



PERSPECTIVE

A Pivotal Year for ASEAN?

May 21, 2015



Mark Mobius
Executive Chairman
Templeton Emerging Markets Group

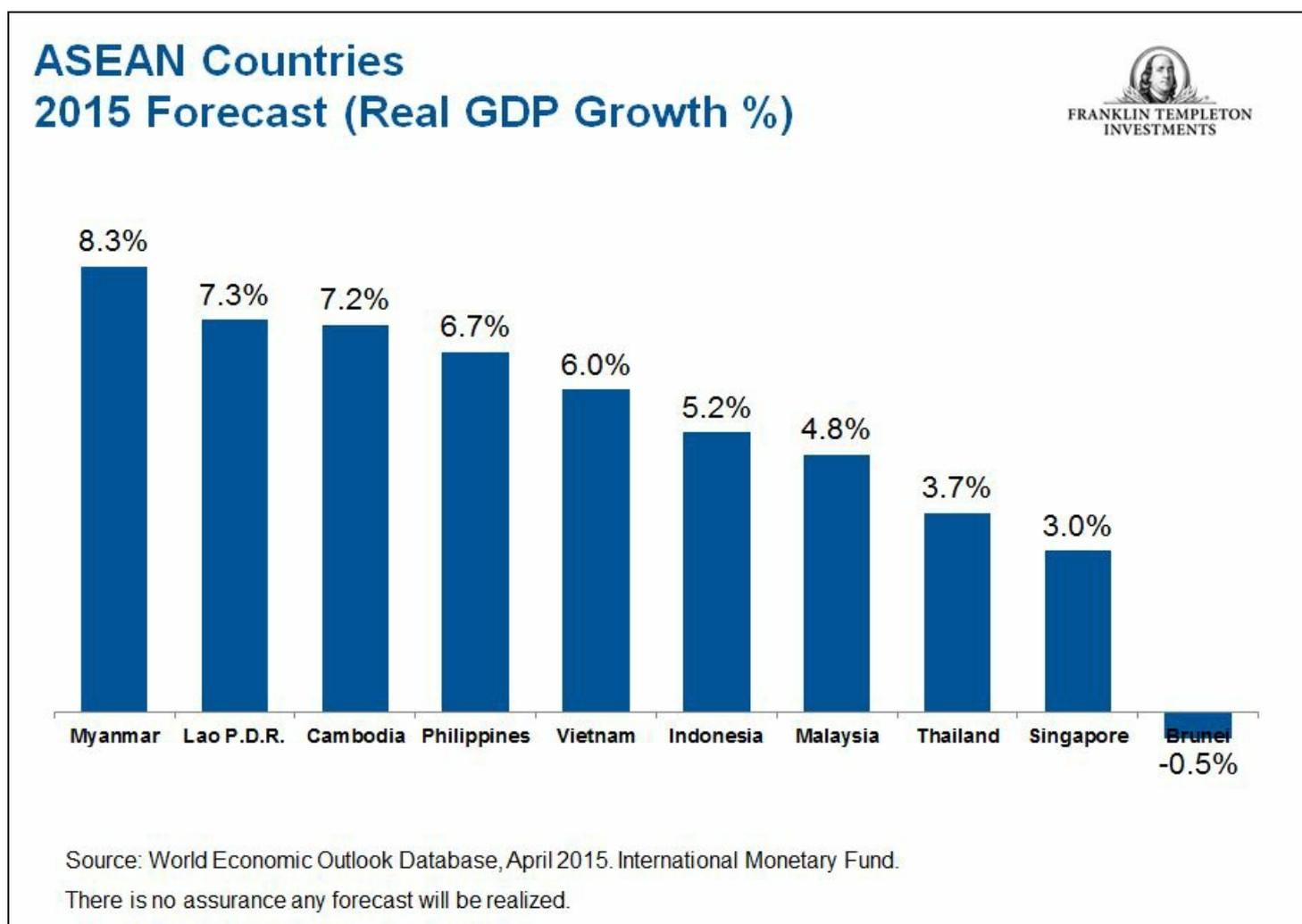
The role of Asian markets in the global economy has grown significantly in recent years, and we expect this trend to continue in the future. Many of these countries have also made fundamental improvements to their economies, and we think these changes are here to stay. This year could prove a pivotal one for a number of countries in Asia, as the Association of Southeast Asian Nations (ASEAN) had set ambitious plans for a new ASEAN Economic Community (AEC) to come to fruition in 2015. Discussions among ASEAN members in preparation for the AEC are still ongoing and while the fine points are still being worked out, we are enthusiastic to see the outcome.

