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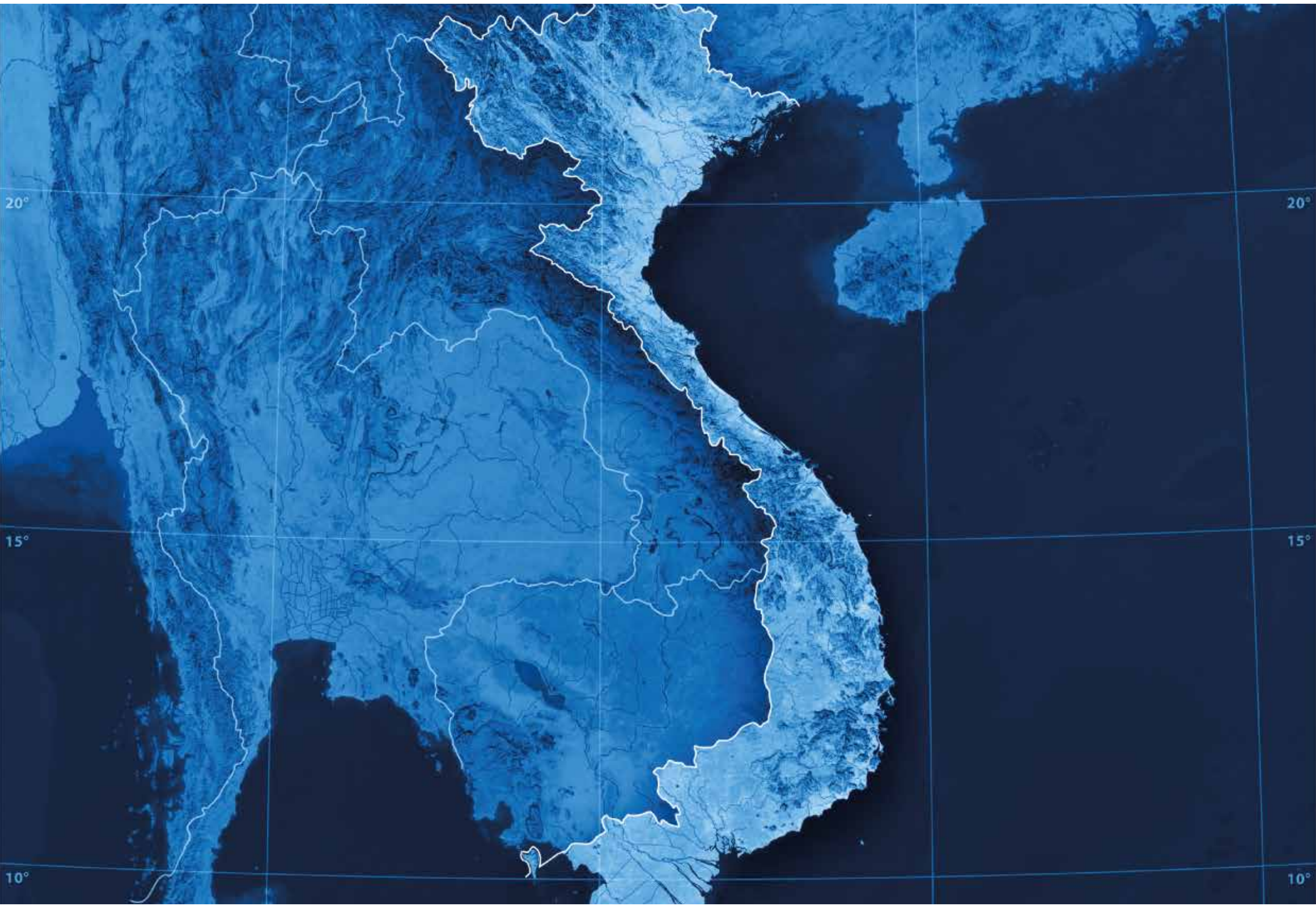

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Asia-centred trade pacts will proceed with weaknesses

Friday, August 24, 2018

Countries across the Asia-Pacific region are embracing trade multilateralism, but agreements will require compromises

Ministers from member countries after signing the CPTPP (Reuters/Rodrigo Garrido)

The United States yesterday imposed, according to schedule, a further round of tariffs on imports of Chinese goods, prompting China to reciprocate. In contrast to this tariff escalation, eagerness to preserve the multilateral, rules-based economic order is drawing Asian countries into inter-regional trade agreements. Negotiations are ongoing to bring into effect a 16-state Regional Comprehensive Economic Partnership (RCEP) and an eleven-member Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

What next

RCEP will be negotiated and the CPTPP will take effect by year-end, but both agreements will be weakened by the compromises needed to secure them. Any future moves by the United States to rejoin the CPTPP would face opposition from some members due to doubts over Washington's motivations.

