

Economic Growth Prospects in ASEAN Region and Implications for Korea- ASEAN Economic Cooperation*

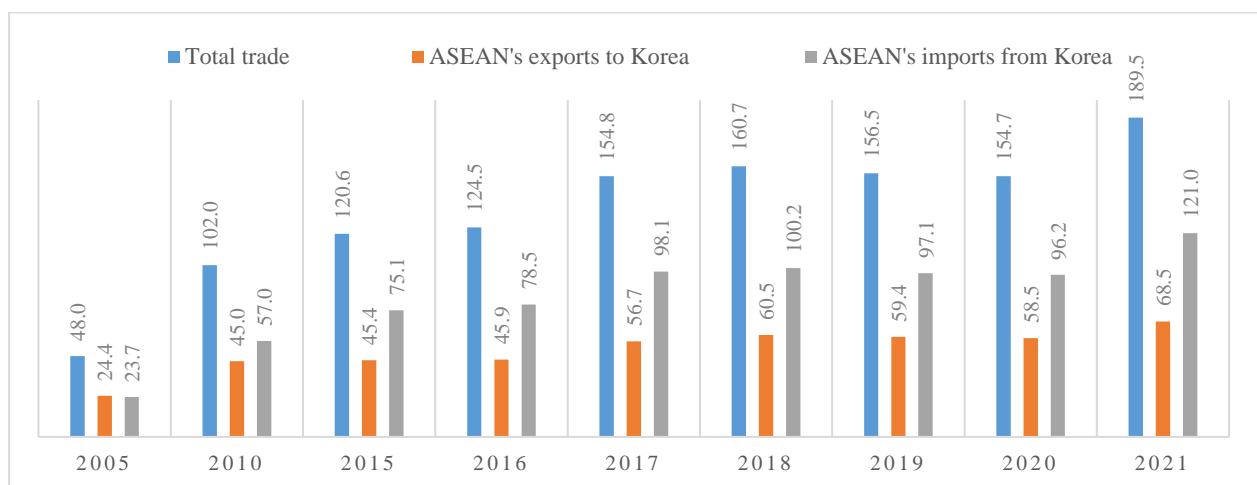
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Introduction

The coronavirus disease (COVID-19) pandemic has had serious economic consequences in many countries and regions. For the Association of Southeast Asian Nations (ASEAN) region, the effects of COVID-19 are deeply heating its member economies at a time when other risk factors, such as the global growth slowdown and the trade war between the US and China, were already rising. Many ASEAN have provided stimulus packages to accelerate economic recovery, focusing on the disbursement of cash assistance to retrenched workers and vulnerable groups; supporting enterprises, especially micro, small, and medium enterprises; providing financial assistance and incentives to the heavily-hit critical economic sectors, namely aviation and tourism; and, most importantly, strengthening emergency health responses such as testing capacity and vaccination programs. However, economic growth prospects are significantly unequal among ASEAN member countries and are determined by several economic and political factors.

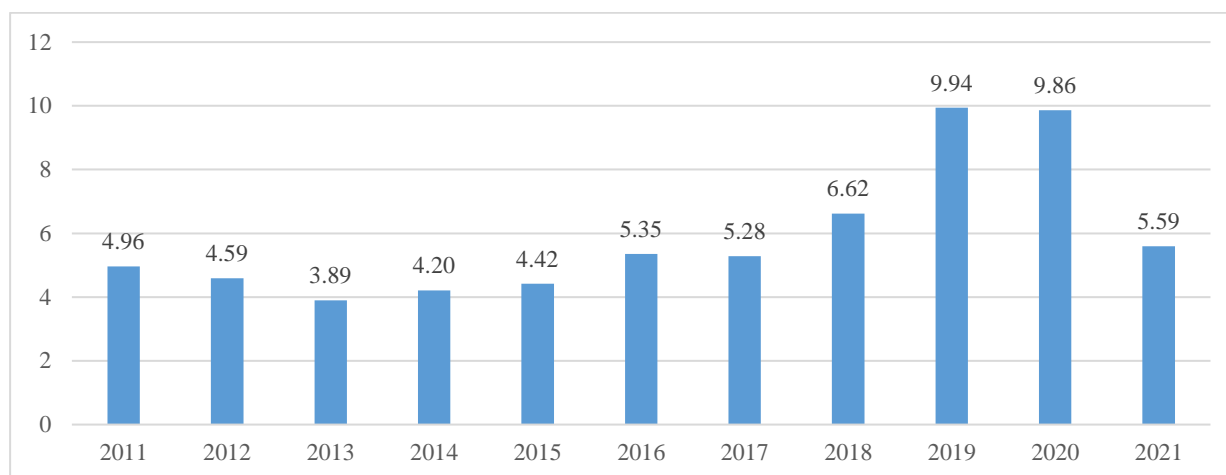
ASEAN and Korea have enjoyed considerable trade and investment relations over the years (See Figures 1 and 2). However, trade and investment relations between Korea and the ASEAN region have largely focused on Vietnam and Singapore. There are significant opportunities for South Korea and ASEAN to expand their economic relations in the future but it requires a dynamic approach.

