sustain growth, economies need to be more connected than they are now. Not just within the national

confines, but across borders too. For a region as diverse as Asean and South Asia, integration is hardly an easy process though. Within Asean alone, the difference between GDP per capita in Singapore and Cambodia is as big as 55 times. There continues to be insufficient infrastructure, inconsistent regulations and trade barriers, and inadequate cybersecurity investments. These deficiencies limit the reach of supply chain networks and growth of the digital ecosystem.

The region is in dire need of infrastructure development. The Asian Development Bank (ADB) estimates that South Asia and Southeast Asia will need at least \$3.6 trillion from 2010 to 2020 in infrastructure investment to meet the needs of the growing populations in the two regions.

Countries are also more focused on building national digital payment systems and identity solutions than enabling cross-border points of connectivity.

To overcome these challenges, governments need to implement the right policies to encourage physical and digital buildouts that will spur flows of trade, investment, information, and people.

While regional countries recognise the importance of greater connectedness and have taken steps to bridge the infrastructure and digital gap, more can be done.

Over the next 20 years, the region's economic transformation will be much more fundamental than the change seen over the last 20. Besides favourable demographics, we will see an unprecedented level of infrastructure investment. And not just the obvious infrastructure – bridges, railroads, ports. But, perhaps more excitingly, digital infrastructure.

Demographic lift plus physical and digital infrastructure will catapult the region to a new level of productivity and prosperity – if the risks can be managed.

Firstly, physical infrastructure. On the back of China's Belt and Road Initiative (BRI), the region is planning to build – and starting to construct – at an unprecedented pace. It is estimated that \$4-8 trillion of cumulative infrastructure investment will flow on the back of BRI over the long term. Although ambition has been there historically, governments are now putting their money and actions where their mouths are. At a recent Philippines investment forum, the finance team set out plans to boost infrastructure investment from 3 percent to 7 percent of GDP within President Rodrigo Duterte's term. When asked about implementation challenges, the finance minister quipped that delivery agencies needed to "use it or lose it – but which we mean not their budgets, but their jobs."

Linked by the ancient Silk Road, the BRI can create a bigger network of markets and new opportunities for Asean and South Asia. Trade between Southeast Asia and South Asia grew from \$4 billion in 1990 to \$90 billion in 2013. In the same period, Southeast Asia's share of South Asian trade rose from 6 percent to 10 percent, while South Asia's portion of Southeast Asian trade doubled to 4 percent. This modest trend suggests that there's room for growth.

Secondly, digital infrastructure. When India announced Aadhaar in 2009, few understood that digital identities were clearly the first step in digitising economies. Today, with over 1 billion Indians with Aadhaar digital identities, India has been able



REUTERS/FILE

Children play soccer near a construction site of a concrete sea wall in Cilincing area in Jakarta, Indonesia. South Asia and Southeast Asia will need at least \$3.6 trillion from 2010 to 2020 in infrastructure investment, according to the Asian Development Bank.

to move the unbanked into the banking system en masse, and then digitise payments in one big leap on the back of demonetisation. Other governments have been sending teams to India to study this transformation, believing economic efficiencies and higher tax takes on the back of greater transparency will quickly follow.

If executed right, these efforts will truly connect Asean and South Asia by 2037. From manufacturing to payments to delivery, the supply chain will be only a click away. This connectivity will decrease inefficiencies and ultimately cement two

decades of strong growth.

But first, risks need to be managed. National tensions – most clearly on the back of BRI between India and China – exist. The ability to move seamlessly across digital and physical spaces can also create security challenges, of both the real and cyber varieties.

Greater competition may ensue too. In the years to 2037, the well-travelled economic development path for emerging markets that once relied on competitive labour costs to thrive will be challenged by innovative technology.

Despite these risks, the rewards will be worth it. Companies positioned to capitalise on the infrastructure and digital booms will thrive. And the economic growth that follows will lift both individuals and countries to new levels of prosperity. Over the past 20 years, the region has gone from crisis to growth hot spot. In the coming two decades, the growth hot spots will connect, creating a brighter and more sustainable future across the region.

The author is the CEO of Standard Chartered Bank's Asean and South Asia region.

## Trade deficit more than trebles

AKM ZAMIR UDDIN

The trade deficit widened more than three times to \$1.81 billion in the first two months of the fiscal year on the back of a surge in imports and a decline in exports.

