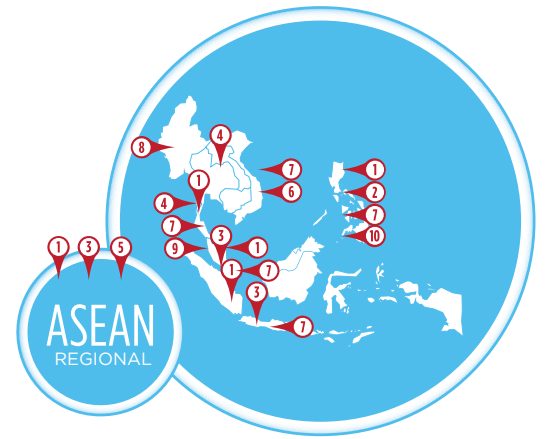
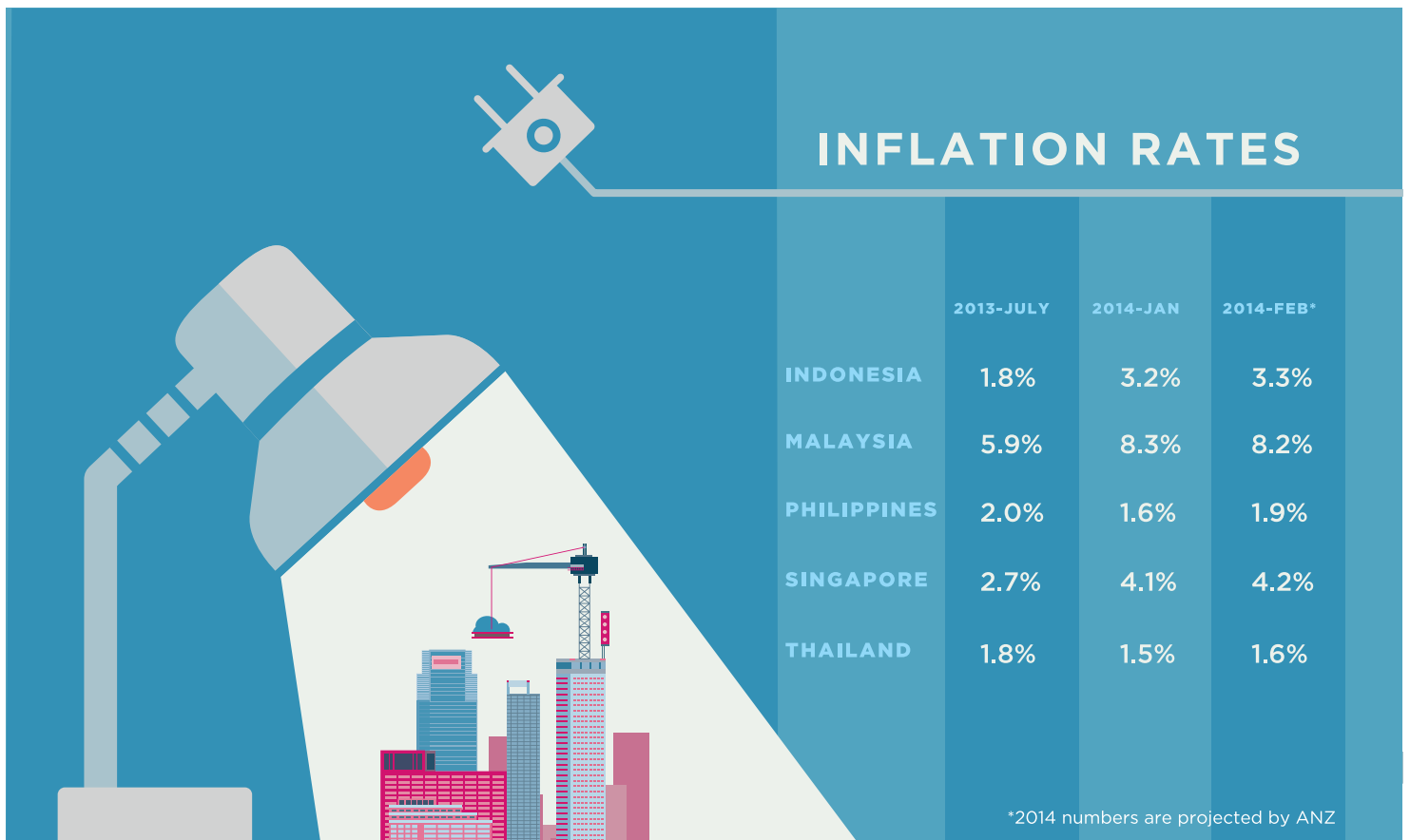


