MOODY'S ANALYTICS

ANALYSIS

February 2019

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ASEAN Outlook: Slower Momentum

Introduction

The Southeast Asia economy has enjoyed a solid run in the last two years with GDP growth of 5.2% in 2017 and 2018. This followed a 4.6% average annual pace in the three years to 2016 and was just a touch below the pace set in the decade prior to the 2008-2009 global financial crisis.

Much of this improvement in the past two years can be attributed to the synchronized global upturn that emerged in the second half of 2016, which provided the impetus for a rebound in export and manufacturing activity throughout the region. However, with the global upturn past its peak and downside risks seemingly mounting, Southeast Asia's pace of growth will slow in the coming year.

Central banks across the region are largely following the lead of the Federal Reserve with a less hawkish tone in 2019. The Philippines will likely be positioned to ease monetary settings this year, while Indonesia and Malaysia will hold steady.

Developments in China loom large for the ASEAN region, as it is the top export destination for most ASEAN economies. Despite Beijing increasingly turning to stimulus, signs of China's economy stabilizing are not prevalent.

ASEAN Outlook: Slower Momentum

BY STEVEN G. COCHRANE, VEASNA KONG, KATRINA ELL AND STEVEN SHIELDS

The Southeast Asia economy has enjoyed a solid run in the last two years with GDP growth of 5.2% in 2017 and 2018. This followed a 4.6% average annual pace in the three years to 2016 and was just a touch below the pace set in the decade prior to the 2008-2009 global financial crisis.

Much of this improvement in the past two years can be attributed to the synchronized global upturn that emerged in the second half of 2016, which provided the impetus for a rebound in export and manufacturing activity throughout the region. However, with the global upturn past its peak and downside risks seemingly mounting, Southeast Asia's pace of growth will slow in the coming year. In what follows, we explore the cyclical prospects for the region.

Although the past two years have been favourable, financial market ructions increased as tighter U.S. monetary policy came into view in the second half of 2018, making emerging market assets less attractive. A handful of central banks in the region were forced into aggressive tightening mode to stem outflows and stabilize external positions. Risk aversion was fueled further by the U.S.-China trade war, which is likely to continue in some form through this year. Combined with heightened geopolitical tensions and the looming Brexit deadline, risks to the globally linked ASEAN economy remain weighted to the downside (see Chart 1).

But at least the near-term risk from rising interest rates and monetary policy normalization in the U.S. has eased with the Federal Reserve turning less hawkish, which has reduced the risk of widening interest rate spreads with emerging markets over the coming year.

The region's strongest GDP growth will remain in the Philippines and Vietnam, with growth forecast to continue reaching above 6% annually. Malaysia, Singapore and Thailand will endure slower conditions in 2019 and 2020, as the peak in global demand has passed and their important export-oriented manufacturing engines are exposed to the slower conditions. Indonesia's economy will enjoy a spending lift ahead of the April elections.

This paper will first focus on prospects for the coming year for each of the major economies of Southeast Asia. This will be followed by an analysis of the economic ties to China by the ASEAN countries and the specific risks they imply as China's pace of growth slows. Subsequent sections will examine monetary policy and its links to interest rates and equity markets. The paper will end with a review of political risks and an overall summary.

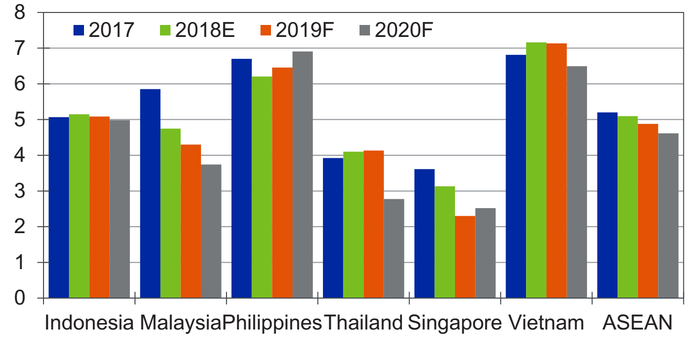
Thailand: Solid expansion to continue in 2019

Thailand's economy has strengthened in the last two years, largely thanks to improved external conditions. But the outlook for 2019 is a little less bright. Thailand's economy is expected to expand 4% in 2019, down from a 4.1% lift in 2018, the fastest annual expansion in six years. Risks are tilted to the downside, however, with rising global protectionism and impediments to public investment having the potential to undermine growth.

Thailand's potential near-term growth is hurt by neighboring Malaysia's decision to delay infrastructure projects that were approved by its prior government. Notably, projects under review include the East Coast Rail Link, one of the country's largest infrastructure projects that would have improved links with Thailand. It is worth around US$13.8 billion and was planned to connect Port Klang, Malaysia's largest port and one of the world's busiest container ports, with Thailand's burgeoning east coast. Malaysian Prime Minister Mahathir Mohamad is renegotiating the terms, citing concerns over sovereignty and public debt, which at the very least means the project will remain idle for the foreseeable future.