"The import growth has been too high so far this fiscal year," said Ahsan H Mansur, executive director of Policy Research Institute, a private think-tank.

During the July-August period of the fiscal year, imports soared about 34 percent to \$8.35 billion, according to data from the Bangladesh Bank.

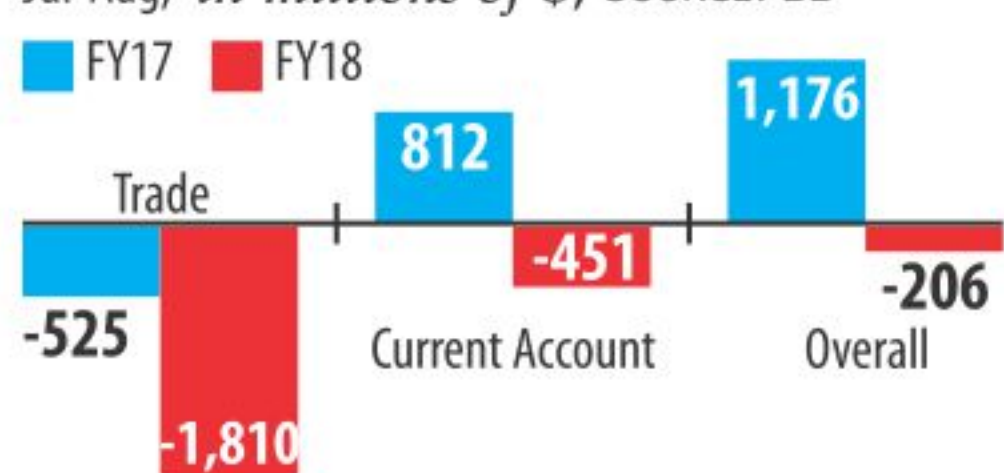
"This is not sustainable as it has abnormally pushed the private sector credit growth."

On the other hand, export receipts did not increase in line with import bills during the period, Mansur said.

Exports soared 13.92 percent to \$6.63 billion during the period, according to data from the Export Promotion Bureau.

### BALANCE OF PAYMENTS

Jul-Aug; in millions of \$; SOURCE: BB



The current account balance registered a deficit of \$451 million in the first two months of the fiscal year, in contrast to a surplus of \$812 million a year earlier.

The downwardly sticky remittance figures and the negative trade balance account are to blame.

Remittance is a major source of foreign currency for Bangladesh and its descent since fiscal 2015-16 has progressively become a

matter of concern for the government.

But in recent times the government and the central bank various steps that contributed to a jump in inflows.

Remittance increased 15.81 percent to \$2.53 billion in the first two months of fiscal 2017-18, according to central bank statistics.

The country will have to manage its current account deficit by exhausting its foreign exchange reserves, which would not bring any good for the economy, said AB Mirza Azizul Islam, an advisor to a former caretaker government.

Taka will depreciate more against the US dollar if the current account continues to maintain the large deficit.

"Such a depreciating trend will slightly help exporters but fuel inflation," Islam said.

Subsequently, at the end of August, the overall balance was \$206 million in the negative in contrast to \$1.17 billion in the surplus a year earlier.

## Modi targets more energy reforms after meeting oil chiefs

REUTERS, New Delhi

**I**NDIAN Prime Minister Narendra Modi sees scope for further reform of the country's energy sector and has received "focused suggestions" from some of the world's leading energy companies, the office of the premier said on Monday.

Under Modi, the world's third-biggest oil consumer is trying to use its market size to strike better deals with oil exporters and attract investment into India's exploration and refining industries.

Executives from companies including Rosneft, BP, Exxon Mobil, Reliance Industries, Saudi Aramco, Royal Dutch Shell, Vedanta, Schlumberger and Halliburton met Modi as the industry gathered in New Delhi for the three-day

India Energy Forum, which finishes on Tuesday.

"Participants appreciated the pace and drive with which Prime Minister Modi has brought about reform in the energy sector," Modi's office said in a statement after the meeting.

"Subjects such as the need for a unified energy policy, contract frameworks and arrangements, requirement of seismic data sets, encouragement for biofuels, improving gas supply, setting up of a gas hub and regulatory issues came up for discussion."

The statement said that many suggestions at the last meeting in 2016 have helped guide Indian policy-making and that Modi said he appreciated the "focused suggestions" made this year and that "scope for reform in many areas still exists".