Figure 1. ASEAN- Korea trade volume (US\$ billion)



Source: data processing from ASEANStats

Figure 2. Korea's FDI to ASEAN by total invested amount (US\$ billion)¹

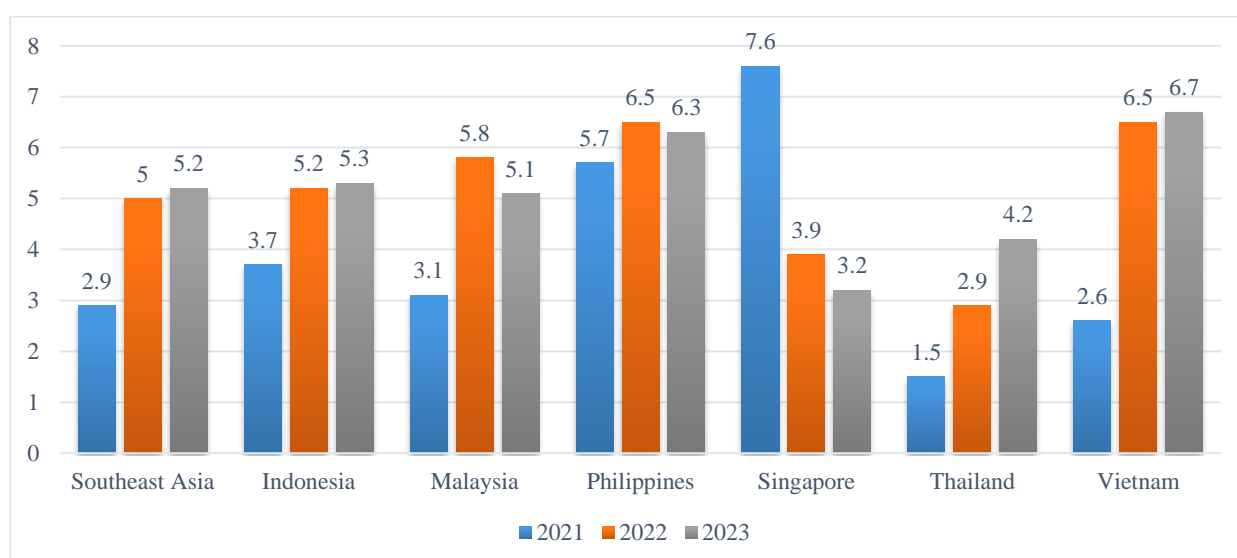


Source: Overseas Investment Statistics (Korea Eximbank)

Economic growth prospects in ASEAN and key challenges

According to the Asian Development Bank (ADB), in 2020, some ASEAN economies experienced strong contractions due to the COVID-19 pandemic: the Philippines (9.5%), Thailand (6.1%), Malaysia (5.6%), Singapore (5.4%), and Cambodia (%). Only three economies expanded: Myanmar (3.2%), Vietnam (2.9%), and Brunei (1.2%). Consequently, the average economic growth in the region narrowed by 3.2% in 2020. Output growth in the region in 2021 rebounded to 2.9% and is projected to increase to 5.0% in 2022 and 5.2% in 2023, as the region continues to recover (see Figure 3). However, ASEAN's economic development faces significant challenges.