Founded in 1967 to foster regional cooperation and promote peace, ASEAN is a strong regional economy made up of 10 members: Brunei Darussalam, Cambodia, Indonesia, Lao PDR (Laos), Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. The 10 individual ASEAN members already have attractive characteristics for investors, including favorable demographic profiles, abundant natural resources and low-cost labor, among other factors. Combined into a single market, they encompass a population in excess of 600 million and a wide range of economic attributes from the financial, trading and technology skills available in Singapore to the largely untapped reserves of labor and natural resources in Myanmar that, when combined, could well represent far more than the sum of their parts. The AEC was envisaged to have the following key characteristics: (a) a single market and production base, (b) a highly competitive economic region, (c) a region of equitable economic development and (d) a region fully integrated into the global economy.¹

Because ASEAN countries have to work toward a collective vision and cooperative spirit when AEC fully comes together, we think it should strengthen their partnership, even though there has been some outlying resistance and concerns about some aspects. If it is fully implemented later this year, the AEC represents an opportunity to further promote cross-border trade and connect economies, companies and people within the region in the years to come. According to a recent study conducted by the Boston Consulting Group, businesses in the region are remarkably bullish about the AEC: 80% of those surveyed regarded the AEC as a business opportunity for their firm and believed it would help accelerate growth in their respective industries.² Business executives also acknowledged that progress has been made over the years in most sectors, and two-thirds of the companies responding to the survey said they were adjusting their product offerings and upgrading their organizations and supply chains. However, some business executives in ASEAN also expressed concern that governments would not wholeheartedly facilitate the free flow of goods across the region.

In our view, the enviable location of the proposed AEC, bordering the fast-growing economic giants of India and China, could be a major potential benefit for companies within ASEAN as well as investors. The region lies on one of the “one belt, one road” trade routes identified by the Chinese government as significant focuses for investment. Chinese firms are already active investors in countries such as Vietnam, taking advantage of significantly lower wage rates in comparison with Southern China, and ambitious plans for transport infrastructure improving China’s links with Southeast Asia are under development. International trade could become a further stimulus to growth for Southeast Asia, with some of the countries of the region closely involved in major free trade initiatives such as the Trans-Pacific Partnership, currently under negotiation, while also looking to deepen intra-regional trade links. ASEAN has seen continuing population growth over the last 15 years, totaling 620 million people in 2014 and expected to increase further to close to 670 million by 2020, a growth of about 30% from the 514 million in 2000.³ We believe this growth potential, combined with increasing per capita incomes and relatively younger population structures, could further drive the growing consumer demand in the region as a reduction in the cost of doing business, improved labor and capital movement and the streamlining of taxation can only increase the opportunity for growth. As a result, ASEAN economies are increasing domestic consumption of a wide range of goods and services.