Chart 1: Slowing Trajectory

Real GDP, % change



Sources: National statistical offices, Moody's Analytics

While domestic demand is expected to stay relatively healthy thanks to improving investment and a steady pickup in household spending, external conditions are likely to be less favourable in 2019. Indeed, there are already signs of cooling; GDP growth slowed to 3.3% year over year in the third quarter, well shy of the 4.7% increase in the first half of the year.

External demand was weak in the second half of 2018. Export growth slowed to low single digits over the year from nearly 12% in the first half, and the signs are that conditions will continue to cool in 2019. Tech exports have turned down, which is concerning given that they represent around 20% of Thailand's exports. Thailand is primarily an intermediate tech producer with hard disk drives and integrated circuits the largest categories. But automotive exports have also weakened, which is concerning given automotive manufacturing contributes around 10% to GDP.

Malaysia sidelines infrastructure projects

Malaysia's GDP growth is on a similar slowing trajectory. GDP growth is forecast to hit 4.3% in 2019, down from 4.7% in 2018 and 5.9% in 2017. Malaysia's growth slowed in the second half of 2018 amid softer government investment that included sidelining important infrastructure projects, alongside a less supportive export environment, particularly for liquefied natural gas and palm oil. Private consumption was a key driver of GDP growth in 2018, thanks to continued wage and employment growth, similar to the broader experience in Southeast Asia, largely a reflection of rising incomes and a growing middle class as these economies move up the value chain. Private consumption will remain solid in 2019, with some upside for growth in the first half of the year thanks to the replacement in September 2018 of the goods and services tax with a sales and services tax, which covers a much narrower range of goods and services.

The Malaysian government is forecasting a fiscal deficit of 3.4% in 2019, lower than the estimated 3.7% deficit in 2018, its widest in five years. This could prove challenging, however, given the narrower sales and services tax. Strained public finances are likely to undermine public investment, which will remain on the weak side in 2019.

The outlook for oil prices provides some upside potential, as Malaysia is a net oil exporter. Moody's Analytics forecasts the price of Brent crude oil to rise from its current level of around US$58 per barrel to average US$65 in 2019 and US$69 in 2020, which will support government revenues.

Indonesia's election spending lift

Although Indonesia's economic outlook is also less favourable because of the heightened global uncertainty, growth prospects remain positive, thanks to strength in domestic demand. GDP growth is forecast to rise by 5.1% in 2019, similar to the pace in 2018. The impact of last year's monetary tightening will be felt and dampen firms' investment, but continued infrastructure spending should help sustain fixed investment growth.

Some reprieve will also come from the government's election campaign ahead of the April vote, which should lift government spending. Relative to other Southeast Asian economies, Indonesia is less exposed to cycles in global trade, particularly for manufactured goods. This should provide the economy with some buffer against external headwinds, although weaker investment and industrial activity in the country's major trading partners could undermine its commodity exports, including for palm oil, its largest commodity export, which struggled in 2018 amid weaker prices.

For Indonesia, an economy with persistent current account deficits, the normalization of U.S. monetary policy loomed large last year. Volatility spiked noticeably in the second half of 2018 as the U.S. Federal Reserve continued on its path of normalization, and fragilities in Argentina and Turkey led investors to exit emerging markets, including Indonesia. Capital outflows hurt the rupiah and made it one of Asia's worst-performing currencies in 2018. However, Bank Indonesia's aggressive rate hike cycle from May has helped stabilize the rupiah. Further, the Fed's about-face in January, which has dimmed prospects for additional rate hikes this year, helps to ease Indonesia's risk from capital flight and currency depreciation.

Although capital outflows remain an ever-present downside risk, Indonesia's economy appears more resilient than it has in the past, such as during the 2013 taper tantrum when investors pulled out of emerging markets on expectations of Federal Reserve asset-purchase tapering. The Indonesian rupiah has not recouped all the value lost last year, but it has strengthened since November and downside risks are reduced with the Fed's relatively dovish monetary policy stance.

Inflation is at the lower end of the central bank's 2.5%-to-4.5% target band and is expected to stay comfortably in that range in 2019; foreign reserves are still relatively elevated, equivalent to 6.5 months of imports and government external debt repayments; and Bank Indonesia has been on the front foot alongside improved public sector policy coordination. All of these factors suggest the economy is in a better position to withstand any volatility that may reappear.

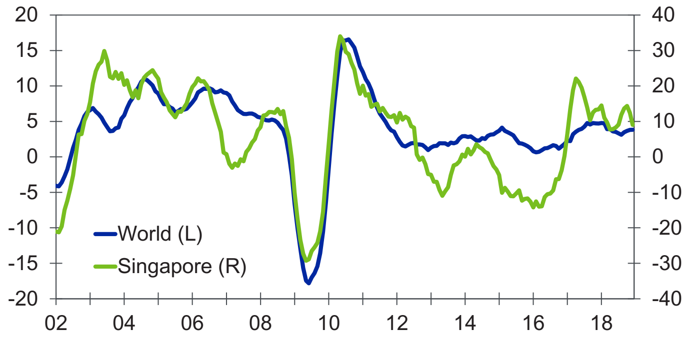
Singapore: Shifting down a gear

Singapore's economy slowed significantly in the back half of 2018, expanding 2.2% year over year after a 4.3% rise in the first half of the year. With global trade poised to cool further in the coming year, this slowdown is expected to carry into 2019, with annual GDP growth forecast to slow to 2.3% this year, down from 3.1% in 2018. Manufacturing has already slowed considerably alongside weaker exports, which fell year over year in both November and December. The outlook for export-manufacturing industries is not bright, given signs of slowing in the country's major export destinations, such as China. Moreover, the global tech cycle, which drove export and manufacturing production gains for much of the last two years, is cooling and will likely weigh on GDP growth (see Chart 2).

