



BUSINESS REPORT

Monthly

S. ASEAN INTERNATIONAL ADVOCACY & CONSULTANCY (SAIAC) | Indonesia | Singapore | Laos | Philippines | Malaysia

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| HEDGING THE FUTURE

Fear from pain of a Covid19 virus pandemic are beginning to outweigh the fear of the pain of an economic dip, this is the recent adjusted compromise and reality that we see globally. Governments are easing lockdowns, semi lockdown and allowing businesses to re-start the engine. From past months, our team at S. ASEAN International Advocacy & Consultancy (SAIAC) assess the damage globally, both post Covid19 and the restorative price that needed to be paid for the re-ignition. A million-dollar question for us in the business world is that, *can our governments “hedge” the future to secure a sound economic re-bound?*

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Shaanti Shamdassani
CEO & President SAIAC

We have seen a sharp slowdown not just in countries around Southeast Asia, but globally (recent forecast from World Bank and the Asian Development Bank) points towards a meek future. The International Monetary Fund (IMF) projects ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand, and Vietnam) plummeted growth to -0.6% in 2020, down from the earlier forecast of +4.8%, while many private firms forecasts a bleaker picture projecting a declined growth of -1.5% for 2020.

In spite the increasingly pessimistic forecasts for the region, both the IMF and ADB project a strong rebound in 2021. The IMF projects growth for the ASEAN-5 to bounce back to +7.8 percent in 2021, while the ADB sees growth for Southeast Asia rebounding to +4.7 percent next year. In short, they see the global economic crisis brought on by the Covid-19 pandemic as a huge but relatively short-term shock. Only the “lower-case” scenario of the World Bank foresees a slower recovery, with the major ASEAN economies still in negative growth territory in 2021, again except for Vietnam. Below are the figures of decelerations in each country in 2020:

- > Thailand -4.8% to -6.7% (tourisms, droughts).
- > Malaysia and Singapore close to 0% growth, with Malaysia securing better potentials for rebound. IMF projections Singapore -3.5% and Malaysia -1.7% with Singapore’s further declined growth due to the threats of a second wave of infections.
- > Indonesia and Philippines see a sharp deceleration.
- > Vietnam maintains a decent growth of +2.7% (IMF) to +4.8% (ADB) and is expected to have a strong growth curve in 2021 (+6.8% to +7.0%).

| Southeast Asia – Where it hurts?

The economic hit from the Covid19 pandemic spreads globally, but not evenly. The disparities of severity and the areas of the hard-hit impact varies. The following areas are most notable:

1. Demand for the exports of palm oil or metals from Indonesia.
2. Manufactured components from Malaysia, Vietnam, and the Philippines.

3. Textiles from Cambodia.
4. Tourism in Thailand, Malaysia, Indonesia, Philippines, and Vietnam, eating one-fifth of the economy.
5. Singapore hit by the declined volumes of the trade war between US and China which started in 2019 and now furthered with the declining services, trade, and tourism.

The second pain points came about in the collapse in oil prices caused by the sudden drop in energy consumptions due to massive lockdowns and travel bans, Indonesia's coal and oil nearly comprise one quarter of exports, and Malaysia oil and gas makes up for 16% of exports, while Brunei, whose economy is almost entirely supported by exports of crude and natural gas (over 90% of exports) have to take the hardest hit.

The third was a drop in domestic demand due to lockdowns and other public health measures that causes a large multiplier effects, accounting to 60% of GDP in some of the major ASEAN economies, with Singapore being the exception.

The fourth hit hard on the areas of foreign investments and capital outflows. The capital outflows from emerging markets have totalled nearly to US\$ 100 billion, with Southeast Asian economies bruising the most. Indonesia has seen an outflow of US\$ 8.2 billion in capital as of March end, leading to currency depreciations by 14.5% year to date. While the Thai baht, Malaysian ringgit and the Singapore dollar were all depreciated by more than 4%.

| ASEAN & the Future Partners

ASEAN economies have a diversified set of trade and investment partners, including the United States, European Union, China, and intra-ASEAN trade. In normal times, this diversified portfolio of partners would provide a buffer for a regional economic downturn, but in this global pandemic all these partners are facing a halt to or dimming prospects for growth for the first three quarters of 2020:

1. China (+1 percent growth),
2. United States (-6 percent),
3. Japan (-4 percent),
4. Eurozone (-7 to -8 percent).

| Tech - the King

On the brighter side, the shift of economic activity to the cloud and the need for mobile tracking and other tech solutions to contain and respond to future outbreaks of the virus could benefit Southeast Asia, in particular countries like Singapore, Indonesia, and Vietnam, which are already on the leading edge of the mobile-app-based digital economy.

A global or regional shift in demand toward digital applications, and government policies designed to support this sector, could spur innovation and boost entrepreneurs working on the digital economy, which would brighten the growth and development prospects for Southeast Asian economies once we get to the other side of this global crisis.