Subsidiary Impacts

◦ Absent US involvement in the trade agreements, China will champion its own version of global free trade.

◦ Modifications within the CPTPP may reduce any incentive for the United States to rejoin.

◦ A US withdrawal from the WTO would weaken dispute systems used by smaller countries.

Analysis

Having focused in recent years on bilateral economic relations, Asian countries are now seeking strength in numbers as a bulwark against protectionism and other trends that could destabilise regional markets (see SOUTH-EAST ASIA: Free trade will be championed further - August 10, 2018).

> Asian countries are looking for strength in numbers against protectionism

RCEP is a trade agreement between the ten ASEAN countries and six states with which the regional bloc has existing free trade agreements:

- China, Japan and South Korea (ASEAN Plus Three); and
- India, Australia and New Zealand (ASEAN Plus Six).

The CPTPP or TPP-11, signed in March, is the successor agreement to the original Trans-Pacific Partnership from which US President Donald Trump withdrew in January 2017. It will create a free trade area comprising:

- Canada and Mexico in North America;
- Chile and Peru in Latin America;
- Australia and New Zealand;
- Japan in East Asia; and
- Vietnam, Malaysia, Singapore and Brunei in South-east Asia.

Trade protectionism

Trump has distanced the United States from much of the global political and economic architecture established since the Second World War, raising concerns of a possible breakdown in diplomacy and commerce that could adversely affect Asia.

$186bn

China's trade surplus with the United States, January-June 2018

US pressure, typically in the form of tariffs, is aimed at countries with which it has large trade imbalances. In 2018 (to June), the following countries notably had a goods trade surplus with the United States:

- China (185.7 billion dollars);
- Japan (34.6 billion dollars); and
- India (11.3 billion dollars).

Beijing has responded to Washington's tariffs with higher duties on US goods and says it will open talks on new trade deals with other countries as an additional buffer. India has hit back against steel and aluminium exports with duties worth some 235 million dollars on selected US products.

These tit-for-tat tariffs are disrupting the supply chains upon which ASEAN members depend (see UNITED STATES-CHINA: Tariffs - August 9, 2018). According to the OCBC Bank, they could lose up to 0.5 percentage points of GDP growth from tariff hikes.

South-east Asian states could also face direct retaliation from Washington. In 2018 (to June), all the region's countries except Singapore and Brunei had a trade surplus with the United States.

China (along with Japan) is leading efforts to use Asian blocs as platforms to defend free trade. In July, China and the EU issued a joint statement in which they underlined the importance of the existing system.

In October, the EU will host a summit of the Asia-Europe Meeting, with leaders expected to seek a coordinated response to rising protectionism by the Trump administration.

Regional trade regimes

The stand-off between US and Asian governments has breathed new life into two proposed economic blocs that could enable global trade channels to remain open.

RCEP

ASEAN devised RCEP in 2012 as a vehicle for lowering commercial barriers. It would involve some 50% of the world's population and 30% of trade by value.

China seized upon the concept as a counterweight to US ambitions in Asia.

Negotiations have proceeded slowly, with ideology and self-interest hindering some key reforms.

With regards to agriculture markets, Australia and New Zealand want more access for their exports, particularly in India and parts of ASEAN. Concern over potential job losses has made the issue politically sensitive.

India and some ASEAN members are reluctant to open services to more competitive economies such as Japan and Australia. Internet curbs, especially in China, obstruct electronic commerce.

In relation to intellectual property, Japan and Australia are calling for strict rules and dispute resolution systems, but India wants more leniency. Much of the global trade in pirated goods occurs within the RCEP region.

Only two of 18 chapters have been concluded. India is unlikely to make substantial concessions ahead of the general election due in 2019.

Japan and ASEAN are lobbying for a compromise deal with scope for future changes, and there are signs it could be ready for the November ASEAN summit in Singapore.

A compromise deal may ensure that RCEP is negotiated by year-end, but a drawback is that it might do too little to advance free trade and convince the United States of the need for multilateral accords.

CPTPP

The original TPP emerged from a 2005 trade pact between Chile, New Zealand, Singapore and Brunei and was broadened to include eight other countries, including the United States. Washington and Tokyo regarded it a way to counter Beijing's influence.

After the US withdrawal, the remaining members approved a modified version this year.

Mexico (April), Japan (July) and Singapore (July) have ratified the CPTPP. Australia, New Zealand and Vietnam are likely to do so by year-end. After ratification by six members, or half the remaining signatories if there are further withdrawals, the agreement will take effect within 60 days.

Some members still have concerns. Malaysia, for example, expects to benefit from RCEP because the arrangement will be with many of its existing trade partners, but it wants a review of the CPTPP due to concerns over fair competition. It is threatening to withdraw from the agreement and may at least delay ratification.

It is likely some flexibility will be offered to enable signatories to build up their local industries. More than 20 items from the original draft have been suspended, weakening the agreement to the point where business support has waned.

