**Question 2: Government budget and living standards**

**Extract 6: Indonesia enters high human development category of nations**

Indonesia has joined the group of countries with a high human development index (HDI) score of 0.707, according to a report by the United Nations Development Programme (UNDP). Singapore is Southeast Asia’s top country at ninth in the ranking, joined by Malaysia (62nd) and Thailand (77th) in the very high category. The Philippines outclassed Indonesia and Vietnam to be 106th in the ranking.

*Source: theinsiderstories.com, 11 December 2019*

**Table 1: Living standards data for selected ASEAN1 countries, 2018**

|  |  |  |  |
| --- | --- | --- | --- |
| Country | HDI | GNI per capita (2011 PPP $) | Gini coefficient |
| Singapore | 0.935 | 83,793 | 0.398 |
| Malaysia | 0.804 | 27,227 | 0.428 |
| Thailand | 0.765 | 16,129 | 0.437 |
| Philippines | 0.712 | 9,540 | 0.479 |
| Indonesia | 0.707 | 11,256 | 0.457 |
| Vietnam | 0.693 | 6,220 | 0.422 |
| World average | 0.718 | 15,745 | - |

Notes:

1. ASEAN is a regional intergovernmental organisation comprising ten countries in Southeast Asia,

*Sources: UNDP Human Development Report 2019, konema.com/atlas/ranks/GINI-index, accessed 24 August 2020*

 **Extract 7: Southeast Asia’s expansionary fiscal budgets put markets on edge**

Southeast Asian governments are expected to spend more this year as they try to prop up growth and address domestic challenges, unnerving investors who fret that heavier spending and falling government revenues will combine to upend the region's economy. The region's expansionary fiscal plans, however, pose an economic risk by adding to swelling government debts.

*Source: Nikkei Asian Review, 16 February 2019*

**Figure 2: Budget balance for selected ASEAN countries, 2015-2019 (% of GDP)**

**2015**

**2016**

**2017**

**2018**

**2019**

*Source: statista, accessed 24 August 2020*

**Extract 8: Some individual cases**

8.1 Indonesia

Indonesian President Joko Widodo proposed record government spending next year to drive the economy to its quickest projected growth in seven years, counting on stimulus and investment to overcome risks from a global slowdown and escalating trade war.

At the same time, Widodo projected a smaller fiscal deficit of 1.76% of GDP, aiming to strike a delicate balance between stimulating the economy and keeping the deficit trim enough to attract foreign investment.

*Source: Bloomberg, 16 August 2019*

8.2 Vietnam

Southeast Asia’s growth star has to guard against some new risks. Vietnam scored a sovereign ratings2 upgrade because of a build-up of foreign reserves and stronger growth, but the fiscal outlook is a worry. Estimates indicate a budget deficit of about 4.6 percent of GDP in 2018, which is higher than the government’s own target of 3.7 percent. Vietnam needs to focus on stability and structural reforms rather than rapid growth in order to avoid a downgrade of its credit rating, failing which would increase the cost of borrowing for the Vietnamese government.

*Source: Bloomberg, 25 July 2018*

Notes:

1. A sovereign credit rating is an independent assessment of the creditworthiness of a country. Sovereign credit ratings can give investors insights into the level of risk associated with investing in a particular country, including any political risk.

8.3 Philippines

President Rodrigo Duterte’s “Build, Build, Build” programme is producing too many bills, bills, bills, by some analysts’ estimates. While the ambitious infrastructure plan is much needed to upgrade airports, roads and railways, it has also put pressure on the budget. The proposed borrowing plan for next year is 19 percent higher than this year’s programme. A less rosy growth picture also means tax revenues may come in below targets, threatening budget goals. The result is more borrowing at a time when interest rates are rising, putting additional strain on government finances.

*Source: Bloomberg, 25 July 2018*

**Extract 9: The artificial intelligence factor**

The adoption of technology has been one of the biggest drivers of ASEAN’s growth in recent years. Businesses across the region have pushed the frontiers with technology adoption, which has improved productivity, created entirely new industries and made geographical borders redundant to new, open markets. The capabilities of technology will expand at an even faster pace over the next decade, and its prices will fall even further. This will boost its adoption and open up even greater growth opportunities. Its impact on jobs, though, is likely to be very different than we have seen in the past decade. That is because the biggest improvements in technology will come on the artificial intelligence (AI) front. AI-enabled technologies will deliver substantial productivity gains across all sectors, resulting in major benefits for businesses and prosperity for the region. However, this will have a significant impact on the labour market. AI will make many skillsets and job profiles redundant. This will bring about major changes, as workers will need to forge new career paths or face unemployment. The scale of the challenge is enormous.

*Source: World Economic Forum, 18 September 2018*

**Extract 10: Building an inclusive digital ASEAN**

Projected to hit $200 billion by 2025, A.T. Kearney research shows that ASEAN has the potential to enter the world’s top five digital economies. The digitisation and digital transformation is an obvious path for ASEAN countries to catch up in Industry 4.0 and leapfrog their economic growth, as no single country can count on the advantages of natural resources or cheap labour.  To move up the ladder of development, they have to pursue a knowledge, technology and data-driven growth model. However, it does not make sense to reach a faster growth rate but create more inequality.  The application of digital technology must be for inclusive development, embedded with “the leave no one behind” principle.

But the region needs concrete steps to increase access to skills training for everyone within ASEAN, by developing modern educational and training infrastructure. Some low-skilled workers may be unable to survive slower growth in low-skilled jobs, which will require social protection policies. Investing in education and upskilling or retraining is among indispensable ways to ensure the impact of new technologies will not lead to greater inequality.

Other means to engender inclusive growth are building infrastructure for digital connectivity, promoting the gig economy and supporting dynamic micro, small and medium-sized enterprises (MSMEs).  Still, there are concerns over the digital gap between urban and rural areas in a country as well as between the more developed and the less developed ASEAN countries.

*Source: The Jakarta Post, 7 September 2019*

**Questions**

1. With reference to Table 1:

**(i)** Identify the measures that make up the human development index (HDI). [3]

**(ii)** Compare the Philippines and Indonesia in terms of living standards, and comment briefly on your findings. [7]

1. Figure 2 provides data on the budget balance among ASEAN countries over the period 2015-2019. Summarise the trends. [2]
2. What is the main characteristic of a positive economic statement? Identify a specific phrase that illustrates such a statement from Extract 8.1. [2]
3. Extracts 7 and 8 describe the expansionary fiscal plans of selected ASEAN countries.

**(i)** With reference to Extract 8.1 and using AD/AS analysis, explain how ‘record government spending’ may be able to ‘overcome risks from a global slowdown and escalating trade war’. [6]

**(ii)** Explain how ‘heavier spending and falling government revenues’ (Extract 7) may pose an economic risk to a country both in the short run and in the long run. [6]

1. Discuss the likely impact of technology adoption on the macro-economies of Southeast Asian countries. [9]
2. Extract 10 outlines the challenges that Southeast Asian countries face in pursuing a knowledge, technology and data-driven growth model. Discuss the extent to which Southeast Asian governments may be able to overcome these challenges through supply-side policies in ensuring that growth is more inclusive. [10]

**[Total: 45]**