

ASIAN ECONOMIC OUTLOOK: RISKS AND UPSIDES

Economic Outlook Roundtable 2010

Brunei

3 Mar 10

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KEY TAKE AWAYS

Global recovery underway but patchy

§ Trajectory of recovery

§ 1H10: very much stronger than expected

§ 2H10: rising risks, mainly financial

§ Big changes in post-crisis world

§ Asia challenged but can out-perform

§ Implications

§ Caution!

GLOBAL IMPACT ON ASIA:

**RISKS ARE MAINLY
FINANCIAL**

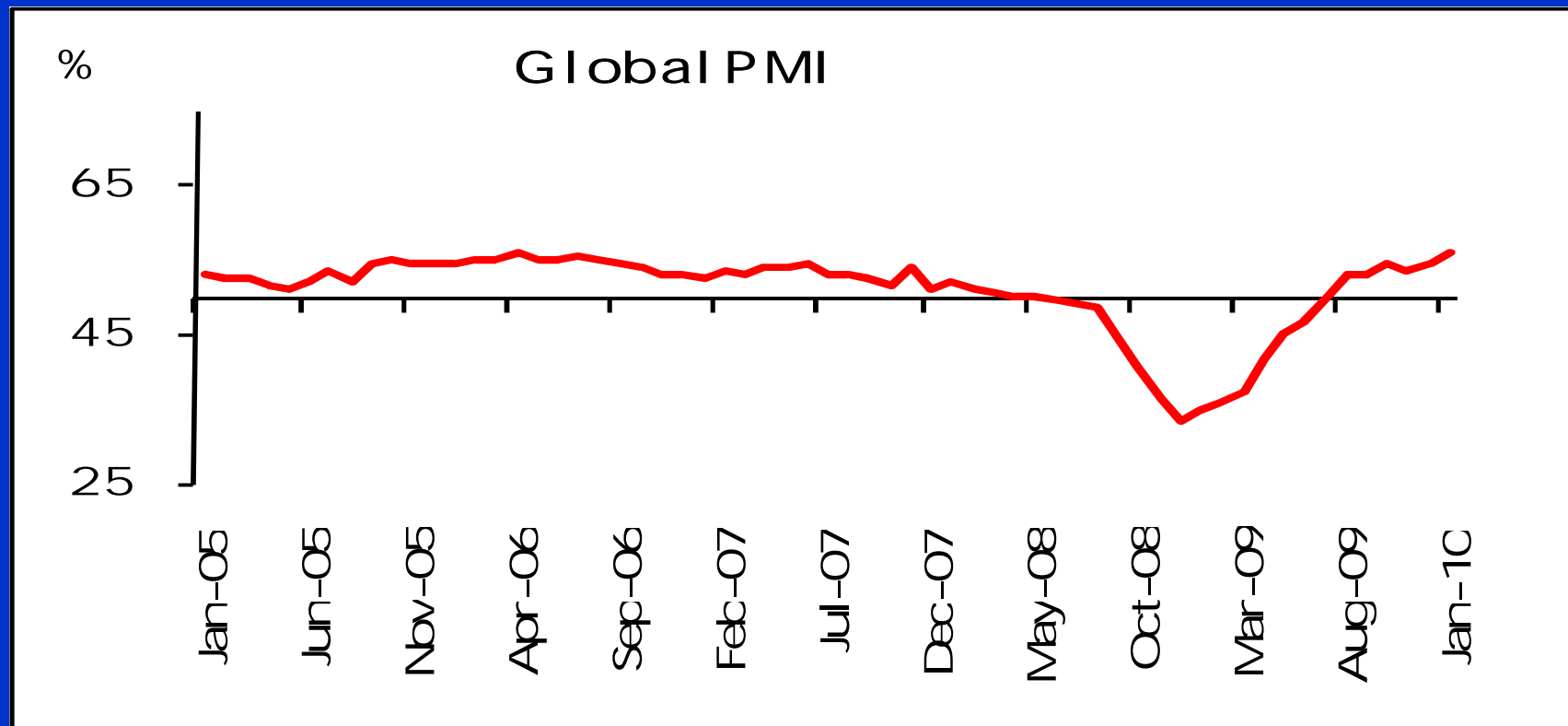
STATE OF GLOBAL ECONOMY

Strong recovery but not high quality

- § Economic data improving: why?
 - § Over-reaction to financial shocks Sep 08
 - § Orders etc cut for balance sheet reasons
 - § Trade finance disrupted
- § Chinese stimulus boosting demand
- § Huge liquidity boost