Trump suggested earlier this year that the United States could rejoin. However, he will not act before the midterm elections in November and, by then, the agreement should be on the verge of launch.

Indonesia, Thailand, South Korea, Taiwan and Columbia are interested in joining. Despite its geographical distance from the Pacific, the United Kingdom has also expressed interest.

Efforts may be made to link the TPP to the APEC caucus, as there is cross-membership.

South-east Asia will further champion free trade

Friday, August 10, 2018

Despite moves to protectionism worldwide, the region’s states are steadfastly pursuing trade agreements

Indonesian Trade Minister Enggartiasto Lukita (Reuters/Hoang Dinh Nam)

Late last month, an Indonesian delegation led by Trade Minister Enggartiasto Lukita began a week of negotiations in Washington to lobby against the withdrawal of trade preferences for Indonesian exports to the United States. Meanwhile, South-east Asian states are involved in two major trade agreements: the 11-member Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the 16-state Regional Comprehensive Economic Partnership (RCEP).

What next

The US government, which should make its final decision on Indonesian trade preferences in November, is likely to reject Jakarta’s lobbying. The Malaysian government should announce its position on the CPTPP later this month and will likely remain committed to the pact, even if it delays ratification. RCEP negotiations will need to reach an advanced stage by the next round of talks later this month for the pact to be agreed by year-end.

Subsidiary Impacts

- US trade reprisals against Indonesia could weaken Jakarta’s support for Washington’s diplomatic pressure on North Korea.
- The US-China tariff escalation could prompt partners to redirect some of their trade, boosting trade between Taiwan and South-east Asia.
- ASEAN Economic Community integration will be slow despite progress in RCEP and the CPTPP.

Analysis

South-east Asian states are fighting to preserve existing trade agreements at risk while moving towards multilateral free trade agreements.

USTR troubles

The United States Trade Representative (USTR) is reviewing Indonesia's and Thailand's trade preferences as part of US President Donald Trump's concerted moves to rework US trade relations.

The United States in 2017 had trade deficits with Indonesia (13.3 billion dollars), Thailand (20.1 billion dollars), Malaysia (24.4 billion dollars) and Vietnam (38.4 billion dollars).

$13.3bn
US trade deficit with Indonesia, 2017

Of these countries, some exports from Indonesia (worth 2.0 billion dollars) and Thailand (worth 4.2 billion dollars) receive preferences under the US Generalized System of Preferences (GSP).

In October 2017, the USTR under Robert Lighthizer began a process of tightening eligibility criteria associated with the US GSP.

The USTR has cited market access and investment barriers as the basis for its review of Indonesia's preferences. Withdrawal is especially likely if Jakarta fails to remove import restrictions on food, plants and animal products; the United States won a WTO ruling against Indonesia last year and earlier this week sought permission to impose sanctions accordingly.

Regarding Thailand, the USTR in May accepted a review request from the National Pork Producers Council, which argued that US pork is denied market access. The USTR response to this complaint will likely be more limited than in the Indonesian case.

US-China trade war

South-east Asian economies will be affected by trade tensions between the United States and China (see CHINA/US: Neither side will budge on tariffs - July 11, 2018).

Tariffs imposed mutually by Washington and Beijing will result in diminished demand from China for South-east Asian goods and natural resources. Recently applied US tariffs on Chinese goods are most likely to affect intermediate goods produced in South-east Asia, which are part of Chinese manufacturers' supply chains.

Singaporean and Malaysian industries are among the world's most at risk from the trade war. Singapore-based DBS Bank estimates that annual GDP growth in Singapore and Malaysia this year could fall by 0.8% and 0.6%, respectively.

> The US-China trade war could help rather than hinder South-east Asia

The tariffs could distort trade in ways that are beneficial to South-east Asian producers.

In somoe instances, US suppliers could look to South-east Asian exporters to supply goods that will now be cheaper due to increased US tariffs on Chinese goods.

Longer-term, contract manufacturing bases, particularly those related to electronic components, could shift from China to South-east Asia. Thailand, Vietnam and Malaysia would likely be the greatest beneficiaries of such shifts.

EU trade relations

An EU-South-east Asia trade war was averted in March when the European Court of Justice (ECJ) ruled that anti-dumping duties imposed on Indonesian biofuel imports were illegal. The EU Parliament in January had passed a bill to limit palm-oil derived biofuels consumed within the EU.

Indonesian and Malaysian politicians warned of a trade war with the EU if the restrictions on palm oil remained in place. The two countries are the world's largest producers of palm oil.

Despite the ECJ's ruling, the European Commission will return to the question of South-east Asian biofuels in 2019, when it is scheduled to determine categories of fuels that are high-risk for carbon emissions. Further threats of an EU ban are possible.