Figure 3. Economic growth prospect for Southeast Asia (%)



Source: ADB (2022)

¹ Figures for 2021 is from 1st-3rd Quarters.

The emergence of new variants, such as Omicron, in recent months continues to pose challenges to economic recovery in the ASEAN economies. A new wave of such infections may trigger a re-tightening of containment measures and further test the region's healthcare capacity, clouding the prospects for economic recovery.

The effectiveness of measures applied by the ASEAN region in dealing with the risk of inflation amid uneasy economic recovery. Recent statistics show that regional inflation jumped from 4.5% in May to 5.1% in June² and is predicted to increase in the short term. This scenario will affect the economic growth and social stability of the region.

Supply chain disruptions continue to pose challenges to the economic recovery of the ASEAN region. A key reason for bottlenecks is the imbalance between supply and demand amid the intermittent shuttering and reopening of individual economies in ASEAN and its external partners. Disruptions in global supply chains, exacerbated by rising shipping costs, could underpin faster inflation. Additional supply chain disruptions and slowdowns may occur in the near term when new COVID-19 variants are present. The recent slowdown of the Chinese economy due to its lockdown policies against the new waves of COVID-19 will likely affect trade and global value chains (GVCs) and investment between ASEAN and other countries.

The negative effects of climate change on socioeconomic development in the ASEAN region are significant. Despite ASEAN's efforts, more financial expenditure and other sources are needed to deal with climate change in the region in the near, medium, and long term. However, the dilemma is that the COVID-19 crisis and weakened social cohesion may further limit the financial and political capital available for stronger collective climate action in the ASEAN region in particular and in the world as a whole.

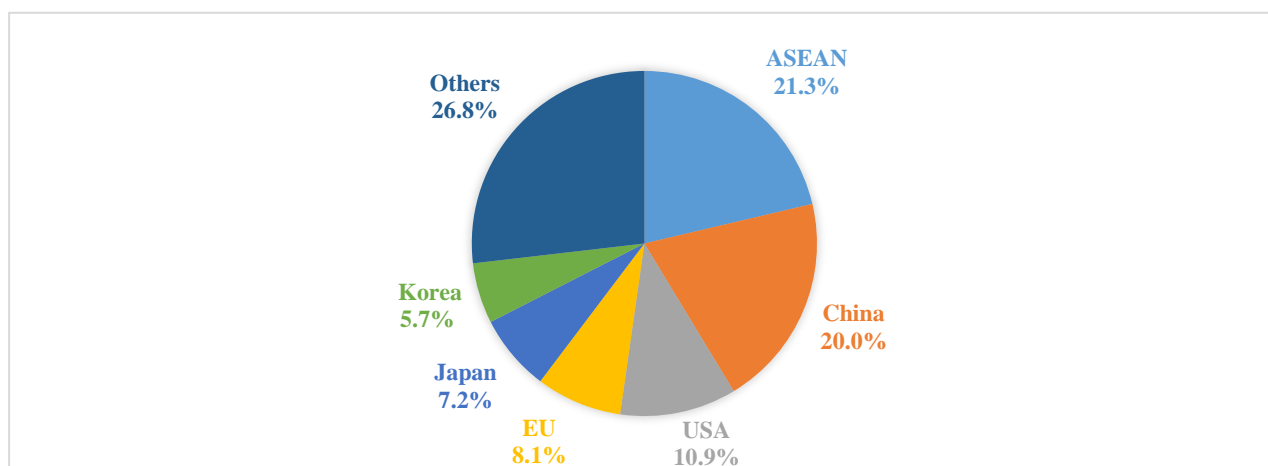
Geopolitical tensions will certainly create significant risks to economic development in the ASEAN region in the coming years. Geopolitical tensions, especially between China and the US, could cause countries to continue to implement protectionist policies that will further harm trade and investment activities in the region. The recent Russian-Ukraine conflict has had a sharp effect on commodity prices, particularly on energy prices. Considering ASEAN economies' high dependence on energy imports, this conflict certainly affects regional trade and investment.