GLOBAL INDICATORS REBOUND

Plunge in global activity late 08 now almost reversed

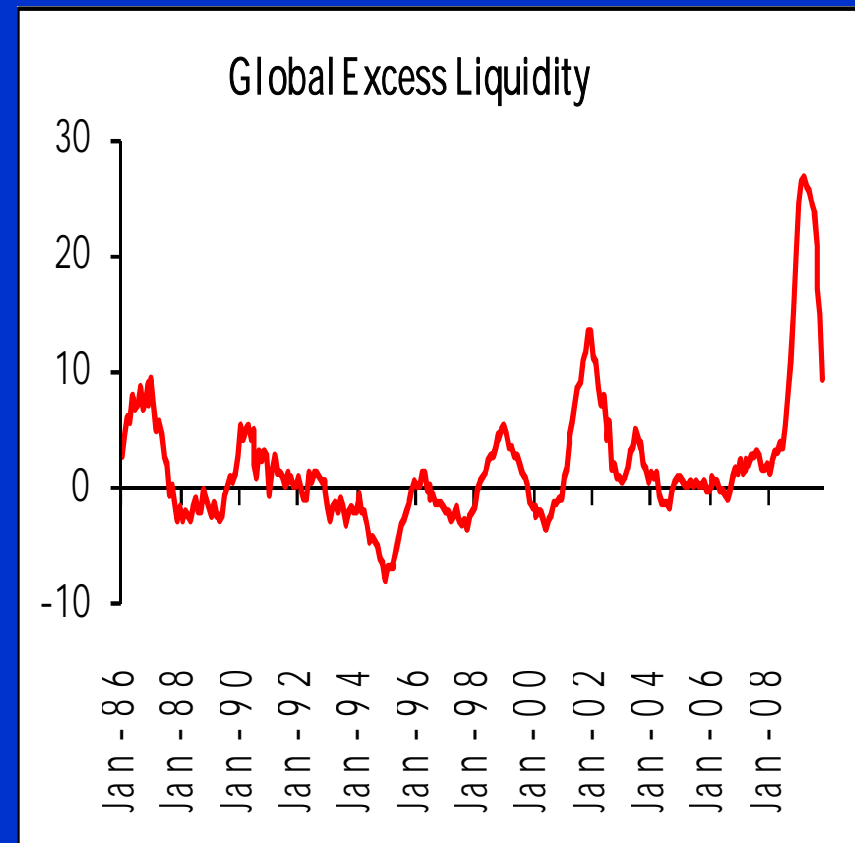
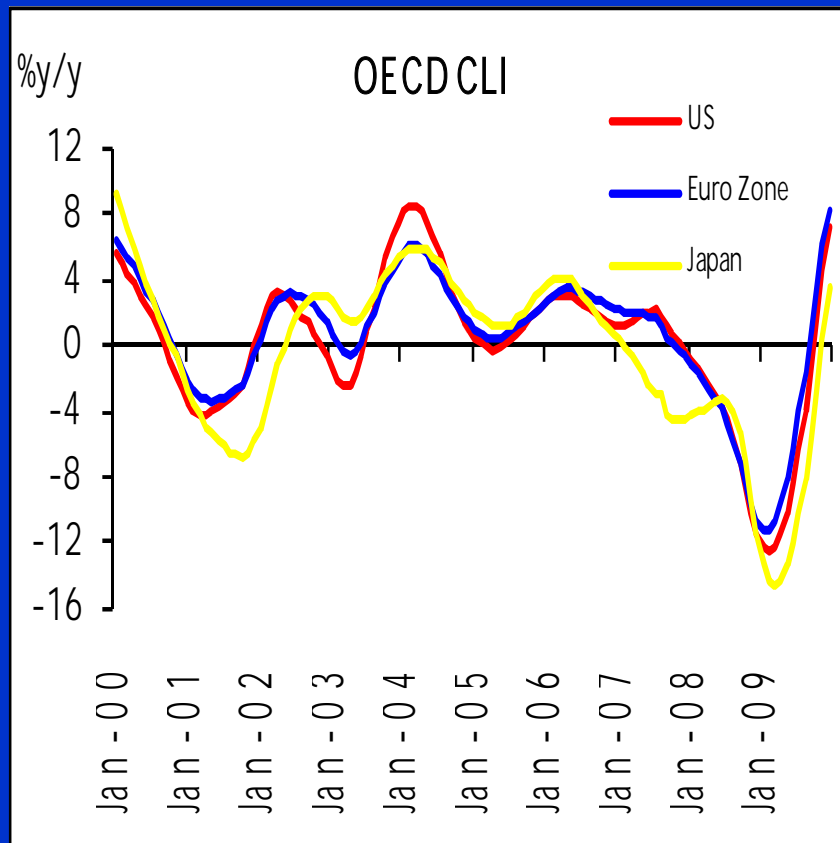


SHORT TERM LOOKS GOOD

... but is it sustainable?

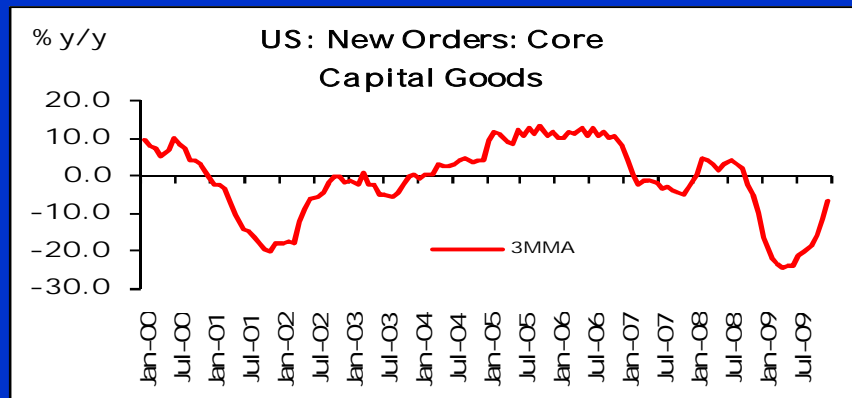
- § OECD lead indicators à bottom
- § Liquidity a key driver
- § Huge dependence on loose policy
 - § Which cannot be maintained long
 - § Fiscal: public debt concerns
 - § Monetary: inflation or currency concerns