EU-Thailand relations improved substantially after Thai Prime Minister Prayut Chan-o-cha's visit to the United Kingdom and France in June. The trip came after the EU in December 2017 eased sanctions, following the military government's announcement of a timeline for long-awaited elections; the schedule has since changed (see THAILAND: Poll will be delayed beyond February 2019 - August 3, 2018).

Prayut's trip resulted in commitments for Airbus aerospace purchases and discussions of French foreign direct investment for Thailand's Eastern Economic Corridor.

Given the willingness of European governments to pursue economic deals with the military government, it appears unlikely that the ongoing delays to Thailand's next election will prompt a return to sanctions.

Trade multilateralism

RCEP and the CPTPP could come into effect by year-end, though there are obstacles that put that timeframe at risk.

RCEP

RCEP is a trade agreement between ASEAN and ten states with which it has existing free trade agreements: China, Japan and South Korea (ASEAN Plus Three) along with India, Australia and New Zealand (ASEAN Plus Six)

An RCEP ministerial meeting last month promised a "package" of outcomes by year-end, with a possible announcement scheduled for the ASEAN summit in November. This year's ASEAN chair, Singapore, has prioritised RCEP completion (in some form at least) under its watch.

Unresolved disagreements slowing RCEP progress include market access relating to agriculture, intellectual property protections, and India's concerns over its domestic manufacturing and market access for its service sector.

CPTPP

The CPTPP or TPP-11, signed in March, is the successor agreement to the original TPP from which the Trump administration withdrew in January 2017. It will create a free trade area across Canada and Mexico in North America; Chile and Peru in Latin America; Australia and New Zealand; Japan in East Asia; and Vietnam, Malaysia, Singapore and Brunei in South-east Asia.

Singapore last month became the first South-east Asian member to ratify the pact. Mexico (April) and Japan (July) did so earlier. Six members, or half the remaining signatories if there are further withdrawals, must ratify for the agreement to take effect.

Malaysia elections in May brought a surprise change in government (see MALAYSIA: New government will face struggle for unity - May 10, 2018). New Prime Minister Mahathir Mohamad suggests renegotiating the CPTPP, which may delay if not scupper Malaysia's ratification.

Pompeo visit

The Trump administration has sought to counter the notion that the US absence from the two agreements represents a retreat from the region.

US Secretary of State Mike Pompeo last week visited South-east Asia. He announced an 'Indo-Pacific' strategy involving the commitment of 113 million dollars for economic engagement, with nearly one-quarter of the funds specifically designed to spur US technology exports to the region (see ASIA/US: Indo-Pacific strategy will be slow starter - August 8, 2018).

The relatively small level of commitment demonstrates how detached US foreign policy is from the region's moves towards trade multilateralism. It also does little to address South-east Asian demand for infrastructure investment, much of which is coming from Chinese or European sources and multilateral banks.

Despite US efforts to reorient itself to South-east Asia, countries there will be more focused on developing regional trade regimes.

US Indo-Pacific strategy will be slow starter

Wednesday, August 8, 2018

The State Department is starting to define its 'Indo-Pacific' idea in more detail

US Secretary of State Mike Pompeo at the ASEAN Foreign Ministers' Meeting in Singapore, August 2018 (Reuters/Edgar Su)

Secretary of State Mike Pompeo on August 5 completed a tour of Malaysia, Singapore and Indonesia, which included attending his first ASEAN Regional Forum (ARF) meeting. The trip was part of an effort to advance US President Donald Trump's idea of an Indo-Pacific community stretching from the US west coast to the Indian Ocean, as Pompeo said. With US Defence Secretary James Mattis, Pompeo also co-hosted a meeting with Australian counterparts on July 23-24, and he announced a 113-million-dollar "down payment" of new economic initiatives with the Indo-Pacific on July 30. These activities were intended to reassure Washington's Asian partners of continuing US engagement in Asia.

What next

The Trump administration will now implement the 113-million-dollar initiative, beginning with a 25-million-dollar project to improve digital connectivity in Indo-Pacific partner countries and then a 50-million-dollar programme to improve energy security in the region. These measures will be stepping stones to Trump's participation in the APEC and East Asia Summits in November. However, until Washington identifies the target countries or other concrete steps, its Indo-Pacific initiative will be largely symbolic.

Subsidiary Impacts

- The 'partner countries' may be selected relative to US private sector sentiment.
- India is likely to be the most immediate beneficiary of the new Indo-Pacific strategy.
- Advancing the Indo-Pacific strategy may rely on trade balances reaching a level the White House feels is fair.

Analysis

In its early days, the Trump administration's security, diplomatic and trade policy intentions towards Asia had not been established in detail (see SOUTH-EAST ASIA/US: Ties will be mixed under Trump - December 29, 2016 and see US/ASIA: Trump trade talk will alienate Asian allies - November 20, 2017).