With exports poised to cool in 2019, much of the impetus for growth will come from Singapore's service-providing industries, which will remain solid this year thanks to finance and insurance, information and communication, and business services. Construction, which has lagged in recent years,

Chart 2: Past the Peak in Global Demand

Exports, % change yr ago, 6-mo MA



Sources: CPB NBEPA, Singapore Department of Statistics, Moody's Analytics

will continue to drag, as the government increased restrictions on housing from July to temper rising demand in some pockets. These included a higher stamp duty and tougher loan-to-value requirements. Some progress has been made, with house prices cooling in the December stanza for the first time in 18 months.

Philippines and Vietnam will lead

The Philippines is one of the most rapidly growing economies in Southeast Asia. But by recent standards, the Philippines' economy had a soft year in 2018, with full-year growth coming in at 6.2%, the weakest pace in three years and below the government's 6.5%-to-6.9% target. A number of factors conspired to weaken economic activity in 2018. Although President Rodrigo Duterte's "Build" program promises to improve infrastructure, which has long undermined the country's growth potential, it has also led to some concerns. GDP growth is forecast to pick up to 6.5% in 2019.

Duterte aims to lift infrastructure spending to 7.4% of GDP by 2022 from less than 3% under prior administrations. As of November, 44 out of 75 major infrastructure projects were being implemented, with 11 in the construction phase. By 2022, 31 projects worth about US$9.8 billion are expected to be completed with a particular focus on increasing transport links such as motorways, airports and light rail.

To help fund the infrastructure development, the first of five tax reform packages was implemented in 2018. The package, which includes excise taxes on a range of goods, contributed to an increase in price pressures in 2018. Headline inflation neared a decade high of 6.7% year over year in September, and over 2018 averaged 5.2%, well above Bangko Sentral ng Pilipinas' 2%-to-4% target range. The increase in price pressures, coupled with the 175-basis point rate hike last year, undermined household consumption in 2018.

The push to develop infrastructure has also swung the external balances into deficit, given the high import content of infrastructure development for construction equipment. Imports of capital goods have been surging, and on a 12-month rolling sum basis, imports of goods such as construction machinery increased 17.5% year over year in November, following double-digit gains over the same period in the prior three years. This has contributed to the external position becoming a greater vulnerability and includes a widening current account deficit, which increased to 2.6% of GDP in the first three quarters of 2018, up from 0.7% for full-year 2017.

Nevertheless, the Philippines is poised to remain one of Asia's fastest-growing economies in 2019. Although tighter financial conditions are likely to cap GDP growth in 2019, GDP is expected to expand by more than 6% this year.

For one, spending on the midterm elections, scheduled for May, is likely to be an added boost to the economy, on top of the robust pace of infrastructure investment. Inflation has moderated in recent months and is expected to ease, on average, in 2019 as food supply improves. Rice prices shot up last year, as a shortage was exacerbated by Typhoon Mangkhut in September—the worst typhoon in years—which damaged crops in the country's prime agricultural region. A bill to remove a cap on rice imports that has been in place for two decades is likely to be passed this year. This will increase rice supply and help stabilize rice prices. An issue that will need watching, however, is the impact of the second round of fuel tax increases in 2019, which could trigger a resumption of elevated price pressures and hurt consumer spending.

Vietnam's economy continued to flourish last year, despite more restrictive lending in the second half of 2018. GDP growth of 7.2% in 2018 was stronger than expected, after 6.8% in 2017. This year is shaping up to be another strong year for Vietnam, supported by large foreign direct investment inflows, combined with continued strength in agriculture, manufacturing and construction. GDP growth is forecast at 7.1% in 2019, cementing Vietnam as one of Asia's fastest-growing economies.

Close ties with China

Southeast Asia is exposed to offshore demand because of the region's heavy reliance on exports. The region's business cycles tend to follow those of its major trading partners.

An overarching concern for the ASEAN region is the impact of the slowing global trade cycle, which has been exacerbated by the U.S.-China trade war. While there is scope for some ASEAN countries, such as Vietnam, to benefit from the trade war in the long run as manufacturing supply chains are adjusted, the impact of the trade war will be increasingly felt in 2019.