Recent trends in Korea- ASEAN economic relations

ASEAN and Korea have enjoyed considerable trade and investment relations. The trade volume of the two sides reached US\$ 189 billion in 2021 from US\$ 102 billion in 2010, of which Korea had a significant trade surplus. Thanks to trade expansion, Korea has been ASEAN's fifth largest external trading partner, after China, the US, European Unit (EU), and Japan, while ASEAN has become Korea's second largest trading partner, after China (see Figure 4 and 5).

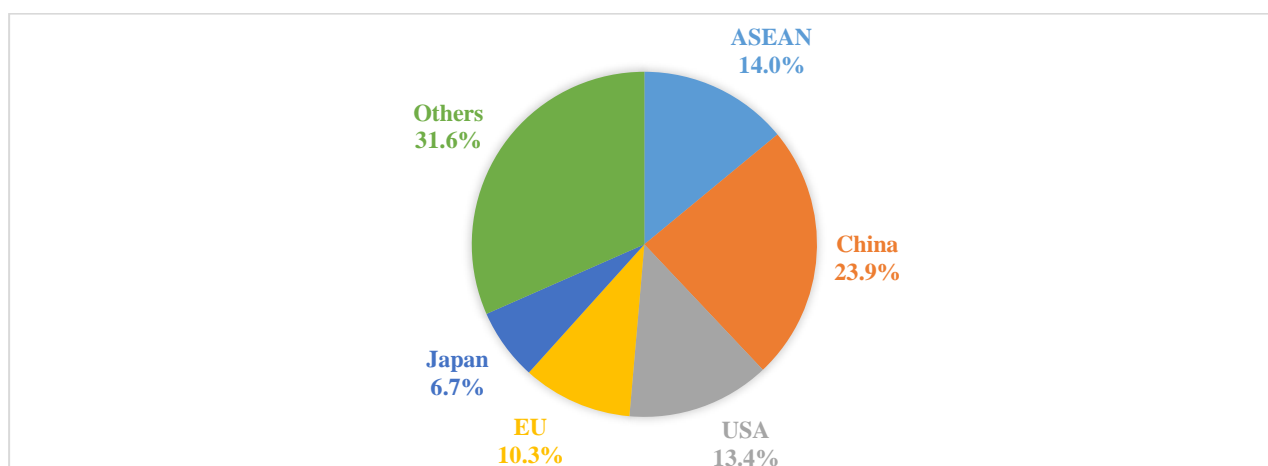
² See <https://www.focus-economics.com/regions/asean>.

Figure 4. Major trading partners of ASEAN in 2021 (%)



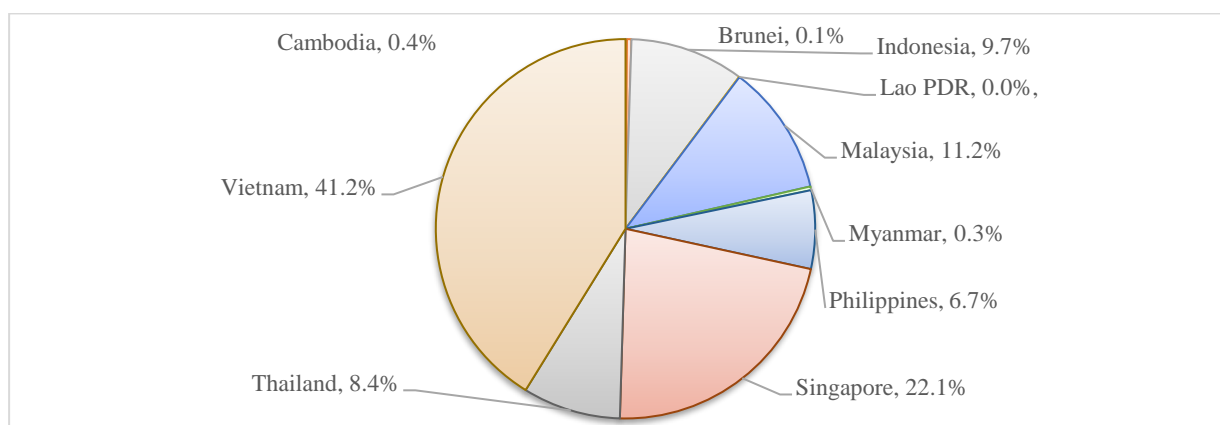
Source: Author's data processing from ASEANStats