The new Indo-Pacific strategy is the start of advancing this detail. However, the 'strategy launch' at the ARF and other meetings faced a difficult start given the current uncertainties surrounding US policy in Asia, including:

- the uncertain success of Trump's overture to North Korea;
- the administration's tariff contest with China (a major trade partner for many Asian countries); and
- the administration having pulled out of the twelve-member Trans-Pacific Partnership (TPP) trade deal.

Pompeo referred to ASEAN's centrality in regional architecture at the ARF but did not explain how ASEAN, or APEC, will figure in the Indo-Pacific community.

The announcement during the meeting that the US Treasury will impose new sanctions on Russia for helping North Korea evade UN sanctions led to a testy exchange between Pompeo and North Korean Foreign Minister Ri Yong Hu.

The meeting did not help to soften US-China trade tensions; during the talks, Beijing announced that it would impose new tariffs on 60 billion dollars of US goods if Washington follows through on its latest trade-tariff warnings.

> 'Tariff wars' could see global supply chains reconfigured, potentially hitting the new US Indo-Pacific push

Security policy

The Trump administration rejects suggestions that its Asia policy resembles the Obama administration's 'pivot to Asia', but in security terms the Trump policy appears to be a 'pivot-plus-one', where that 'one' is India.

In concert with the announcement of new economic programmes, the US Commerce Department granted Delhi strategic trade authorisation status. This will enable India to import sensitive US military equipment without obtaining a licence.

Pompeo's remark in his ARF address that Washington seeks "partnership, not domination" in Asia is only a slight repackaging of the last two administrations' security posture; they also did not seek to dominate. Moreover, the Pentagon's August 2 announcement that it would withdraw troops from Africa to focus in part on threats from China is a continuation of a 'pivot'-like strategy.

A new economic approach

While security policy is likely therefore to continue in broadly the same way, Trump's economic approach to Asia is markedly different.

Trump's withdrawal from the Obama-era TPP and the administration's use of tariffs on China ahead of hoped-for trade renegotiations have shaken the Asia-Pacific region's confidence in US economic leadership.

Although Pompeo insisted that "economic security is national security" in his July 30 speech, Washington's economic partners, particularly in South-east Asia, believe that the Trump administration is attempting to sever the link between these two policy areas.

As Asia continues to pursue variations of regional free trade agreements, most South-east Asian trade relations with the United States have been reduced to short-term measures to lower their trade surpluses with Washington under continual pressure from the Trump administration.

> The administration's trade policy could make advancing the Indo-Pacific strategy difficult

The administration's new basket of initiatives is therefore intended to reassure the Indo-Pacific nations of a long-term US economic vision for Asia that will boost regional development through US investment, particularly in the digital economy, energy and infrastructure. The Overseas Private Investment Corporation (OPIC) has pledged to double its programme for the Indo-Pacific region to 8 billion dollars in the next few years.

The infrastructure features of the administration's Indo-Pacific economic package will not diminish or eclipse China's multi-billion-dollar Belt and Road Initiative. However, Washington aims to present a different infrastructure project financing model which, if adopted more widely in the region, could provide smaller countries with alternatives to China.

The administration feels that US private sector involvement in infrastructure and other investment projects would help smaller and poorer Asian countries more than China's state-led programmes, and avoid debt traps. However, this is not guaranteed.

Above all, the administration is likely to take a private-sector-friendly and more bilateral approach to economic engagement with the Indo-Pacific.

Domestic pressures

The new Indo-Pacific economic initiative is also intended to counter opposition within the US private sector to the administration's tariff policy, for instance from tariff-hit farmers. The choice of venue for Pompeo's July 30 speech was no coincidence: the most vocal critic of the Trump administration's trade policy is the US Chamber of Commerce.

The initiative is also a response to two bills currently under consideration in Congress:

BUILD Act

The Better Utilization of Investments Leading to Development (BUILD) Act would consolidate development funding mechanisms from OPIC and the United States Agency for International Development into a United States International Development Finance Corporation.

This new vehicle would be empowered to guarantee investment loans, provide funds for projects as a minor investor, provide insurance and reinsurance for projects, and offer technical assistance. The BUILD Act has passed the House of Representatives and will probably pass the Senate.

ARIA Act

The Asia Reassurance Initiative Act (ARIA) is in the Senate. It would push the administration to enter into bilateral and multilateral trade agreements with Asian partners. On the security side, it would provide counterterrorism, maritime domain awareness and cybersecurity training. The bill would authorise 1.5 billion dollars per year for five years.

Although the Trump administration supports the BUILD Act, it aims to deflect the trade provisions of ARIA with economic initiatives such as the one for the Indo-Pacific, since the administration seeks to avoid multilateral trade deals and Congress dictating US trade policy. Trump would likely veto ARIA.

Security risks

Pompeo's trip to Jakarta and his meeting with President Joko 'Jokowi' Widodo did not calm Indonesian nerves over Trump's mercurial approach to Iran.