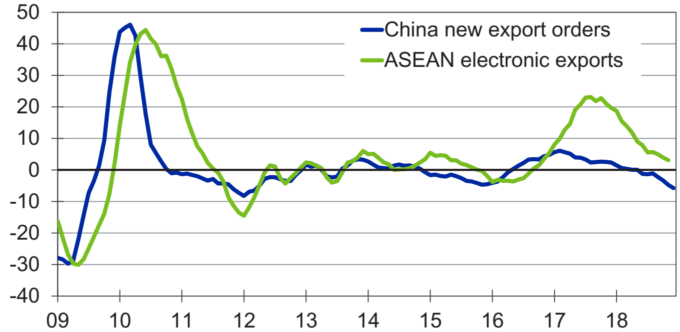
This is especially the case for electronics. According to World Semiconductor Trade Statistics, global semiconductors sales are expected to tick up 2.6% this year, down significantly from the estimated 15.9% rise in 2018 and 21.6% lift in 2017.

Through 2018, it became increasingly apparent that the tech cycle that propelled exports for much of the last two years is fading. In South Korea, often considered a bellwether for exports in Asia, the semiconductor industry, more than any other sector, can provide a useful insight into the tech cycle, as semiconductors are the cornerstone of the electronics industry.

Factory gate prices for semiconductors shot up in 2017 as a shortage of chips amid

Chart 3: Downturn in China Spells Trouble

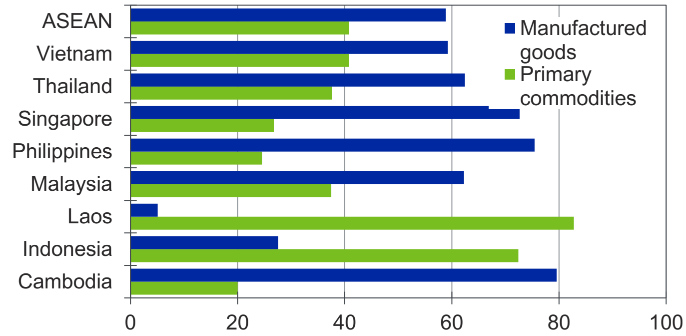
% change yr ago, 6-mo avg



Sources: National statistical offices, Moody's Analytics

Chart 4: Manufactures Dominate Exports…

Merchandise exports to China by type, % of total exports



Sources: UNCTAD, Moody's Analytics

the surge in demand caused prices to spike. Semiconductor prices rose by as much as 36% year over year in October 2017, having spent the bulk of 2014 to 2016 in decline. However, growth of semiconductor prices slowed significantly in 2018 on the back of increased supply and weaker demand, and was at a 25-month low in its latest reading. With global semiconductor sales forecast to weaken further in 2019 and keep semiconductor prices in check, the cyclical downturn in tech export growth will persist this year.

Developments in China loom large for the ASEAN region, as it is the top export destination for most ASEAN economies. Already, there are signs that China's export sector is cooling, with exports dipping in December for the first time since February 2017. China's manufacturing PMI is close to its lowest level in almost three years.

Notably, new export orders in China have been falling since May to a 37-month low. This downturn is likely to filter through the supply chain in 2019, and the ASEAN region will not be immune. Growth of electronic exports from the region has been in a cyclical downturn since mid-2017. The outlook for ASEAN's electronic exports is not bright (see Chart 3).

The Philippines, Malaysia, Singapore and increasingly Vietnam are the most exposed to the tech cycle in Southeast Asia, with electronics or components their largest manufactured goods export to China, a high proportion of which are for further assembly. Thailand is also exposed, albeit to a lesser degree (see Chart 4).

The importance of tech-producing industries to Southeast Asia has significantly increased in the past two decades. For instance, Malaysia's tech exports to China increased from 4.6% of total merchandise exports in 1995 to 40% in 2017. These exports are a key cog in the supply chain, as they are mainly parts and components for electrical and electronic goods.

Elsewhere, high-value-added products play a less dominant role. For example, Cambodia's manufacturing has grown based on clothing and textiles, of which exports to China have increased in importance from less than 1% of exports in 1995 to almost 30% by 2017 (see Chart 5).

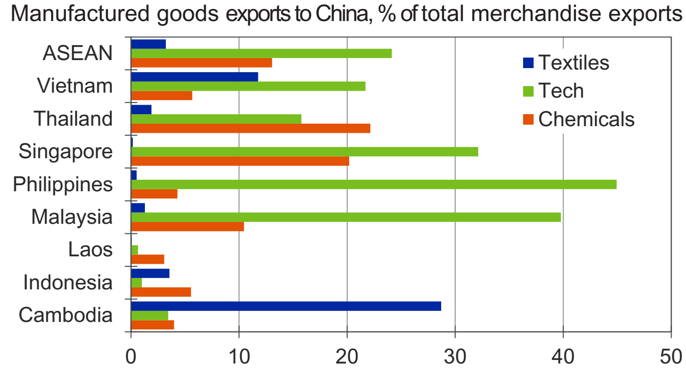
Unlike much of the region, Indonesia has a large primary commodity sector. Mining and utilities output has accounted for around 12% of GDP since the late 1980s. Oil and gas account for around 40% of Indonesia's mining and utilities output and 1.5% of global crude oil and natural gas production.

