ASEAN to cushion Eurozone crisis with strong account surplus, integration: economist

KUALA LUMPUR, May 29 (Xinhua) -- A strong account surplus and the complimentary effect by the better performing members in the Association of Southeast Asian Nations (ASEAN) on the rest of the bloc could cushion the impact of the Eurozone economic crisis, said an economist.

Malaysia's Maybank regional head of research and economics, PK Basu told Xinhua in an interview recently that ASEAN has been progressing well with the old ASEAN six, composed of Indonesia, Malaysia, Thailand, Singapore, Brunei and the Philippines, recording large account surpluses that complimented the financially weaker countries in the region to overcome extreme volatility in the global economic environment.

"Within ASEAN, there were a few countries, such as the Philippines which traditionally has current account deficits but even the Philippines now has structural account surpluses so the old ASEAN six economies now have current account surpluses which have cushioned them from the impact of the global financial crisis, " Basu said.

"There are some new ASEAN economies like Vietnam which has current account deficits still but there is a nice complimentarity between old ASEAN and new ASEAN. The old ASEAN countries have excess capital that increasingly flow to ASEAN economies. That is creating a symbiotic relationship that is driving ASEAN forward. There have been a few countries like Vietnam, Cambodia that have suffered some imbalances during this global financial crisis and some macroeconomic challenges but they have largely overcome them," he added.

ASEAN groups Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam.

Vietnam's inflation rate moderated to 14 percent in March from a peak of 23 percent last August while its trade deficit narrowed significantly from last year, signaling an improvement in the more vulnerable economies that are now on a more stable path with the stronger economies in the bloc.

The International Monetary Fund had earlier cut its growth projection for ASEAN to between 5.2 and 5.6 percent next year, down from the previous forecast of 5.6 to 5.8 percent before it bounces back at 6.5 percent in 2013.

ASEAN's partners -- China, Japan and South Korea -- have contributed to ASEAN's growth, particularly in helping the bloc achieve its target by 2015 to become an integrated, single economy.

"China has become ASEAN's largest single trading partner as it has become the largest trading partner for most countries in the world. There is good two-way trade between ASEAN and China," Basu said. "Chinese investments have been heavily focused on countries like Indonesia, there are some interests in Malaysia as well and some growing interest in Thailand. Singapore has a long- established relationship with China as lots of Singapore corporates have invested heavily in China in the past. China is continuing to show interest in not only the old ASEAN but also some of the new ASEAN economies," he said.

Although the amount of foreign direct investment was relatively small -- less than 1 percent of the GDP on either side, it is growing given the substantial projects introduced from either side recently.

Statistics showed China's investment in ASEAN countries totalled 3.5 billion U.S. dollars in 2010, a 13-fold increase from 2003.

ASEAN's investment in China reached 6.3 billion U.S. dollars, up 35.2 percent over the same period last year.

On average, investment ratio in 2010 of three emerging ASEAN economies -- Thailand, Malaysia and Indonesia -- are about 10 percent of GDP, below the 90's pre-crisis levels, according to the International Monetary Fund.

Basu predicted Malaysia's economy growth at 4.5-5.5 percent in the second half of the year after the central bank put its first quarter's GDP at 4.7 percent.

He said interest rate in Malaysia is likely to maintain at 3 percent, where it had been kept by the bank for the 11th time since May last year, providing a leeway for the bank to cut the rate should the Eurozone breaks up or its crisis deteriorates.