Although Indonesia does not particularly support the regime in Tehran, Jakarta fears that increased US -Iran tensions will aid local radicals in their anti-reform campaigns. This is a concern as Jokowi looks ahead to Indonesia's 2019 presidential election.

The same concern exists in Malaysia for similar demographic reasons, and to an extent in Singapore and Thailand.

Vietnam will target more value-added investments

Wednesday, January 24, 2018

Capital inflows are strong, but the country's more productive sectors are missing out


The Vietnamese flag atop the State Bank building in Hanoi (Reuters/Kham)

The Vietnamese government is drafting, with World Bank help, a new five-year foreign direct investment (FDI) strategy that aims to switch the development focus to projects with high economic value. Inflows surged by 44% in 2017, but much capital went to less productive sectors such as real estate.

What next

Low-cost manufacturing export industries will continue to attract FDI as Vietnam absorbs output relocated from East Asia, but there will be more emphasis on sectors that enhance technology and skills. The government may seek to support this restructuring with further reforms that reduce businesses' operating costs and boost competitiveness.

Subsidiary Impacts

- Though inflows should remain strong, Vietnam may seek to broaden its range of capital sources.
- Vietnam will be competing in similar industries as nearby countries and so may need a strategy to take market share.
- Hanoi is likely to eschew labour market reform.

Analysis

According to the Foreign Investment Agency, FDI in Vietnam rose to 35.6 billion dollars in 2017 -- a 44% increase on 2016. This was well below the record inflow of 71.7 billion dollars in 2008, but it confirms that Vietnam is returning to favour after debt concerns and operating difficulties dented investor confidence. About 16.0 billion dollars was dispersed, a slight rise on 2016.

$35.6bn
FDI in Vietnam in 2017

Three industry groups took the most FDI in the first eleven months of 2017:

- Processing -- coffee, garments, electronics, machinery and other goods produced for export attracted just under 15.0 billion dollars of investment.
- Electricity -- almost 8.4 billion dollars was invested in power output and electricity grids, as Vietnam sought to extend rural coverage.
- Real estate -- property ventures, mostly in Ho Chi Minh City and other major urban centres, drew 2.5 billion dollars of investment.

The bulk of FDI came from other countries in the Asia-Pacific Economic Cooperation caucus. Despite efforts to broaden the base by boosting inflows from markets such as Europe, three countries provided the most capital:

- Japanese firms invested registered capital of 8.9 billion dollars.
- South Korean investors brought in a combined 8.2 billion dollars.
- Singapore was the source of 4.7 billion dollars of investment.

Economic stability

Vietnam is rated highly among Asian emerging markets for its mostly stable economy. It has a large labour pool, a favourable location near vital shipping lanes and large regional markets such as China and Japan.

The country's GDP growth has averaged about 6.4% annually since 2000 (see VIETNAM: Growth will attract more investment - March 7, 2017).

6.4%

Vietnam's average annual GDP growth since 2000

Most of this growth has been tied to low-cost industries that rely on a relatively cheap labour force; wages are less than half of those in China, which is relocating uncompetitive industries to Vietnam. However, Hanoi's new strategy -- based around the four tiers of manufacturing, services, agriculture and tourism -- will aim at a higher technology content.

Manufacturing

The emphasis in the short term will be on transport (especially automotive) equipment and supplies, wind turbines and solar panels. Skilled industries such as electronic components, chemicals, minerals, and medical and pharmaceuticals equipment will then be prioritised.

The manufacturing strategy is ambitious and embraces some of the same sectors that underpin 'knowledge' societies in Malaysia, Singapore and Thailand. Vietnam may struggle to match these more advanced nations even if technical deficiencies are overcome.

Services

Logistics increasingly will be a focus as regional trade integration underlines the need for reliable delivery systems. Maintenance, repair and overhaul industries will be promoted, together with core sectors such as healthcare, education, financial services, financial technology and information technology.

Better backbone infrastructure will be needed to realise these logistics and finance objectives; upgrades are pending. Information technology is already benefiting from the relocation of output from China, though competition remains intense. Financial services could feed on the expanded trade links with East Asia.

Agriculture

Vietnam's agricultural income now is derived mostly from exports of coffee, rice, soyabeans, cashews, sugar cane, seafood and rubber. The revised strategy will aim to add more value through the processing of products such as coffee, rice and seafood.

Agriculture should be the tier with the most easily realisable goals, as it will use existing resources and can tap into Vietnam's large domestic market of 95 million people. Thailand was able to use a similar strategy to take its foodstuffs to world markets in the 1990s.

Tourism

Like other South-east Asian nations, Vietnam has concentrated more on arrival numbers than yields in a highly competitive industry. Hanoi is likely to emphasise the high-end niches of frequent business visitors, conference and incentive travel, and luxury leisure segments.