The growth of manufacturing in Indonesia has differed from elsewhere in Southeast Asia. Production in Indonesia has focused on food, tobacco and textiles, rather than elaborately transformed manufactured goods. Issues holding the manufacturing industry back include poor infrastructure and red tape, as well as protectionist policies such as local content requirements and foreign investment and ownership limits in certain industries. Thus, primary commodity exports dominate in Indonesia. Laos also primarily exports natural resources (see Table 1 in the Appendix for a detailed breakdown of manufacturing exports in the region).

Should the trade war between the U.S. and China persist, a number of countries in Southeast Asia are likely to benefit longer term from the offshoring of production from China. For instance, Vietnam is already an increasingly popular destination for foreign investment in manufacturing, thanks to a steady improvement in the business environment, an increasingly educated workforce, and government incentives to encourage investment. Industries that the Vietnamese government has prioritized for development include high-tech manufacturing, textiles

Chart 5: …And Tech Is a Key Driver

Manufactured goods exports to China, % of total merchandise exports



Sources: UNCTAD, Moody's Analytics

and apparel, automobile assembly, and information technology. Thailand, with its strong automotive manufacturing base and push to develop its eastern seaboard into an advanced industrial and trade hub, would also benefit. Malaysia would be attractive, given its established manufacturing base and government incentives to promote high-value-added manufacturing such as advanced electronics. The Philippines, although still better known for its business process outsourcing industry, could also attract more manufacturing investment in coming years as its infrastructure improves, while Cambodia, with its youthful and low-wage workforce, is likely to remain an attractive destination for lower-value-added manufacturing, such as textiles and apparel.

Tighter financial conditions

For a handful of central banks in Southeast Asia, monetary tightening came into view earlier than expected as the need to stay on the front foot to stem capital outflows and shore up external positions increased. Bank Indonesia was amongst the most active in the region, delivering hikes totaling 175 basis points since mid-May, in addition to the government restricting imports, engaging in currency intervention, and encouraging domestic fuel consumption.

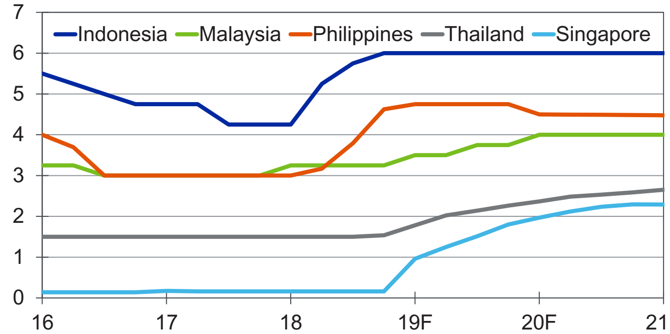
The only reason that BI has calmed its aggressiveness of late (the most recent 25-basis point rate hike was in November) is that the U.S. Federal Reserve is looking more dovish in 2019. Expectations of the magnitude of interest rate hikes have been reduced, ensuring that emerging markets are not under the same pressure as last year.

That being said, Indonesia's policy path forward is still uncertain. BI Governor Perry Warjiyo said in January that rates are near the peak, but it is too early to say the tightening cycle is over. It is also premature to suggest that interest rate cuts are on the near-term horizon. BI has been clear as day when it says that its own monetary policy developments are heavily exposed to the U.S. path, which is not set in stone. Domestic demand has held up relatively well and lending rates have not followed the same aggressive upward climb, reducing our already-low expectations for interest rate cuts.

Elsewhere, amidst surging inflation, the Philippine central bank was equally aggressive in tightening interest rates. Excise-tax hikes, food shortages, higher oil prices, and a weakening peso increased price pressures noticeably in 2018. Bangko Sentral ng Pilipinas responded with a cumulative 175-basis point hike in 2018, which together with improving food supply and the fading impact of excise-tax increases is likely to help tame inflation further in 2019. Expectations of further cooling in price growth should allow some easing of monetary policy in the latter half of this year.

Chart 6: Gradual Monetary Tightening

Monetary policy rate, %



Sources: Central banks, Moody's Analytics

Gradual policy tightening

The Bank of Thailand raised its key policy rate by just 25 basis points to 1.75% in December, the first rate hike since August 2011. Although the rate hike was expected, this increase was largely motivated by financial stability concerns and the need to create policy space to cushion against unforeseen shocks, rather than to keep price pressures in check.

Indeed, recent economic data have been on the soft side and consumer prices rose just 1% in 2018, at the low end of the central bank's 1%-to-4% target range. The December rate hike likely marks the start of a modest rate hike cycle, which should leave the key policy interest rate still relatively accommodative while helping to slow the buildup of household debt (see Chart 6).