Below is the future technology by country that will be available to the public in 2021 (courtesy source www.SCMP.com)

- > China achieves its aim of producing 40 percent of the semiconductors it uses in its manufactured electronics by 2020 and 70 percent by 2025. *Likelihood: 80%*.

- › Singapore rolls out an Intelligent Driving Circuit this year; it allows people to take driving tests without having an examiner in the car with them. This new circuit — the first in Southeast Asia — is trailed at the Singapore Safety Driving Centre. *Likelihood: 70%*.
- › The world's first air taxi service is launched in Singapore this year, with the goal of eventually making it a fully autonomous and affordable means of transport for the masses. *Likelihood: 60%*.
- › America's first exascale supercomputer, called Aurora, is now operational and will be used to accelerate data analysis for a variety of scientific disciplines. *Likelihood: 100%*.
- › Canada to contribute AI and robotics technology (and possibly astronauts) to the US moon mission starting this year. *Likelihood: 70%*.
- › 5G spectrum auctions to be sold between 2020 to 2021 to accelerate the build-out of a national 5G network. *Likelihood: 100%*.
- › 5G internet connectivity to be introduced into major Canadian cities between 2020 to 2022. *Likelihood: 80%*.
- › Ethereum's Casper and Sharding protocols are fully implemented.
- › Cost of solar panels, per watt, equals 1.1 US dollars.
- › World sales of electric vehicles reaches 7,226,667.
- › Predicted global mobile web traffic equals 36 exabytes.
- › Global Internet traffic grows to 222 exabytes.

| Fading Policy Stimulus

Moving towards 2021, governments in several economies around Southeast Asia will hit a lethargic point of stimulus packages. The fading policy stimulus and tighter financing conditions will further

weigh on investment growth and slow capital deepening, constrained by elevated public and private debt levels in many emerging markets. The next decade, countries with still-rising working-age population shares are expected to account for 38 percent of productivity output, down from 98 percent in the mid-2000s.

Many countries will have to contend with the fiscal cost of aging populations. The effects of climate change and new disruptive technologies could compound these challenges. Ambitious, credible reform agendas that improve productivity and boost human and physical capital are needed to raise potential growth. Productivity-enhancing reforms entail removing barriers to the reallocation of resources toward higher productivity firms and sectors, and stimulating the creation, innovation, and upgrades of individual firms. Investing in human capital and infrastructure could help unlock growth dividends and improve resilience to disruptive technologies and climate change. Potential growth during contractions financial crises or severe economic contractions affect potential output in several ways: reduced productivity-enhancing R&D spending because of weak profitability; more limited funding for technology absorption because of reduced credit supply; less access to bank lending for creative firms; a legacy of obsolete capacity; self-fulfilling expectations of weak growth prospects; human capital loss and reduced job search activity among the long-term unemployed; and lower labour wages will be the terms of the job giver. Governments in some of the Southeast Asian countries will take a slow step backwards in terms of providing stimulus and will focus more on addressing the core of economic challenges, that is job employments.

| The Satanic Business – Zero Tolerance (The Edge, Malaysia 1-7 June 2020 Edition)

On February 24, an industry worth US\$74 billion that employed 14 million people was shut down due to the Covid19 outbreak. This was not the “clean” global industry, this was the “dark” wildlife trading in China alone (turtles, foxes, deer, civets, all non-domesticated animals) where finally the Chinese authorities took actions for a total shut down.

Since the ban, over 20.000 legal wildlife farms have been closed, halting the sale of over 50 species of animals. In return, wildlife farms are now being offered the financial incentives to rear domesticated animals instead. It has also triggered a domino chain, with Vietnam now seriously considering banning the consumptions of wildlife.

This has the historic implications for ASEAN’s conservations efforts given that Southeast Asia, as one of the world’s biodiversity hotspots, supplies much of Asia’s demand for wildlife, both legal and illegal. If the ASEAN Economic Community (AEC), which currently does not have a homogeneous wildlife trading laws, can now emulate Chinas decision and implement a ban on its own multi-billion dollar wildlife trading industry, ASEAN will see its biodiversity are wildlife are protected and its people free from deadly diseases. Any smuggling activities will be severely punished.



This is important: the illegal wildlife trade is the world’s fourth most lucrative criminal trafficking enterprise (behind drugs, human trafficking, and arms) – generating US\$20 billion every year – and China’s illegal wildlife trade is particularly large, at 1237.6 tonnes of confiscated products from endangered species in 2019 alone. As a consequence of the crackdown, Southeast Asia’s criminal poachers and traffickers will see their business opportunity in China plummet, hopefully helping to

save ASEAN’s tigers, elephants, pangolins, tapirs, hornbills, agarwood, orchids and dozens of other rare animal and plant species.