Vietnam here will be competing against entrenched markets in Singapore and Thailand, and it lacks their geographical advantage as regional aviation hubs. On the upside, it has lower operating costs and more under-explored destinations that can act as a drawcard for investment.

Reforms

Hanoi's strategy is unlikely to succeed unless more resources are put into skills upgrades; job training is below the levels needed by many foreign enterprises. Vietnam was ranked 64 of 130 countries in the World Economic Forum's 2017 Human Capital Index -- behind the Philippines and Thailand. It was ranked 120 in the know-how category, which specifically assesses the availability of skilled employees.

> Vietnam will need to upgrade skills

Prospective investors will expect to see reforms in support of the FDI restructuring.

Business costs

Vietnam was ranked 68 of 190 countries in the World Bank's 2018 Doing Business index and slipped in segments such as starting a business (123) and resolving insolvency (129), which have a large bearing on overheads. It takes 22.0 days and costs 6.5% of income per capita to start a business; in Singapore it takes 2.5 days and 0.5% of income.

Infrastructure gaps add to delivery times. Vietnam, with a score of 5.33, was ranked 19 in the 2017 Agility Emerging Markets Logistics Index, behind Malaysia (4), Indonesia (6), Thailand (15) and the Philippines (16). Top-ranked China had a score of 7.88. Vietnam's main problems are at airports and seaports, where connecting infrastructure is inadequate.

State enterprises

Foreign investors are unhappy with the central role of state-owned enterprises, which generally lack transparency and enjoy preferential terms over commercial rivals. Privatisation efforts have faltered. Yet the government has now set a target of selling either partly or in whole 375 agencies by 2020, including at least 185 in 2018.

New equitisation rules implemented in October should speed up the process, as will revenue pressures; public debt was 61.3% of GDP in 2017, just below the government's ceiling of 65.0%. Much foreign interest will be focused on banking and finance firms, which are burdened by bad loans. Some of these firms will use mergers to access advanced technologies.

Corruption

Vietnam was ranked 113 of 176 nations in Transparency International's 2016 Corruption Perceptions Index with an overall score of just 33 out of 100, putting it below the Philippines and Myanmar. Investors have complained that corruption is institutionalised both in the bureaucracy and in business circles (see VIETNAM: Anti-graft drive will see elite instabilities - August 23, 2017).

Showing a tougher stance, the government indicted 22 executives at the state oil company PetroVietnam and 46 banking officials in two separate corruption cases that began earlier this month. On January 22, a former PetroVietnam executive, who was reportedly forced to return from Germany for trial, was sentenced to life imprisonment while a former politburo official was imprisoned for 13 years.

UK universities will access growing ASEAN market

Thursday, November 30, 2017

UK higher education outfits are harnessing the new demand emerging in South-east Asian markets

The National University of Singapore (Reuters/Edgar Su)

UK academics are debating whether their universities should be pursuing projects in Myanmar, given its government's current embroilment in the Rohingya minority and Rakhine State controversy. The reaction illustrates the political challenges potentially facing UK universities as they expand their transnational education (TNE) offerings in South-east Asia's burgeoning higher education (HE) markets.

What next

UK HE institutions will lead in investing in South-east Asian HE markets, although they will face competition from within the region and outside. Thailand's military government will likely further defer its plans to open Thai HE to foreign universities and broader TNE. The Malaysian government's decision to reduce support for study abroad scholarships will likely only marginally affect Malaysian demand for UK university places.

Subsidiary Impacts

- Non-EU foreign students could make up for declining EU student numbers in UK HE institutions as Brexit nears.
- UK HE institutions will lead the development of TNE in mainland South-east Asia and the Philippines.
- Malaysian efforts to become a South-east Asian educational hub will not threaten the UK position in the near term.
- Delays to ASEAN integration, especially education services and mobility, will dent access to tertiary education in the region.
- South-east Asian demand for technology associated with education, including the internet and computers, will grow.

Analysis

The UK HE sector's relationship to South-east Asian education markets takes two forms:

- international students -- students sent by South-east Asian countries to study in UK universities; and
- TNE -- educational programmes provided by UK HE institutions within South-east Asian markets.

The reputation of the UK HE sector is unrivalled in South-east Asia. Simultaneously, the internationalisation of the United Kingdom's HE sector is critical to the sector's sustainability.

Education markets in Malaysia and Singapore will play an important role as the sector accommodates post-Brexit drops in EU student enrolments and research funding -- in June 2016, Malaysia's prime minister encouraged the United Kingdom to seize Brexit as an opportunity to increase bilateral education cooperation (see ASEAN/UK: Post-Brexit ties are likely to grow - July 5, 2016).