The Monetary Authority of Singapore tightened monetary policy in 2018 for the first time in six years. As a highly open economy reliant on external trade, Singapore conducts monetary policy by managing the Singapore dollar against an undisclosed trade-weighted basket of currencies, rather than by setting interest rates. The trade-weighted Singapore dollar is managed within a policy band, which MAS reviews semiannually. With price pressures creeping up and the Fed normalizing interest rates last year, MAS increased the slope of the policy band twice in 2018, while it left the width of the band and the level at which the Singapore dollar is centered unchanged. MAS's measure of core inflation, which strips away accommodation and private road transport prices, accelerated in 2018 and could pick up further in 2019 on the back of a firmer labour market and higher import prices. However, we expect core inflation to stay relatively mild, suggesting any further monetary policy tightening in April or October is likely to be modest.

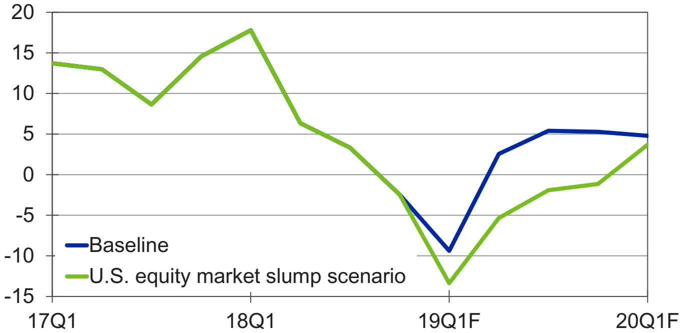
Elsewhere, Bank Negara Malaysia is not in a hurry to normalize policy settings further after delivering just one 25-basis point hike in 2018. Subdued inflation since the elimination of the goods and services tax in June means that the central bank can remain on the sidelines for some time. We expect that rate hikes will not come into view until early 2020.

Vietnam's tighter lending standards

Rather than raising interest rates, the State Bank of Vietnam will continue to restrict lending to higher-risk sectors including real estate, securities and consumer credit in 2019. The central bank raised its lending standards in the second half of 2018 to curtail credit growth and will continue this policy to remain near SBV's 14% credit growth target for 2019 (lower than the 17% target set in 2018). This by no means signals a significant credit crunch and is merely a necessary measure to safeguard asset quality and

Chart 7: Vulnerable to a U.S. Equity Slump…

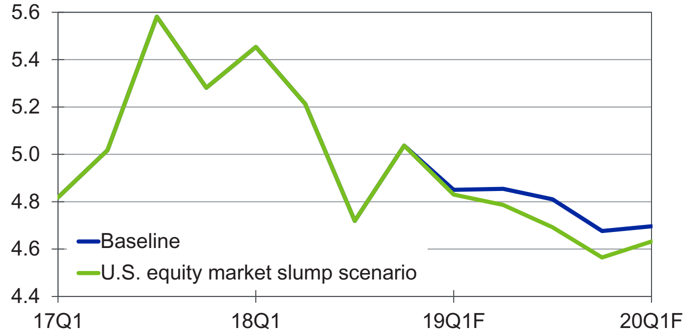
ASEAN weighted equity market, % change yr ago



Sources: National statistical offices, Moody's Analytics

Chart 8: …Growth Is Also Impacted

ASEAN weighted GDP growth, % change yr ago



Sources: National statistical offices, Moody's Analytics

keep the volume of nonperforming loans in check. Nonperforming loans have long been an issue for Vietnam's banking sector dating back to the 2012 near-crisis before SBV stepped in. Because of past issues with poor oversight and unmanageable credit growth, SBV is more inclined to err on the side of caution regarding credit expansion.

Inflation is forecast to remain near SBV's 4% target for 2019 after clocking in at 3.5% in 2018. Vietnam's dong has been relatively stable—in part because of the country's positive current account—depreciating only 1.5% in 2018, an impressive feat considering the volatility in global financial markets last year.

Vulnerable to offshore ructions

Global equity markets across Southeast Asia had a rough ride in 2018 as adjustment to tighter U.S. monetary policy made emerging market assets less favourable. The U.S.-China trade war also dragged markets to the downside, as did China's domestic economic slowdown.

Although the outlook for U.S. monetary policy is looking less hawkish in 2019 and the trade war appears less of an issue, there are no guarantees that the equity market performance so far in 2019—the Standard & Poor's 500 Composite Index increased by around 5% year to date—will be sustained. Indeed, financial markets remain on edge and risks are weighted to the downside.

We used the Moody's Analytics global macro model to simulate the impact on Southeast Asia of the S&P 500 Composite falling by 10% in the March quarter of 2019 and a further 5% in the June quarter. We did not incorporate a rebound in this scenario, unlike previous equity market routs, and while this is an extreme circumstance, it is a useful exercise to demonstrate interdependence (see Chart 7).

Holding all else steady, we found that Southeast Asia's weighted equity market was 4.8 percentage points lower than the baseline in 2019 with a drop of 5.6%. In this scenario, GDP growth is slower by 0.1 percentage point at 4.7% in 2019. In practice, the results could be more severe, as secondary impacts such as sentiment are difficult to capture in the model (see Chart 8).

Stocks may impact GDP through a number of channels. A sharp slump in equity prices coincides with bearish investor sentiment, with firms pulling back on employment and investment, and financing is harder to come by. Weaker consumer spending follows, as employment drops while uncertainty about future economic conditions grows. Wealth effects are also at play from direct and indirect stock holdings. Slower GDP growth has far-reaching consequences, including on incomes, employment, consumption and investment.