GLOBAL OUTLOOK: BOTTLING

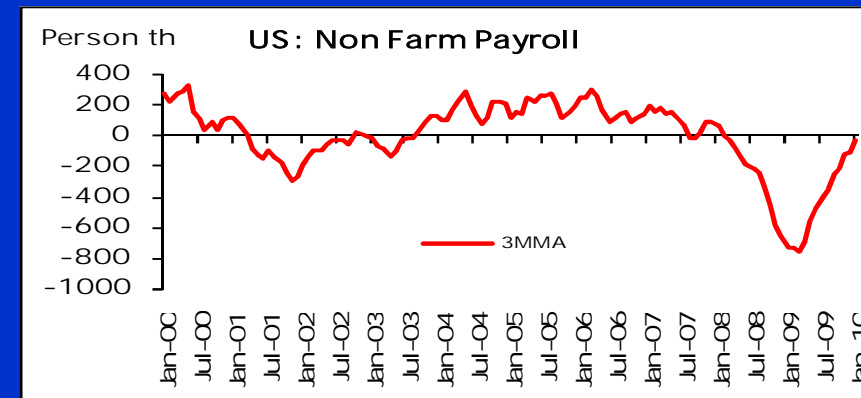
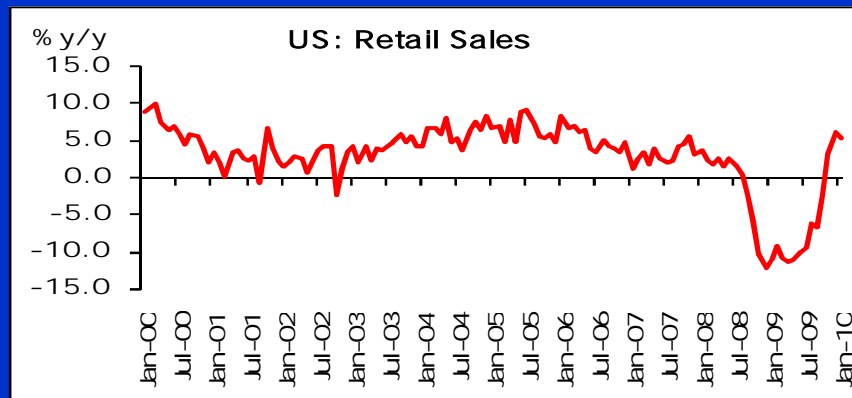
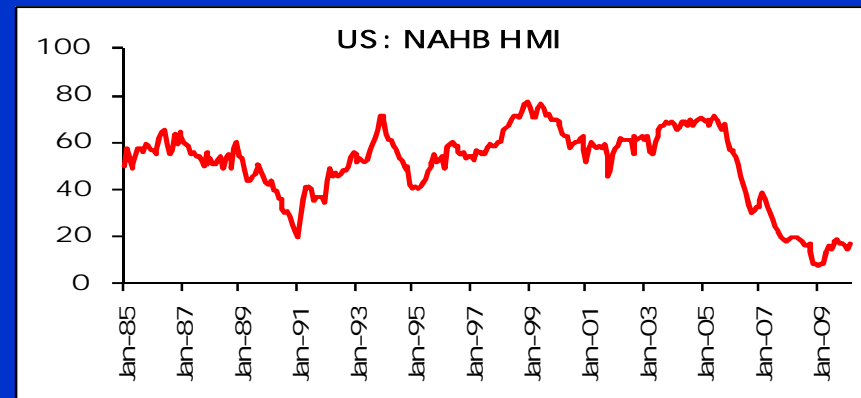


US: NOT OUT OF THE WOODS

Bottoming in investment and uptick in retail sales



US housing: stuck at bottom; Job declines ending



STRONG RECOVERY UNLIKELY

Strong headwinds to recovery

- § Oil prices rising
- § Financial shakeout not over
 - § Commercial property in US, UK,...
 - § Sovereign debt - Emerging Europe
- § Costs of policy come home to roost
 - § Massive fiscal debt à higher rates...
 - § Inflation fears?
 - § Currency turmoil

**POST-CRISIS GLOBAL
ECONOMY:**

**CHALLENGES FOR ASIA
REQUIRE ADAPTATION**

A CHANGED WORLD

Slower global growth

- § Higher oil prices
- § Rising savings rate G3
- § Higher cost of capital
- § Fiscal tightening
- § More regulation, taxes
- § Protectionism
- § Climate change costs

A CHANGED WORLD (2)

