

# REGIONAL OUTLOOK

**Southeast Asia  
2005–2006**



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INSTITUTE OF SOUTHEAST ASIAN STUDIES

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## PREFACE

**R***egional Outlook* was launched in 1992. Designed for the busy executive, professional, diplomat, journalist, and interested observer who face severe time constraints, this annual offers a succinct analysis of political and economic trends in the countries of Southeast Asia and the outlook for the forthcoming two years.

Just as 2003 was difficult for Southeast Asia, the year 2004 has had its share of problems. The external security environment continues to be grave. The festering military conflict in Iraq and its impact on the US presidential election have serious implications for the US fight against international terrorism. The terrorist threat has not receded. Indonesia suffered its third suicide bombing incident. The region has to be sensitized to new forms of terrorist attacks, particularly on the high seas where no one national authority is in charge. Unabated tensions between China and Taiwan continue to point to a possibility of military conflict. The North Korea nuclear programme adds another item to the list of worries.

However, on the economic front, the outlook is fairly robust, with a rebound in global economic growth. The region is expected to register a strong GDP growth rate of 6.2 per cent in 2004 according to the Asian Development Bank. However, rising oil prices, the possibility of an economic slowdown in China, terrorism concerns in the region, and the continued sporadic outbreaks of the avian flu are potential risk factors that are likely to affect the short-to-medium-term growth prospects of the region. It is expected that improved business investment and consumer spending will keep the region's economic growth fairly robust in 2005 and 2006. ASEAN efforts to step up regional economic cooperation as well as strengthen bilateral links with major trading partners — including

serious domestic problems, thus giving the region an overall environment of peace and harmony. There remains a unity of purpose and will to fight Islamic terrorist groups. There is also a shared perspective on the political and economic challenges facing everybody. ASEAN members understand that a co-ordinated regional effort is needed to address them even though the effort often falls short of the professed intent.

Stronger global growth driven by economic rebounds in the United States, Japan, and the European Union, as well as rapid economic expansion in China are fuelling economic recovery in Southeast Asia. The region is expected to register a strong GDP growth rate of 6.2 per cent in 2004 according to the Asian Development Bank, with Singapore, Malaysia, and Vietnam ranked on top in terms of economic performance in 2004. The economic outlook estimates that Singapore's economy is expected to expand by 8.9 per cent while both Malaysia and Vietnam are projected to grow by 7.5 per cent in 2004. Overall, it is expected that improved business investment and consumer spending will keep the region's economic growth fairly robust in 2005 and 2006.

However, there are many risk factors to watch out for, which could affect the region's growth prospects in the coming two years. These are rising oil prices, a possible economic slowdown in China, terrorism concerns in the region, and the avian flu with its associated high economic cost.

The region is now on course towards greater economic integration with the successful implementation of the ASEAN Free Trade Area (AFTA) by the ASEAN-6. It has also focused its attention on the removal of non-tariff barriers (NTBs) by providing a database on ASEAN NTBs for the first time, through the ASEAN Secretariat. However, there has not been much significant progress on the moves towards an ASEAN Economic Community (AEC) to signal a greater degree of economic integration other than tariff reduction in goods.

Concomitantly, ASEAN as a grouping and as individual members continue on their negotiations for bilateral FTAs, whose numbers are ever increasing in the region. In particular, this year has demonstrated a strong signal from a major emerging economic power, that is, India, to strengthen economic cooperation with ASEAN, by agreeing to operationalize