## Dhaka-Kathmandu agree to remove trade barriers

DIPLOMATIC CORRESPONDENT

Bangladesh and Nepal have agreed to examine existing tariffs and remove non-tariff barriers and para-tariff measures to reverse the very low level of bilateral trade.

The two countries also agreed to exchange trade delegations, organise trade fairs, single country trade fair and sign the pending memorandum of understandings on the Bilateral Trade Promotion and Protection Agreement and the Bilateral Agreement for the Avoidance of Double Taxation soon.

A commerce secretary-level meeting will take place in Kathmandu at the earliest, said the foreign affairs ministry of Bangladesh in a statement yesterday.

The decisions were taken during the second Foreign Office Consultation between Bangladesh and Nepal in Dhaka on October 8. Foreign Affairs Secretary Md Shahidul Haque led a 10-member Bangladesh delegation while his counterpart Shanker Das Bairagi led a nine-member team.

The meeting largely focused on bilateral trade, connectivity, power and energy cooperation, higher education and human resource development, said foreign ministry officials. Both the foreign secretaries agreed that the bilateral trade volume is far below the potential and called for addressing existing tariffs and trade-related barriers.

Bangladesh exported goods worth \$17.89 million to Nepal in 2015-16 and imported products of \$9.43 million, according to data compiled by the Dhaka Chamber of Commerce and Industry.

The two sides recognised that operationalisation of the Motor Vehicle Agreement – signed by Bangladesh, Bhutan, India and Nepal – would help flourish trade and people-to-people connectivity in the region.

Although the deal has not come into force yet, Dhaka and Kathmandu agreed to discuss with India about the modalities for early implementation of the accord.

The two secretaries emphasised establishing multimodal connectivity, including railway and air connectivity, between the two countries to promote bilateral trade, investment and tourism. They stressed the need for holding joint working groups meeting under sub-regional cooperation involving India, Bangladesh, Nepal and Bhutan regularly for mutual benefit.

The two secretaries put emphasis on comprehensive engagement and further cooperation between the two countries in the areas of power sector cooperation, tourism, culture and people-to-people contact to widen and deepen a more engaging and result-oriented relationship.

Following a request from the Nepalese secretary, Haque assured to allocate two seats annually to Nepalese junior diplomats in the Foreign Service Academy of Bangladesh allowing them to undertake specialised training course on diplomacy.

Bairagi also talked about the humanitarian crisis relating to the forcible displacement of Myanmar nationals. He applauded the role of Bangladesh in handling the situation, saying: "Bangladesh has shown the greatest sense of humanity."

## French bankers weighing Brexit face Paris pressure to come home

REUTERS, London/Paris

**W**HILE most London-based bankers are brushing up on their German to prepare for a move to Frankfurt post-Brexit, senior staff at French investment banks expect to say "Oui" to government pressure to bring jobs home to Paris.

Most international banks in London have declared where they will move their European

business in the event of a "hard" Brexit, in which the UK would give up access to the single market, including financial passporting rights.

Frankfurt is by far the favourite. European giant Deutsche Bank, for example, said in April up to 4,000 UK jobs could move to Germany.

Although French banks have been wavering about their plans, the bankers who work for them in London believe pressure from the government of Emmanuel Macron, himself a

former investment banker, makes a Paris move almost certain.

"The Macron administration is really pushing for the French banks to move some of us to Paris, setting up international schools there and talking tax breaks," said a senior London-based banker at one of the three main French investment banks.

"Personally, I am preparing for life in Paris. Unless we get a (soft) Brexit deal, it's almost inevitable," he said, asking not to be named because, like others interviewed for this story, he was not authorised to speak to the media. That sentiment was echoed by a second London-based source from another top bank.

"Most of the Americans are moving to Frankfurt and a lot of them are very advanced in their plans, so there's a lot of pressure for us," he said.

A source at France's finance ministry maintained there was no undue pressure on the banks, but acknowledged the government was keen for domestic lenders to base more jobs in France.

"This government is doing a lot in terms of attractiveness like getting rid of the wealth tax. We want the banks to live up to promises they have made, we want them to make a concrete gesture," one ministry source told Reuters.

French banks feel they can afford to wait until the details around Brexit become clearer because they already have EU licenses through their Paris headquarters, unlike their U.S. counterparts which conduct nearly all of their European investment banking business out of London.



REUTERS

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