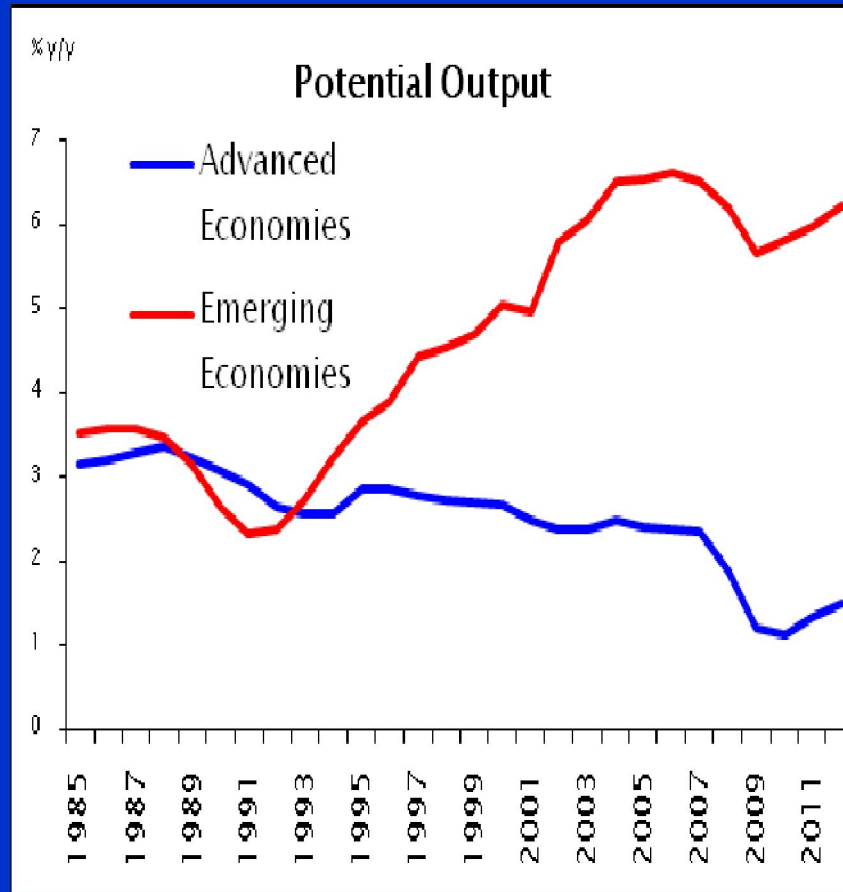
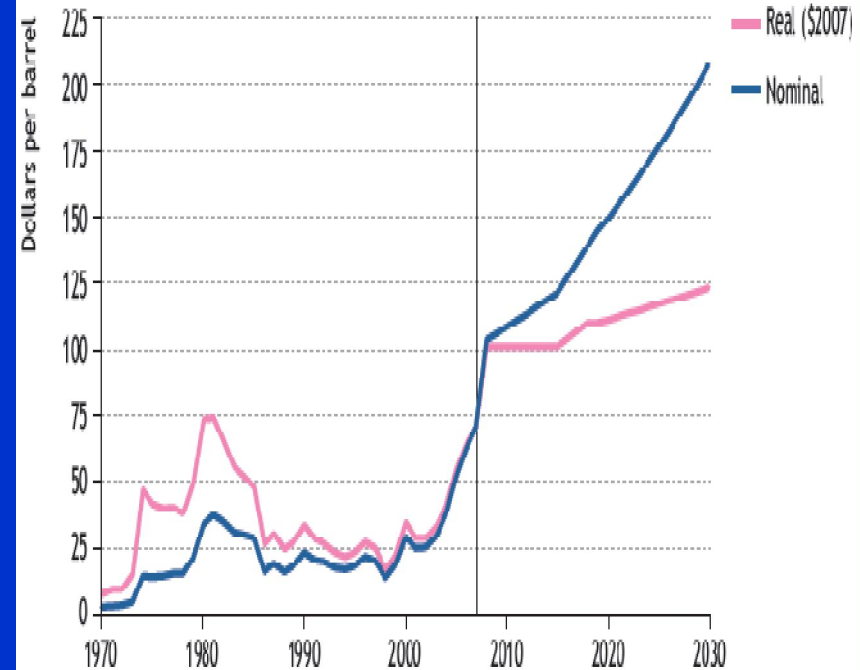


Figure 1.4 • Average IEA crude oil import price (annual data)



A CHANGED WORLD (3)

Major structural changes

- § Currency realignments
 - § USD: role and value down
- § Competitiveness shifts
 - § Rising currency, costs in Asia
- § Business trends
 - § Less outsourcing of manufacturing