Political risk

There will be a relatively large number of elections in Southeast Asia in the first half of 2019. Though politics can influence the region's economic outlook, it should be noted that the surprise outcome of Malaysia's election last year ultimately generated little change in investor sentiment, even as the new government tightened fiscal conditions in an effort to rein in debt. This was a potent sign that elections, if deemed free and fair, may cause an adjustment in the path of economic growth but should not generate significant volatility or uncertainty.

The political climate in Thailand is the most uncertain. Almost five years since Prime Minister Prayut Chan-ocha rose to power in a military coup in 2014, Thailand's return to civilian rule remains unclear. General elections have been postponed four times since then and are now slated to take place on 24 March. The Election Commission made its most recent delay in January, suggesting the leaders are not confident about achieving a favourable outcome. This is despite recent moves to ensure the military's influence over future proceedings. Constitutional amendments were approved in 2017 that effectively ensure the military's control over future elected governments. In addition, future governments are legally bound to follow the junta's strategy for Thailand for the next 20 years.

Bouts of political instability have undermined the Thai economy for more than a decade. Frictions between the urban/elite yellow shirts and rural/populist red shirts have subsided in recent years but may ratchet up as elections continue to be delayed. Already, protests have increased, threatening to undermine confidence and private investment, which has improved only recently.

Indonesia's general election is scheduled for 17 April and will focus heavily on domestic issues, including corruption. The incumbent government led by President Joko Widodo is in good stead, with numerous polls putting him comfortably ahead of Prabowo Subianto, implying that ultimately there will be little change to the status quo. Whatever the outcome, the task ahead will be to streamline bureaucracy and improve the climate for foreign investment, and to continue investing in infrastructure improvement and human capital.

Despite a violent anti-drugs campaign, the implementation of controversial tax changes in 2018, and a more challenging economic environment, Philippine President Duterte remains a popular leader, with an approval rating at 81%, not far from 91% just after he assumed office in mid-2016. Duterte's allies thus enter May's midterm elections, which are considered a referendum on Duterte's presidency to date, with positive momentum. This could prove crucial for the second half of Duterte's six-year term, as the midterm elections will determine the legislature's balance of power.

Half of the 24 Senate seats are up for grabs. As things stand, Duterte has the s upport of 17 senators. However, with nine of those senators up for re-election, Duterte needs to ensure that his allies win at least five of the 12 available seats to security a majority in the upper house. This will be critical for the next three years of his presidency, as it will allow Duterte to implement his agenda, such as further tax reform, which is crucial for his infrastructure development plans. However, 152 candidates are running for the 12 Senate seats, and there are no guarantees that the elected senators will be loyal to Duterte. Thus, although this is only a midterm election, a lot is on the line.

Summary

Southeast Asia's economies are poised for another year of solid growth in 2019. While some economies will fare better than others amidst the deepening slowdown in global growth and a slowdown in the tech cycle, the growth outlook remains positive. The region's strongest GDP growth will remain in the Philippines and Vietnam with growth forecast to continue above 6% annually. Malaysia, Singapore and Thailand will endure slower conditions in 2019 and 2020, as the peak in global demand has passed and their important export-oriented manufacturing engines are exposed to the slower conditions. Indonesia's economy will enjoy a spending lift ahead of the April elections, where the government led by President Joko Widodo is expected to retain power.

Moody's Analytics forecasts the ASEAN's GDP growth to hit 4.8% in 2019 and 4.5% in 2020, following the estimated 5.1% expansion in 2018. However, risks are tilted to the downside, and include tightening global financial conditions, a sharp reversal of capital flows, increased trade protectionism, and a sharper than expected slowdown in global demand.