According to various forecasts, the prospects for gross domestic product (GDP) growth in the region going forward are far stronger than in developed markets, and in excess even of other emerging-market regions. GDP growth in emerging Asia is expected to average 6.6% in 2015, while frontier markets such as Myanmar, Cambodia and Laos are forecasted to grow even faster.⁴ At the other end of the spectrum, Brunei is expected to contract by 0.5%, while Thailand and Singapore are expected to expand by a still-reasonable 3.7% and 3%, respectively.⁵



A Range of Diverse Opportunities

In our view, Southeast Asia is currently among the most exciting investment destinations available to emerging and frontier market investors. The range of opportunities available to investors is remarkable, from the highly developed and technologically sophisticated Singapore market through emerging markets in various stages of development such as Thailand, Indonesia and the Philippines to exciting frontier prospects such as Vietnam and Myanmar. Indonesia is in the midst of a significant reform program initiated by President Widodo, while Thailand's military government is looking to shore up support through growth-oriented activities. In our view, Singapore's role as a global trading hub should permit continued growth and prosperity for that market. Myanmar's opening to market forces could receive a significant boost should scheduled elections pass off successfully, while Vietnam is also engaged in a cautious opening to global investors and gradual reform of its banking sector.

Laos has the potential to join compelling frontier stock markets as demand for its hydropower and mineral resources boosts economic growth. We believe economic reform proposals under way elsewhere in the region also have the potential to boost economic growth and corporate profitability. With its excellent international trade links and the availability both of sophisticated technology and low-cost labor, Southeast Asia has long been an important center for the supply-chain activities of Japanese companies, while labor cost advantages have seen much basic manufacturing activity migrating from China. There are still some challenges for ASEAN countries ahead; naturally, when you have a divergence of countries, there are going to be differences of opinion but collective cooperation is needed to make the AEC successful.

We would also like to see continued progress in removing barriers to the global flows of goods and services in the region, and policies that encourage foreign investment. In order for AEC to gain credibility and develop as envisioned, we believe various obstacles need to be addressed, including differences in regulations and policies, bureaucratic pressures, and perhaps a perception or concern among some business owners about whether ASEAN can be an open market. AEC, if successfully implemented, will represent a common market with a combined GDP of nearly US\$2 trillion. We believe the fact that all ASEAN countries will ultimately have to work toward a collective vision and cooperative spirit when AEC comes together should strengthen their partnership and, hopefully, improve the lives of the people. We think the future for the region remains positive, supported by several factors including solid growth prospects, strong labor and natural resources, favorable demographics, advantageous trade links and geographical positioning, as well as watershed initiatives for reform.

Mark Mobius's comments, opinions and analyses are personal views and are intended to be for informational purposes and general interest only and should not be construed as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy. It does not constitute legal or tax advice. The information provided in this material is rendered as at publication date and may change without notice and it is not intended as a complete analysis of every material fact regarding any country, region market or investment.

Data from third party sources may have been used in the preparation of this material and Franklin Templeton Investments ("FTI") has not independently verified, validated or audited such data. FTI accepts no liability whatsoever for any loss arising from use of this information and reliance upon the comments opinions and analyses in the material is at the sole discretion of the user. Products, services and information may not be available in all jurisdictions and are offered by FTI affiliates and/or their distributors as local laws and regulations permit. Please consult your own professional adviser for further information on availability of products and services in your jurisdiction.

What Are the Risks?

All investments involve risks, including possible loss of principal. Foreign securities involve special risks, including currency fluctuations and economic and political uncertainties. Investments in emerging markets, of which frontier markets are a subset, involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size, lesser liquidity and lack of established legal, political, business and social frameworks to support securities markets. Because these frameworks are typically even less developed in frontier markets, as well as various factors including the increased potential for extreme price volatility, illiquidity, trade barriers and exchange controls, the risks associated with emerging markets are magnified in frontier markets.

-
1. Source: ASEAN Economic Community Factbook. Jakarta: ASEAN Secretariat, February 2011.
 2. Source: Boston Consulting Group: "Winning in ASEAN, How Companies are Preparing for Economic Integration," October 2014.
 3. Source: International Monetary Fund. There is no assurance any forecast will be realized.
 4. Source: IMF World Economic Outlook Database, April 2015. There is no assurance any forecast will be realized.
 5. Source: Ibid.