ASIA

CLEAR RECOVERY IN 2010

IMPACT ON ASIA

Loose policy + export recovery = upturn

§ Lead indicators turning up

§ Domestic factors supportive

§ Easy money reversing credit crunch

§ Fiscal spending

§ Business confidence snapped back

§ Exports: strengthening recovery

§ Tourism: also up

§ FDI: slow recovery, gathering steam

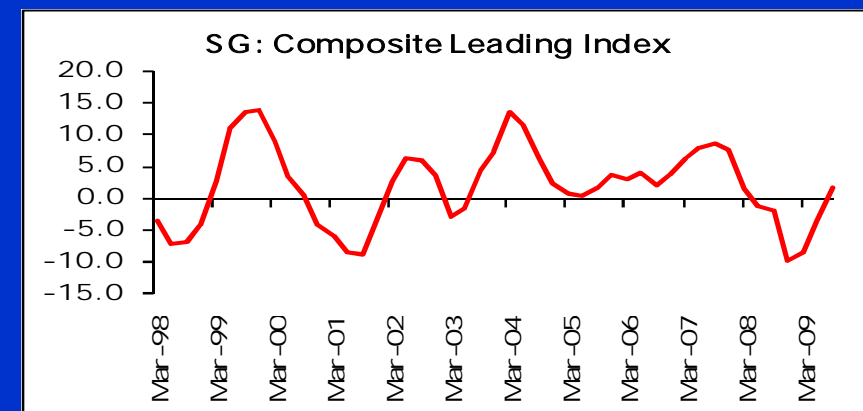
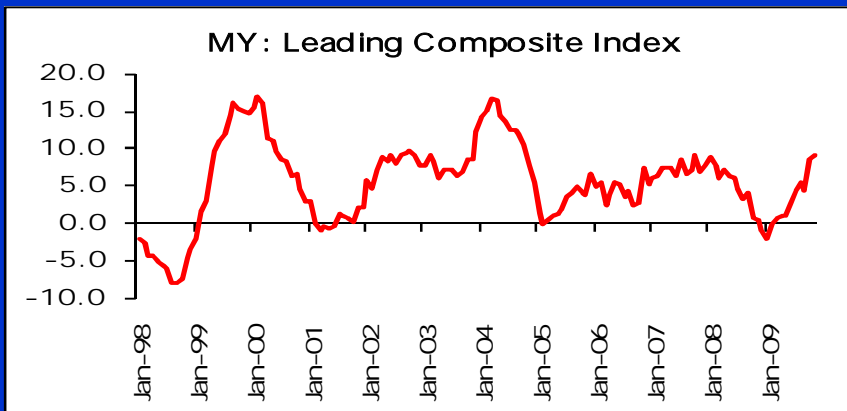
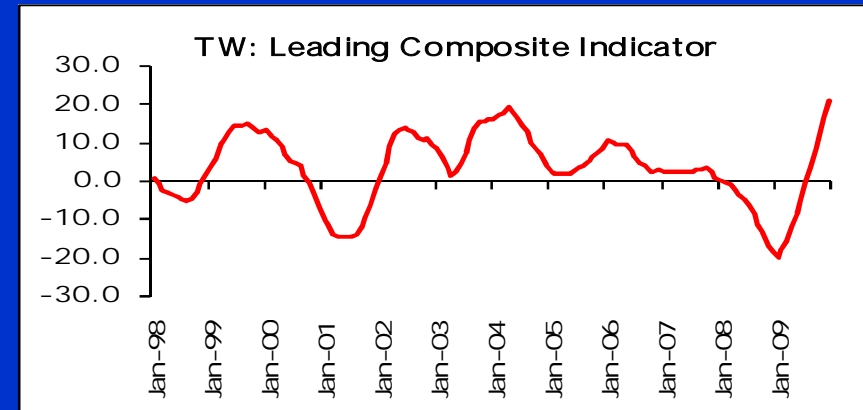
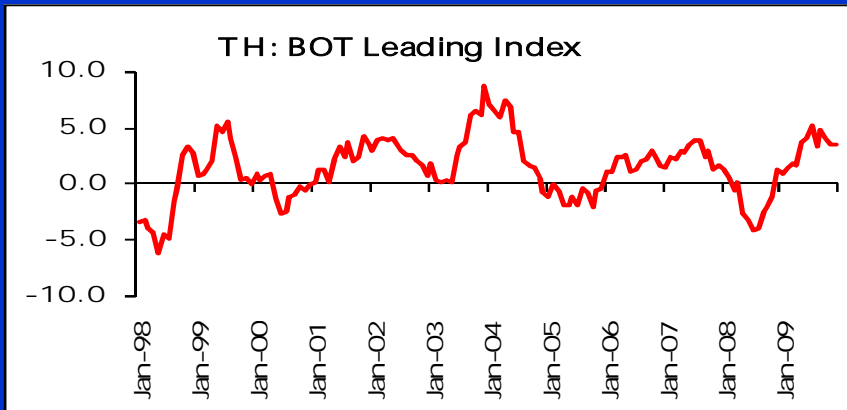
IMPACT ON ASIA (2)

Some challenges ahead

- § Likely inflows of capital
 - § Policy challenged – risk of asset bubbles
- § Chinese policy changes
 - § RMB has to appreciate again
- § New economic strategies needed