Figure 5. Major trading partners of Korea in 2021 (%)



Source: Author's data processing from Korea Customs Service

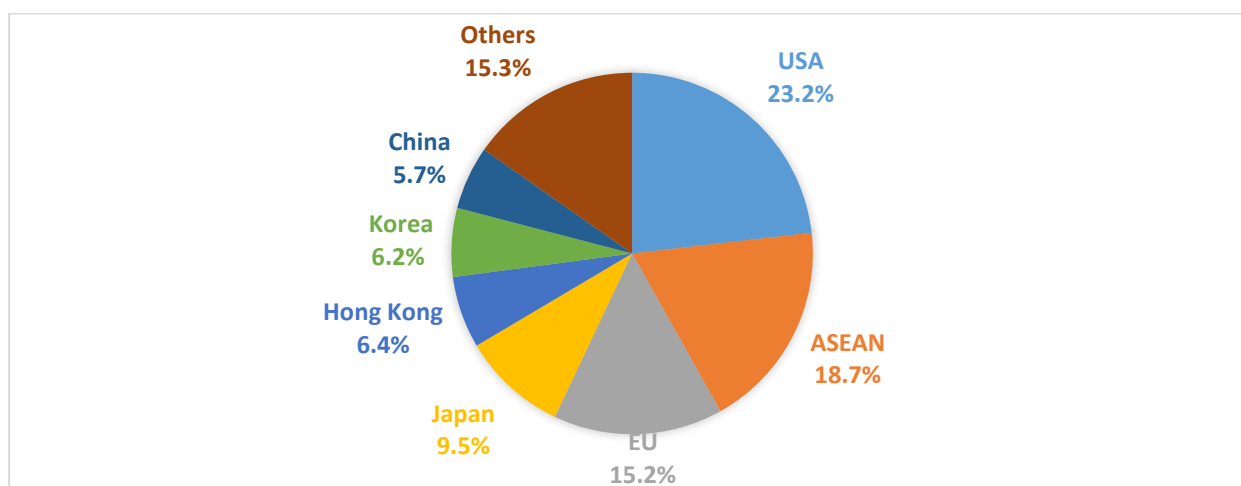
Figure 6. Korea's trade with ASEAN by member countries in 2021 (%)



Source: Author's data processing from ASEANStats

Trade relations between Korea and ASEAN have largely focused on two ASEAN members: Vietnam and Singapore. In 2021, Vietnam was Korea's largest trading partner in ASEAN with a 41% share. Singapore was runner-up, accounting for 22% (see Figure 6). With respect to products, trade between the two sides largely focused on electric machinery, sound recorders and reproducers, and television, sharing 43.1% of Korea's exports to ASEAN and 30.0% of Korea's imports from ASEAN.

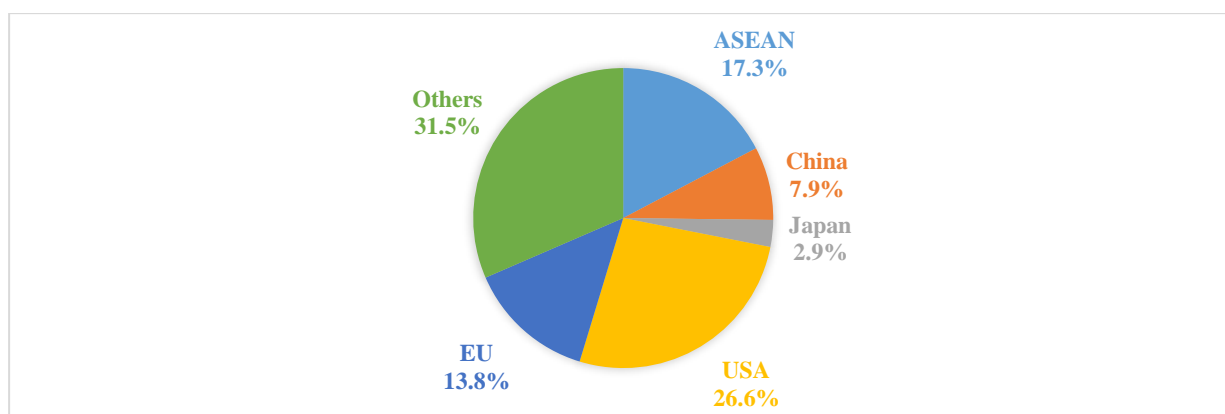
Figure 7. Major FDI sources in ASEAN in 2020 (%)