Thus, as the COVID-19 dust settles, there is a window of opportunity for the AEC to put in place a robust mechanism for region-wide conservation: to work with China to crackdown on the extensive illegal wildlife trade in Southeast Asia, and to take the bold step of emulating the Chinese decision to ban all wildlife trade, including appropriate penalties for transgressions. Demand might be highest in China, but Southeast Asia is still readily supplying through illegal channels.

This is where the AEC steps in, with a duty of care to guarantee that ASEAN connectivity becomes inhospitable to wildlife traffickers. In the new reality of the post-COVID-19 world, the AEC must not only run a region-wide campaign to raise awareness among the public, it must redouble its efforts to actively protect Southeast Asian biodiversity from poaching and trafficking with a zero-tolerance policy.

| Agriculture Diplomacy

Vietnamese and Chinese trade promotion authorities held a joint virtual conference to discuss measures to boost Vietnamese agro-food exports to China, particularly the latter’s Yunnan province. The conference saw the attendance of 23 Vietnamese enterprises. The Director of the Vietnam Trade Promotion Agency noted that while trade between Vietnam and Yunnan province had seen positive

results, it has yet to meet its potential. Although both Vietnam and China have essentially contained their coronavirus outbreaks, trade activities between both countries have yet to return to normal.

Vietnam's Ministry of Agriculture has called for tighter checks on the exports of shrimp broodstock, shrimp post-larvae and aquaculture feed from China due to fears of an outbreak of decapod iridescent virus 1 (DIV1) in shrimp in China. Vietnam's anti-smuggling and trade fraud authority, as well as the northern provinces, have been tasked with intensifying border checks and inspections of the products from China. It is believed that DIV1 has caused massive losses in China, with an outbreak reported in South China in April 2020. This year's outbreak is reportedly worse than in previous years.

| REGIONAL NEWS

- › **Malaysia Allocate US\$104 million to Assist Entrepreneurs** - Malaysia's Ministry of Entrepreneur Development and Cooperatives (MEDAC) will allocate US\$104 million (RM452.8 million) to assist entrepreneurs affected by the COVID-19 pandemic under a business recovery plan which aims to support the stability of the country's entrepreneurial ecosystem. The allocation is expected to reach more than 21,847 micro entrepreneurs, small and medium enterprises, social entrepreneurs, start-ups, and cooperatives. The Entrepreneur and Cooperative Recovery Plan was tabled at a cabinet meeting on 6 May 2020. According to MEDAC minister Wan Junaidi Tuanku Jaafar, the plan consists of 30 programmes that will be implemented in two phases, namely the immediate measures from May to December 2020 and the medium-term from January 2021 to May 2021.
- › **Singapore announced a new US\$23.2 billion (\$33 billion) budget** - The Fortitude budget is aimed at providing jobs and helping workers and businesses through the COVID-19 pandemic. According to Deputy Prime Minister Heng Swee Keat, the Fortitude Budget aims to help businesses and workers adapt, transform, and seize new opportunities. The unveiling of the new budget comes as Singapore prepares to reopen its economy in three phases, following a "circuit breaker" period which took place for almost two months. Heng said as the country opens up, the government will continue to give more support to businesses which are not yet ready to reopen as well as workers still unable to resume work. He emphasised the need for the country to reopen safely and carefully. More details of the budget will be provided when parliament debates it at the next sitting on 4 and 5 June.
- › **The Philippine, 5% increase in Tariffs** – The government is assessing the need to implement a 5% increase in tariffs on all products to raise US\$4.8 billion (P245 billion) immediately for its efforts to fight COVID-19. Trade Undersecretary Ceferino S. Rodolfo explained that an across-the-board tariff increase is a reasonable option rather than targeting certain products, which could entail allegations of protectionism from trading partners. State officials are assessing how the hike would impact international agreements, and how the additional tariff on specific products, particularly essentials, would impact on inflation. Rodolfo said there should be little concern on the treaties, as the proposed action would affect all imports and not just specific goods. However, experts and business leaders fear that the cost of additional tariff would only be passed on by importers to consumers.
- › **Indonesia's Bali back on Tourism Spree in July** - Indonesia's national development planning minister Suharso Monoarfa stated that Bali is expected to reopen its tourism industry in July 2020, after businesses on the island were shut down for the last two months. The total number of COVID-19 cases in Bali remains at 420, with only four deaths. Bali's relative success in handling the pandemic was attributed to a well-defined leadership structure which included community leaders. Plans for reopening the economy and entering a new normal phase will

be implemented in stages. Measures will depend on criteria such as the basic reproduction number, which represents the number of new infections estimated to originate from a single case, falling below one, as well as the readiness of the healthcare system.