LEAD INDICATORS UP

Recent regional lead indicators → strong recovery in 2010

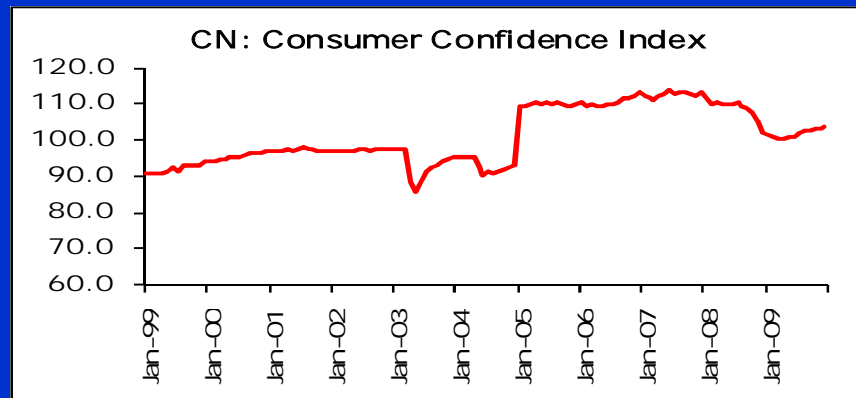
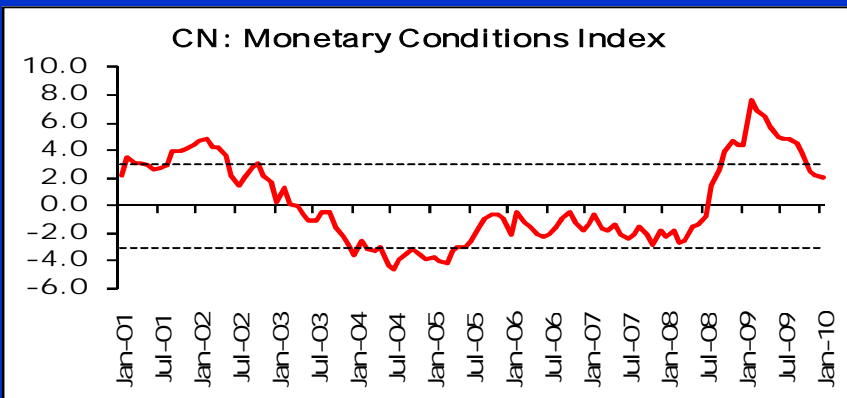
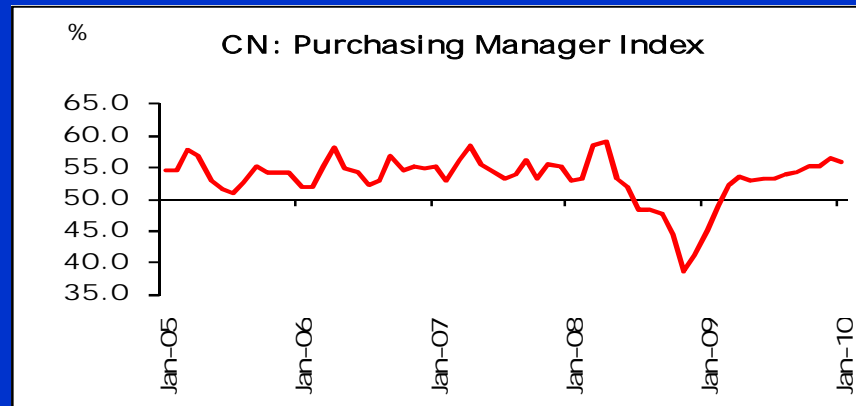
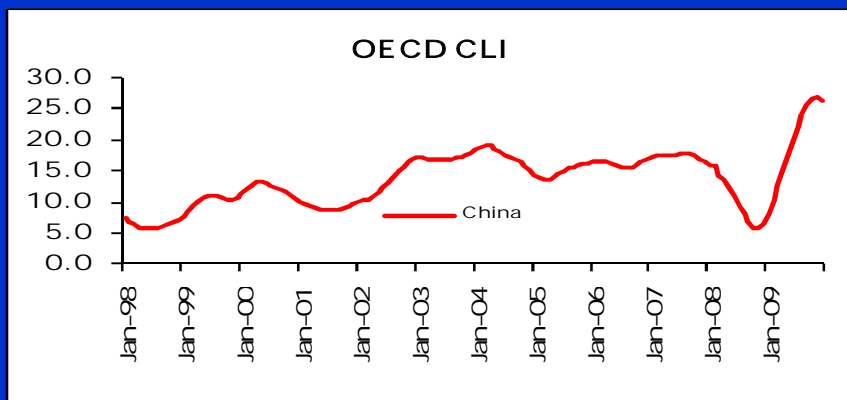


CAN CHINA SAVE ASIA?

- § Policy actions – too successful!
 - § Loan growth jumped
 - § Investment surging
- § Result: domestic demand up
 - § State sector growing sharply
 - § Asset markets booming, near bubble
- § External economy turning around
 - § Export recovery now accelerating

CHINA: OUTLOOK

Recent indicators à stimulus super-effective



WILL CHINA SAVE ASIA? (2)

Has China over-done stimulus?