Appendix Table 1: Exports to China by Country

% of total merchandise exports by country to China

	1998	2003	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Cambodia												
Primary commodities	13.8	50.1	62.3	61.6	68.5	61.9	38.0	51.7	52.5	20.6	17.1	20.0
Manufactured goods	86.2	49.8	33.3	36.9	31.1	37.6	61.5	48.2	47.5	79.3	82.9	79.6
Chemical products	0.0	0.3	0.3	0.1	1.1	1.1	2.3	1.3	1.8	2.8	8.6	4.0
Tech	0.0	0.1	0.0	0.2	0.1	0.0	0.2	0.5	0.9	5.8	2.5	3.4
Textiles	4.5	16.6	33.4	33.2	27.7	33.9	46.3	36.9	31.5	31.0	27.8	28.7
Indonesia												
Primary commodities	52.7	60.6	82.9	80.8	82.2	83.1	84.1	82.6	74.2	74.8	72.8	72.4
Manufactured goods	42.5	39.4	17.1	19.2	17.8	16.9	15.9	17.4	25.8	25.2	27.2	27.6
Chemical products	6.8	14.4	6.1	6.5	8.1	9.3	6.4	7.6	12.4	7.0	7.0	5.6
Tech	0.5	3.4	3.1	2.9	2.4	1.7	1.5	1.2	1.4	1.4	1.3	1.0
Textiles	3.3	4.4	1.5	1.6	2.0	1.7	2.1	2.5	3.5	4.5	3.7	3.6
Laos												
Primary commodities	99.1	98.4	96.6	98.3	99.1	99.1	98.8	98.8	97.9	78.9	74.1	82.8
Manufactured goods	0.9	1.6	3.4	1.7	0.9	0.9	1.2	1.2	2.1	6.7	4.2	5.1
Chemical products	0.4	0.0	1.0	0.5	0.4	0.1	0.4	0.3	1.6	6.1	3.5	3.1
Tech	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.1	0.7
Textiles	0.0	0.9	1.4	0.5	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1
Malaysia												
Primary commodities	48.0	34.7	33.2	26.8	28.1	34.1	30.2	35.9	31.3	36.1	33.4	37.5
Manufactured goods	51.1	64.8	41.5	73.0	71.7	65.7	69.6	63.8	68.5	63.7	66.4	62.3
Chemical products	6.9	11.3	7.9	7.9	8.4	8.7	9.9	10.6	10.2	10.3	11.8	10.5
Tech	18.8	37.4	21.1	52.9	49.3	44.2	44.4	39.9	44.1	40.1	41.0	39.8
Textiles	2.5	1.0	0.8	0.8	0.9	1.4	1.1	1.1	1.1	1.2	1.3	1.3
Philippines												
Primary commodities	52.3	17.6	9.7	20.1	17.6	21.1	21.1	32.1	36.8	22.0	21.9	24.6
Manufactured goods	47.7	82.4	90.3	79.9	55.0	55.4	78.9	67.9	63.2	78.0	78.1	75.4
Chemical products	2.2	1.3	1.6	3.9	4.1	3.6	3.6	2.5	5.1	4.3	4.4	4.3
Tech	32.6	74.5	82.4	67.2	44.9	46.1	50.5	45.1	43.7	55.5	56.8	44.9
Textiles	1.1	0.4	0.4	0.7	0.5	0.6	0.5	0.6	0.6	0.5	0.6	0.5
Singapore												
Primary commodities	25.3	16.6	20.0	19.4	20.2	22.8	20.2	16.9	15.0	15.0	17.9	26.8
Manufactured goods	73.8	83.2	78.3	78.8	78.8	76.2	78.6	81.5	83.8	84.3	81.3	72.7
Chemical products	13.5	20.7	14.3	16.3	18.6	19.6	19.6	21.1	23.1	20.9	20.8	20.2
Tech	36.7	42.5	43.9	40.4	41.4	35.7	36.9	40.1	38.1	40.5	37.6	32.1
Textiles	0.5	0.6	0.2	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Thailand												
Primary commodities	40.1	36.1	31.9	29.0	30.2	35.9	35.3	38.3	35.6	36.6	36.6	37.6
Manufactured goods	58.8	63.3	68.1	71.0	69.8	64.1	64.7	61.7	64.4	63.4	63.4	62.4
Chemical products	9.8	13.5	13.1	17.0	18.3	20.7	22.6	25.6	26.6	22.2	19.9	22.1
Tech	32.6	29.5	39.2	36.7	31.4	22.2	21.5	15.1	14.9	17.7	16.2	15.8
Textiles	4.8	3.2	1.6	1.7	1.9	1.7	1.5	1.9	2.0	1.9	1.9	1.9
Vietnam												
Primary commodities	82.9	80.1	69.7	65.9	58.0	62.2	54.8	50.5	44.9	37.2	37.5	40.8
Manufactured goods	9.6	14.6	25.5	27.3	37.2	34.1	42.9	49.5	55.1	62.8	62.5	59.2
Chemical products	9.4	3.5	4.3	5.3	6.3	5.6	7.8	7.7	7.1	7.0	4.5	5.7
Tech	0.0	2.2	7.0	6.3	9.9	10.1	16.7	20.4	18.4	21.5	24.0	21.7
Textiles	0.0	2.3	3.6	5.4	6.4	7.0	7.5	10.2	12.3	13.0	11.8	11.8
ASEAN												
Primary commodities	38.5	33.1	36.0	35.5	35.9	41.7	39.2	39.9	35.4	35.3	36.4	40.8
Manufactured goods	59.9	66.3	57.8	63.4	62.1	56.6	60.2	59.5	64.0	64.2	63.2	58.9
Chemical products	10.0	14.5	10.2	11.8	13.0	13.8	14.1	15.2	16.6	14.3	13.4	13.1
Tech	25.7	34.2	32.8	35.6	33.3	27.2	28.2	27.3	27.9	28.9	27.3	24.1
Textiles	2.1	1.6	1.0	1.2	1.3	1.6	1.6	2.0	2.4	2.8	3.1	3.2

Notes: Primary commodities include precious stones and nonmonetary gold.
Tech includes electronics and parts and components for electrical and electronic goods.
Textiles includes fibres, yarn, fabrics and clothing.

Sources: UNCTAD, Moody's Analytics

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