Author's data processing from ASEANStats

Regarding the investment field, Korea is also an important external source of FDI in ASEAN, sharing 5% in 2020, after the US, Hong Kong, the EU, Japan, and China (see Figure 7). On the opposite direction, ASEAN is the second largest recipient of Korea's outward FDI, at 17%, after the US (See Figure 8).

Figure 8. Korea's outward FDI by major destinations in 2020 (%)

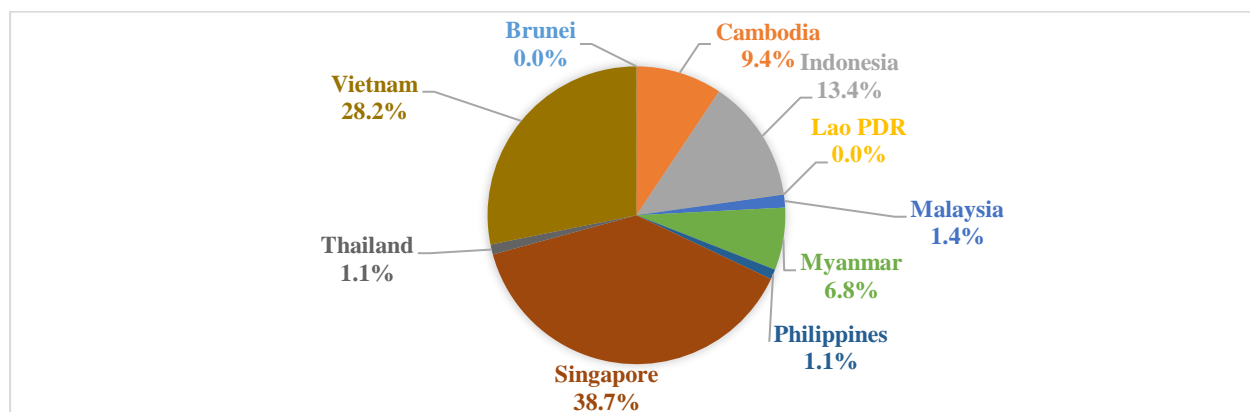


Source: Overseas Investment Statistics (Korea Eximbank)

However, similar to the trade field, Korea's FDI in ASEAN largely concentrates in Singapore and Vietnam. In 2020, Singapore was the largest destination, sharing 38% of Korea's outward FDI in ASEAN. Vietnam

was the runner-up, accounting for 28%, while the share of other ASEAN economies, such as Indonesia, Thailand, Philippines, and Malaysia, was much lower (see Figure 9).

Figure 9. Korea's FDI to ASEAN by member countries in 2020 (%)



Source: Author's data process from Overseas Investment Statistics (Korea Eximbank)

Implications for Korea- ASEAN economic cooperation

If ASEAN's growth can be restored to pre-pandemic levels, its combined GDP will be projected to be the fourth largest economy in the world by 2030³. This economic growth potential will create significant opportunities for the Korea-ASEAN economic cooperation in the future. Given ASEAN's economic outlook, particularly determinants of economic growth in the region, combined with Korea's development experiences, cooperation schemes and implementation measures between the two sides, especially in the economic field, should focus on the following strategic areas:

First, there is scope for regional cooperation in hedging risks between Korea and the ASEAN region. Korea and ASEAN can build and strengthen sovereign catastrophe risk pools that can provide ASEAN governments with a mechanism to enhance their financial preparedness against pandemic risks, as well as allow participating countries to partially retain risk through joint reserves or capital and to transfer excess risk to reinsurance and capital markets. Korea has so far contributed US\$6 million to the COVID-19 ASEAN Response Fund⁴. This result is promising for further collaboration between these two areas to hedge future risks.