- § Huge surge in lending poses risks
 - § Context: still-weak credit culture
 - § Diversion of loans to speculation
- § **Signs of bubbles**
 - § Equities spiked up, volatile
 - § Real estate up strongly
 - § Massive speculation in copper etc
- § Risk if serious tightening is delayed

WILL CHINA SAVE ASIA? (3)

China impact on Asia

§ Impact of stimulus

- § Investment boom, less consumption
- § à commodities, capital goods demand
- § Trade surplus will fall in 2010
- § SE Asia: imports β Chinese exports

§ Chinese policy changes

- § 2 hikes in reserve requirements, admin
- § RMB appreciation will resume

INDIA OUTLOOK

Many areas of resilience

- § Election boosted confidence
 - § But don't expect burst of reforms
- § Consumption holding up
 - § Short term: Govt stimulus measures
 - § Long term: structural rural improvements
- § Infrastructure being rolled out

INDIA OUTLOOK (2)

Continued challenges as well

- § Outlook improving despite some risks
 - § Bad monsoon hits rural/agriculture
 - § Corporate capex recovering
 - § Powerful supply side
- § Structural weaknesses remain
 - § Fiscal deficit too large – but good budget
 - § Populist policies are more appealing now

INDIA OUTLOOK (3)

Long term: 8.5% long term growth

§ Supply side is strengthening

§ Rise in investment rate

§ Resurgence in manufacturing

§ Demographic dividend

§ Mental Revolution

§ Long term constraints remain

§ Governance

§ Relations with neighbours

INDONESIAN OUTLOOK

Looking good but one worrying risk

§ Political risks at lowest in 10 years

§ President re-elected; Extremism contained

§ Scandals/cabinet changes risks continue

§ Outlook promising:

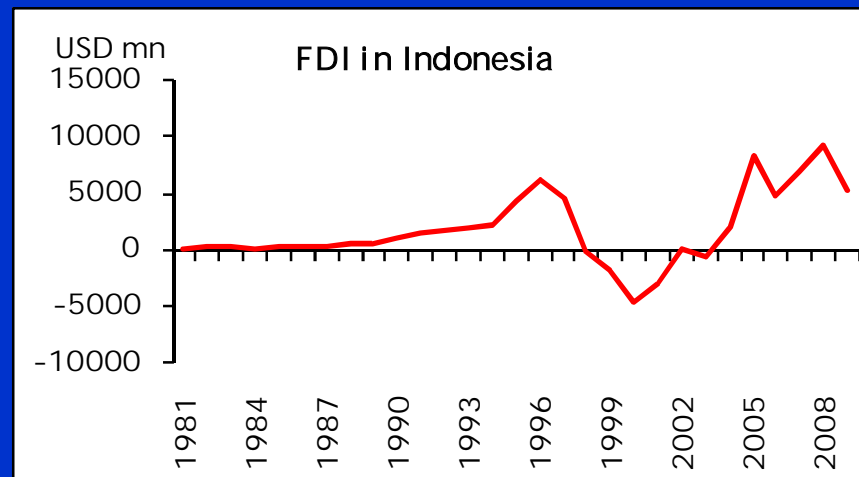
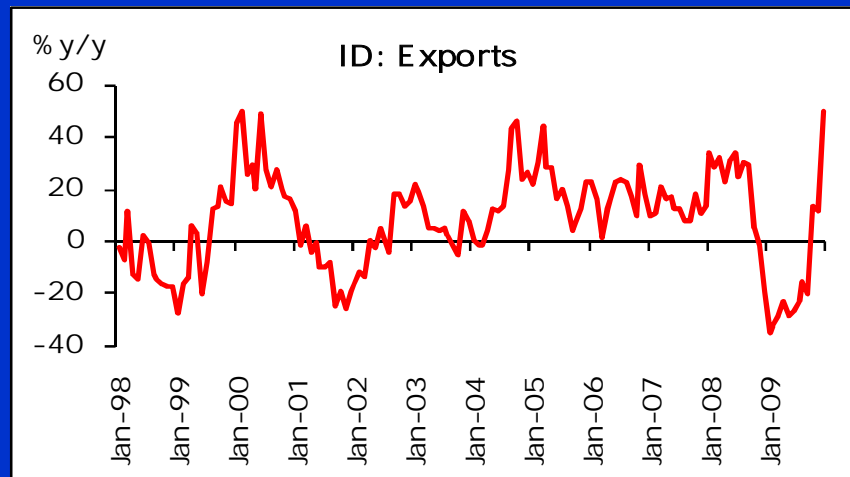
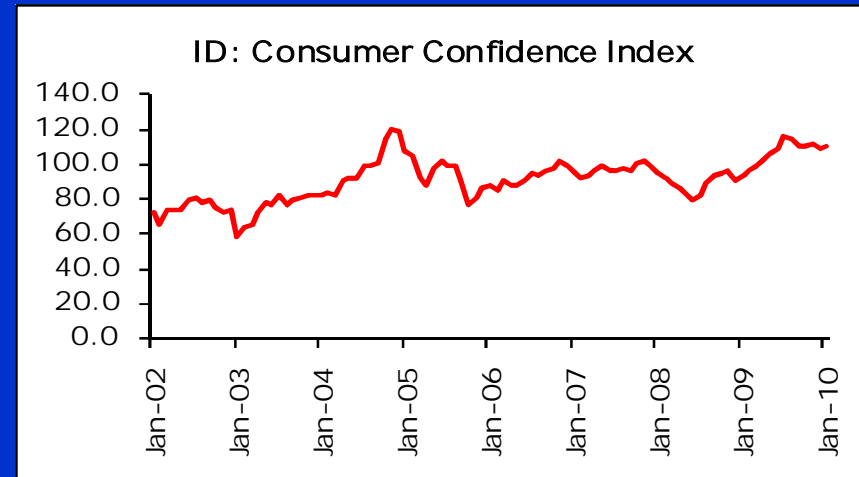
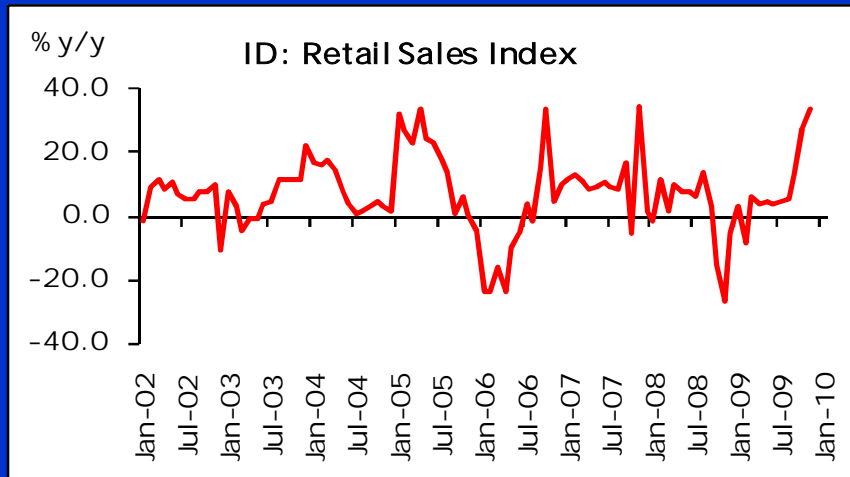
§ Underlying dynamic → long term acceleration