UK universities and Brexit

The United Kingdom is the second-largest destination in the world for international students, after the United States. Universities UK, the representative organisation for UK universities, estimated that international students contributed 25 billion pounds (33.7 billion dollars) to the UK economy in fees, off -campus expenditure and employment generated from that expenditure in 2014-15.

£25bn

Estimated contribution of international students to the UK economy

Although it is currently uncertain how the UK government will manage education-related immigration post-Brexit, even modest declines in mobility for students and academic staff could have substantial economic implications for UK HE institutions.

EU students are 5.5% of the total UK student population, and UK HE institutions employ 43,000 EU staff. New visa costs and decreases in employment opportunities after graduation could negatively affect the desirability of UK universities for EU students. EU student applications for UK HE institutions fell 7% in 2017.

South-east Asian markets' strength

Non-EU students, however, are 13.5% of the total UK student population. In 2015-16, Malaysia was the second-largest source of non-EU students to the United Kingdom behind China (91,215), sending 17,405 students. This was up from 13,800 in 2010.

Singapore (15th place with 7,500 students) and Thailand (18th place with 6,095) are also among the top 20 origins for international students in the United Kingdom.

This high demand for UK HE reflects in part the limited quality of the HE options within South-east Asia, with some exceptions:

- The 2017 Universitas 21 Ranking of National Higher Education Systems included only four South-east Asian countries in the top 50: Singapore (6th), Malaysia (25th), Thailand (47th) and Indonesia (50th).
- The 2017 Times Higher Education Asia University Rankings identified the National University of Singapore (1st) and Singapore's Nanyang Technological University (4th) in its rankings, but only two other South-east Asian universities -- University Malaya (59th) and Mahidol University in Thailand (97th) -- in the top 100.

Changing local conditions, however, are also driving demand for international education. Expanding South-east Asian middle classes and prosperity have resulted in expanding demand for access to higher education (see VIETNAM: Middle-class demands could undermine Hanoi - March 31, 2017).

The most rapid expansion comes in the Malaysian government's plan to double its current number of post-secondary students to 2.5 million by 2025.

South-east Asia's increasing prosperity is driving education demand

Flexible visa numbers

UK student visa numbers have been generally stable since 2010 at just under 200,000 students per year. The United Kingdom has maintained its existing overall targets for student visas even in anticipation of Brexit.

The distribution of those visas, however, has varied when considering South-east Asian markets. In 2016, only Indonesia saw a rise in student visas to the United Kingdom, up 17% to 2,636, with

Singapore, Thailand, Vietnam and Malaysia all declining. However, since 2011, Singapore, Malaysia and Indonesia are the only countries among all others to have experienced an overall rise in the number of visas issued.

Whereas Indonesia's middle class is currently the world's fourth-largest at 17.3 million households, UK HE institutions are relatively uncompetitive in attracting Indonesian students, who primarily study overseas in the United States, Australia and Malaysia. However, UK visa data demonstrates a growing demand for studying in the United Kingdom.

Transnational education

UK HE institutions generated approximately 550 million pounds in 2016 from TNE. Their operations overseas include branch campuses, franchise agreements, joint provision with local universities and distance learning courses.

£550mn

UK HE institutions' income from transnational education projects in 2016

Malaysia and Singapore are the most important markets for UK TNE: 16 UK HE institutions are active in Malaysia, providing services to 79,000 students. In Singapore, 21 UK HE institutions are active, educating 50,000 students.

There are more UK universities present in these two markets than any other country except China, which also has 16 UK universities active in HE provision, catering to 65,200 students. The programmes taught in Malaysia and Singapore equal 15% of the total number of TNE programmes taught by UK universities.

Malaysia and Singapore are also among the top five host countries for UK international branch campuses. The total value of international students and TNE in Malaysia alone for the UK economy is 145 million pounds.

Local competition

The UK position in South-east Asian in TNE is unparalleled, although US, Australian, French and Chinese HE institutions are also active in South-east Asia. One reason for UK universities' current position is their historical influence on the region's elites. In Malaysia, for instance, there are over 500,000 alumni of UK HE institutions, out of a population of 31 million.

However, the Singaporean and Malaysian governments have developed plans to become education hubs that could compete with more distant and expensive options for tertiary education. Malaysia's HE system currently includes 134,000 foreign students. Similarly, in 2012, foreign students made up 22% of enrolled students in Singapore's universities.

Expanding this market is envisioned in Malaysia's Higher Education Blueprint that calls for HE sector reforms such as financial sustainability of public universities, improvements in global HE rankings and the expansion of web-based distance learning.

Over the next decade, therefore, the region will witness the simultaneous growth of UK TNE and of international student enrolments in Malaysia and Singapore. Expansion of UK HE institutions into the HE 'periphery' in South-east Asia will occur more slowly, stymied by local foreign ownership laws (see ASEAN/UK: Trade deals hold promise, amid bottlenecks - May 19, 2017) and uncertain regulation and accreditation environments.