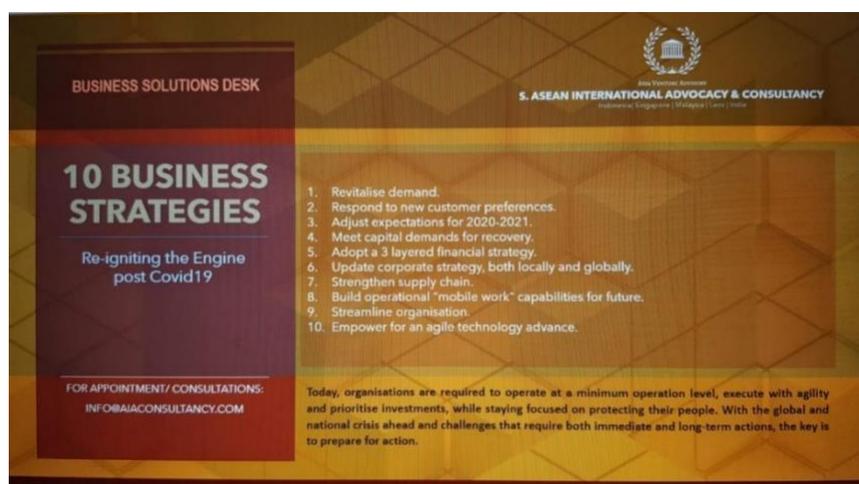
- › **Myanmar's Union Parliament approved a motion to borrow US\$925 million** – Myanmar's Union Parliament approved a motion to borrow US\$925 million from the Central Bank of Myanmar to cover budget deficits as government spending on economic and social recovery and healthcare is expected to increase due to COVID-19. The borrowing from the central bank is expected to cover 20% of the total deficit for the 2019/2020 fiscal year. Another 40% of the deficit will be funded from the sale of treasury bills and bonds. Myanmar has recorded budget deficits for the past five fiscal years but government borrowings from the central bank has been declining year-on-year due to income from the sale of bonds and treasury bills. During the 2015/2016 fiscal year, the government borrowed 84% of the budget deficit which then dropped to 27% during the 2018/2019 fiscal year.
- › **Vietnam's stock market, best performer** – Vietnam's stock market was Asia's best performer in May 2020, with its benchmark equity index having rallied 13% during the month. This was driven mainly by local investors, as foreign funds pulled out of risky assets. Vietnam's currency also rebounded by more than 1% after having slid to a record low in March during a global sell-off. This performance was in part due to the country's success in handling the COVID-19 outbreak, with the country expected to avoid a recession that will affect many of its Asian neighbours, according to the International Monetary Fund.
- › **Cambodia, first bank listing** - The Cambodia Securities Exchange (CSX), which opened in 2011, saw its first bank listing when Acleda Bank listed on the stock market on 25 May 2020. Cambodia's largest commercial bank became the sixth firm to join CSX, behind a garment factory, two state-owned ports, and a special economic zone. Acleda has been operating since 1993 and owns assets worth US\$7.5 billion. The initial fanfare for Cambodia's trading future has dimmed, with the country's lack of financial literacy and a dearth of eligible companies being major obstacles. The Business Research Institute for Cambodia questioned the timing of the initial public offering in the middle of the COVID-19 pandemic but Acleda's chairman and managing director In Channy downplayed the risks of debuting on the CSX during the pandemic, saying the bank would not have listed if there had been concerns.
- › **Laos gets additional US\$ 3.2 million Funds** - The US announced on 22 May its commitment of an additional US\$3.2 million in funding support from the US Centers for Disease Control and Prevention (USCDC) for the prevention, preparedness, and response activities in response to COVID-19 in Laos. The resources will be used for surveillance, laboratory capacity building, infection prevention and control, community mitigation, emergency response, and vaccine preparedness. The latest assistance is part of the US's long-term health collaboration with Laos. As part of that effort, USCDC has since 2006 supported Laos' Ministry of Health to prepare for and respond to past outbreaks such as avian and pandemic influenza, and currently, the COVID-19 pandemic.
- › **China moves Infrastructure with Laos** - Construction of the 15.2-kilometre tunnel on the Kunming-Vientiane Railway which will link Laos with China was completed on 25 May 2020. The Ganzhuang tunnel is in the southwest of China's Yunnan province, and is the first high-risk tunnel to be built along the railway line. The tunnel goes through eight geological faults with complicated geological conditions such as the deformation of soft rocks and noxious gasses. Construction on the tunnel started in 2016, and the entire railway line is expected to be operational by end-2021.

| Business Solutions Advise

The global economy has also taken a big hit, forcing monetary authorities to adjust their predictions for economic growth in 2020, and governments to look at stimulus packages.

Today, organisations are required to operate at a minimum operation level, execute with agility and prioritise investments, while staying focused on protecting their people.

With the global and national crisis ahead and challenges that require both immediate and long-term actions, the key is to prepare for action.



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