§ Consumer, construction, telecoms

§ Vulnerability – financial

§ Financial: small banks, Rupiah

INDONESIAN OUTLOOK (2)



MALAYSIA OUTLOOK

Exposed to world trade, long term risks

§ Short term: strong recovery

- § Lead indicators up very strongly
- § Exports recovering (slowly) → manufacturing
- § Policy is supportive
- § Govt liberalisation in 2009 boosted confidence
- § Chinese, Mid-East investors FDI

MALAYSIA OUTLOOK (2)

But vulnerabilities are rising

§ Rising political risks

§ Despite new PM's efforts

§ Fiscal deficits too high

§ Cutting deficit involves risks short term

§ Undiversified manufacturing base

§ Long term competitiveness concerns

§ New economic model soon?

THAILAND OUTLOOK

Multiple challenges but resilient

§ Signs of near term recovery

- § Exports up strongly, sustainable
- § Improving confidence indicators
- § Manufact'g: export/domestic oriented up
- § Govt spending – improved disbursement
- § Surge in investment applications

THAILAND OUTLOOK (2)

Downside risks

- § Politics to dominate:
 - § Divided country
 - § King's health, royal succession
 - § Clashes with Cambodia
- § Industrial projects halted by courts
- § Long term adjustment to challenges

SINGAPORE OUTLOOK

2010 – confluence of positives

- § High gearing to exports will now help
- § New projects on stream
 - § IRs, manufacturing plants
- § Policy responses helping too
 - § Fiscal: public works, Jobs Credit, ...
 - § Low interest rates, easy liquidity
 - § à real estate recovery

SINGAPORE OUTLOOK (2)

The real questions are longer term

§ Policy for post-crisis world?

§ Structure of production à G3 demand

§ G3 backlash vs tax havens, ...

§ Changing MNC strategies

§ Climate change impact on us?

§ ESC reforms – more of the same?

§ Measures timid set against challenges

PHILIPPINES: STEADYING

Stable, looking better but not there yet

§ Electoral uncertainty

§ Good guy Aquino or tough guy Villar?

§ Economy steady but not exciting

§ Arroyo stabilised fiscal accounts

§ Remittances growing despite crisis

§ BOP and mining add strength

§ Infrastructure could add to this

VIETNAM – RISING BUT ...

Supply side unleashed

- § Demographics excellent
 - § Human capital
- § New growth sources:
 - § Oil/gas, tourism, low-end manufacturing
 - § WTO entry has brought in FDI
 - § Chinese FDI is rising

VIETNAM – RISING BUT ...

Major constraints remain

- § Political: leadership change nearing
 - § Conservatives coming back?
- § Financial vulnerability
 - § Higher propensity for inflation
 - § Small banks are a risk
- § Business environment

CONCLUSION

The crisis is over but ...

- § Financial collapses not likely
- § Economic data will bounce back
 - § But volatile, global growth lacklustre
- § One & off: Delayed hits, more stresses
- § Policy and corporate changes needed

THANK YOU!