Second, cooperation between the two sides should concentrate on maintaining regional supply chains, connectivity, and digital economy. It is critical for ASEAN economies and their key stakeholders and external economic partners to persevere in coordinating the adjustments that they make to respond to supply chain bottlenecks. Connectivity, digitalization, and the digital economy remain strategic priorities for both

³ Joo-Ok Lee Thuy Nguyen (2021), WEF EXCLUSIVE: A Stronger Post-COVID ASEAN, <https://theaseanpost.com/article/wef-exclusive-stronger-post-covid-asean#:~:text=If%20the%20region's%20growth%20can,in%20the%20world%20by%202030.>

⁴ The ASEAN Secretariat, ASEAN, Republic of Korea renew commitment to strengthen partnership, 5 July 2022, [https://asean.org/asean-republic-of-korea-renew-commitment-to-strengthen-partnership-2/.](https://asean.org/asean-republic-of-korea-renew-commitment-to-strengthen-partnership-2/)

Korea and ASEAN. As an advanced nation, Korea can contribute to implementing cooperation programs in developing connectivity and the digital economy in the ASEAN region. The assistance from Korea in these areas can help ASEAN implement regional policy frameworks to develop basic infrastructure and connectivity, cross-border payments, digital skills, smart manufacturing, 5G ecosystems, and strategies for the Fourth Industrial Revolution.

Third, there is a need to promote free trade agreements (FTAs) between Korea and individual ASEAN countries, as well as upgrade the current ASEAN-Korea FTA (AKFTA). To facilitate trade and investment activities between the two sides, Korea could enhance FTA negotiations with individual ASEAN countries. This helps diversify Korea-ASEAN economic cooperation structure. The commitments in the AKFTA need to be upgraded to higher levels. With her own experience, Korea may focus on strengthening institutional frameworks and agencies, intellectual property rights, and removing non-tariff barriers in ASEAN.

Fourth, there is scope for deeper cooperation to mitigate the impacts of climate change between Korea and the ASEAN region. With her own development experiences, Korea could support regional programs in enhancing a comprehensive and environmentally friendly post-pandemic recovery in the ASEAN region, such as the ASEAN Catalytic Green Finance Facility (ACGF), ASEAN Green Bond Standards, ASEAN Social Bond Standards, and ASEAN Sustainability Bond Standards. Besides attracting external financial assistance, learning from advanced countries, including Korea, in reducing greenhouse gas emissions and climate-resilient infrastructure projects, is very helpful for the ASEAN region.

Finally, Korea and ASEAN may focus on harmonizing geopolitical tensions between big powers and supporting ASEAN centrality and Korea's participation in regional and global cooperation platforms. With their own unique positions, ASEAN and Korea can coordinate to harmonize political tensions between large countries. Korea could also support other regional cooperation frameworks led and initiated by ASEAN, such as the ASEAN Regional Forum (ARF), East Asia Summit (EAS), and ASEAN Defence Ministers' Meeting Plus (ADMM-Plus). As an important member of the Asian region, the support from Korea for ASEAN centrality will help ASEAN contribute more to maintaining a peaceful and collaborative regional and global environment. On the other hand, ASEAN is willingness to support Korea in playing a greater role in regional and the global cooperation architectures.

Conclusion

ASEAN's future macroeconomic growth prospects are relatively promising. Nevertheless, ASEAN's economic development also faces significant challenges, including the emergence of new variants of COVID, the effectiveness of measures applied by the ASEAN region in dealing with the risk of inflation amid uneasy economic recovery, ongoing supply chain disruptions, the deeper and extended effects of climate change on regional socioeconomic development, and the risks triggered by geopolitical tensions. Over the years, ASEAN-Korea economic relations have expanded substantially. In future, cooperation schemes and implementation measures between the two sides should focus on regional cooperation in hedging risks, maintaining regional supply chains, connectivity, and the digital economy, promoting FTAs with individual ASEAN countries and upgrading the AKFTA, mitigating the impacts of climate change,

and harmonizing geopolitical tensions between big powers as well as supporting ASEAN centrality and Korea's participation in regional and global cooperation platforms.

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