

News Release

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ASEAN Economic Community (AEC): A milestone for ASEAN's economic development

The recent 27th ASEAN Summit in Malaysia saw Malaysia's theme of a people-centered ASEAN taking center stage. Malaysia's overall theme for its chairmanship is "Our People, Our Community, Our Vision," reflecting its leadership's focus on bringing ASEAN closer to the people. The integration and collaboration between people – and the recently-launched ASEAN Economic Community -- will further strengthen the region in the years to come.

With its 625 million¹ inhabitants, South East Asia is already an economic force to be reckoned with: the GDP of the ten ASEAN members now totals more than \$2.5 trillion² – about 25% more than India's, and not far short of the United Kingdom's.³ If ASEAN were one economy, and current growth trends continue, it could be the world's fourth-largest economy by 2050.⁴ Its population is roughly double that of the United States.⁵ Its economies have attracted investments from corporate giants around the globe, and are deeply embedded in the world's trade and supply chains.⁶ ASEAN economies attracted a combined US\$136 billion in foreign direct investment last year⁷, topping China's US\$128 billion.⁸

"Malaysia has immense potential to become a key gateway to ASEAN, and enhance its connectivity and trade with the world's leading economies, including China," said Mukhtar Hussain, Deputy Chairman & Chief Executive Officer, HSBC Bank Malaysia Berhad. The formation on December 31 of the AEC, marks a milestone in ASEAN's long path towards a single coherent market. Aimed at liberalizing the flow of goods, services, capital and, ultimately, skilled labour in a bid to raise its competitiveness and facilitate investment into infrastructure, it could raise ASEAN's GDP by 5% by 2030.⁹

While there are years of work ahead to complete the integration envisaged by the AEC, the stars are aligned for a promising long-term growth story, thanks to a trio of factors.

1 ASEAN data: http://www.asean.org/images/2015/september/selected-key-indicators/Summary%20table_as%20of%20Aug%202015.pdf

2 ASEAN data:

http://www.asean.org/images/2015/January/selected_key_indicators/Summary%20table_as%20of%20December%202014_R.pdf

3 <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD>

4 Speech by Stephen Groff, Asian Development Bank <http://www.adb.org/news/speeches/keynote-speech-asean-integration-and-private-sector-stephen-p-groff>

5 World Bank data <http://data.worldbank.org/indicator/SP.POP.TOTL>

6 Global Research: ASEAN Economic Community, 19 November 2015

<https://research.uk.hibm.hsbc/midas/Res/RDV?p=pdf&key=3tQNhG7fSB&n=486887.PDF>

7 http://www.asean.org/images/2015/september/selected-key-indicators/Summary%20table_as%20of%20Aug%202015.pdf

8 http://usa.chinadaily.com.cn/business/2015-02/02/content_19471524.htm

9 Global Research: ASEAN Economic Community, 19 November 2015

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“Firstly, the region is increasingly attractive as a manufacturing location. China – the “factory floor of the world” – is shifting its economic model towards more value-added, higher-tech manufacturing and services. This means more of the traditional, labor-intensive manufacturing that was once based in China is moving to ASEAN nations. Meanwhile, South East Asia’s demographics mean an ample supply of affordable labour. China, by contrast, has become more expensive as wages have risen. Meanwhile, Malaysia’s strategic location within ASEAN is among the compelling reasons cited by investors who choose to locate regional and global sites in the country,” added Mukhtar.

ASEAN is already a key manufacturing hub, notably for the electronics and automotive sectors. Overseas investment is likely to follow as remaining hurdles to trade and investment are lowered. BASF, the German chemicals company, has six production and operation sites in Malaysia alone.¹⁰ General Electric has more than 60 locations and employs 7,600 people across ASEAN.¹¹

“Consumer-spending power is also growing rapidly. ASEAN’s population numbers less than half that of either China or India, but 15 years from now, the region will have added another 120 million inhabitants¹² -- the equivalent of one-and-a-half Germanys¹³,” shared Mukhtar. “What is more, South East Asians are becoming more affluent. In 2010, per capita GDP was just US\$3,000. The increased spending power is turning the region into an increasingly key market for anything from cars and airplane tickets to shampoo and mobile phones. The Malaysian government is focused on helping the bottom 40% income group reach middle-class status, in part by streamlining, rationalising and coordinating the efforts of various agencies. The goal is to expand the country’s existing middle-class – a development that would aid economic growth and social cohesion.”

ASEAN is also home to an established and trusted international financial centre, in Singapore. The banking industry should see the upcoming single market as an opportunity for growth and progress. Increasing financial liberalization could help lower transaction costs and facilitate investment flows into ASEAN, aiding economies like Singapore, Malaysia and Thailand, in particular.

“Economically, the countries of South East Asia face near-term headwinds, like many others around the world. But the region’s economic assets, combined with extra lubricant from the AEC efforts, will make it ever more important as a location to manufacture in, source from, and sell to. To ignore it would be a mistake,” concluded Mukhtar.

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¹⁰ <https://www.basf.com/en/company/about-us/sites-and-companies/asia-pacific-overview/malaysia.html>

¹¹ http://www.ge.com/asean/factsheet_sea.html

¹² Global Research: ASEAN Economic Community, 19 November 2015

<https://research.uk.hibm.hsbc/midas/Res/RDV?p=pdf&key=3tQNhG7fSB&n=486887.PDF>

¹³ <http://data.worldbank.org/indicator/SP.POP.TOTL/>

About HSBC in Malaysia

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The Hongkong and Shanghai Banking Corporation Limited

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