# CARI CAPTURES



## 01 ELECTRICITY PRICE SHOCK TO IMPACT ASEAN ECONOMIES



Source: Trading Economics

**Analysts at Australian Banking Group (ANZ) have warned that rising electricity prices in ASEAN nations will contribute half a basis point towards inflation in 2014, negatively impacting purchasing power and manufacturing markets.**

- ▶ The projected price shock within ASEAN nations can be attributed to three main factors; firstly, in the short run, the recent hike in Liquefied Natural Gas (LNG) has increased costs for energy suppliers; secondly, in the medium term, energy subsidy cuts will serve to increase costs for consumers; lastly, in the long run, rising electricity consumption and under-investment in power distribution infrastructure combine to create an excess in demand
- ▶ With electricity costs running up to 20% to 25% of overall production costs, manufacturing industries in ASEAN markets are highly vulnerable

to external price shocks; the impending energy price hikes therefore shed light into disappointing figures in ASEAN's January Purchasing Managers Index (PMI), which reflects manufacturing output levels

- ▶ The contribution of half a basis point to already growing levels of inflation in ASEAN nations adds another dimension of concerns to consumer markets; where falling purchasing power might negatively affect manufacturing revenue, causing a downwards spiral and slowing economic growth in the region
- ▶ Indonesia is expected to be the worst hit by the price shocks as electricity prices which were already up by 15% in 2013 are slated to rise by 65% in 2014, Malaysia will also be severely affected due to the aggressive nature of its energy subsidy cuts and tariff hikes

## 02 INTEREST RATES IN PHILIPPINES TO REMAIN STEADY



**Following the disclosure of monetary policy views by Central Bank Governor Amando Tetangco, The Filipino Government is expected to maintain interest rates despite the impending rise in the US Federal Funds Rate.**

- ▶ Despite the recent trending increase in interest rates within emerging markets such as India, Turkey, Brazil, and South Africa, the Philippines is expected to maintain steady interest rates for the 16th consecutive month following statements released by the manager of Filipino's Central Bank
- ▶ Tetangco made it clear that in regards to the forecasted rise in Fed rates that "Policy rate changes are not necessarily the most appropriate response at this time", further affirming that tweaking policy rates could only serve to increase market volatility in the short term rather

- ▶ than prevent outflows of capital
- ▶ Currently, the Philippines has remained impervious to recent emerging market unrest; in fact, the US tapering announcement only depreciated its currency by 10%, compared to the 25% of the Indonesian Rupiah and 54% of the Argentinian Peso
- ▶ Coupled with projected increases in its current account surplus to 4.3% of its GDP in 2014, and a steady interest rate of 3% to 5% over the course of the year, the Philippines is expected to observe the highest levels of growth within the ASEAN region in 2014
- ▶ The positive economic projections are to be further fueled by reconstruction efforts following Typhoon Haiyan, growing foreign remittances, rising exports, and President Aquino's focus on improving the Filipino infrastructure

[Financial Times \(3 Feb 2014\)](#)

## 03 ASIA'S ARAB SPRING; THAI UNREST MAY INFLUENCE CAMBODIA



THAILAND



CAMBODIA

**Recent violent demonstrations in Thailand's capitol of Bangkok could spillover to neighboring Cambodia as similar situations could lead to parallel reactions in both countries.**

- ▶ Drawing some parallels to the Arab Spring of 2010, the ASEAN region has begun to observe a recent rise in political dissent and civil unrest; primarily, violent demonstrations in Thailand to force Prime Minister Yingluck Shinawatra out of office are currently being mirrored by an aspiring Cambodian opposition
- ▶ Hang Puthea, the head of Cambodian election group "Nifec", stated that violence could spillover to Cambodia if Thailand's electoral related issues aren't resolved in a peaceful and efficient manner; furthermore, the unrest has only served to retard economic growth

in the region, causing investors to shift their focus to stabler developed nations in fear of the spreading violence

- ▶ Currently, Cambodian unrest can find its roots in dissatisfaction in minimum wages, political divide over parliamentary seats and potential vote rigging; all of which have caused violent clashes with government forces as dissent quickly turned violent

[Seatca \(3 Feb 2014\)](#)

## 04 ASIAN BANKS EXPANDING TO NEW MARKETS IN 2014

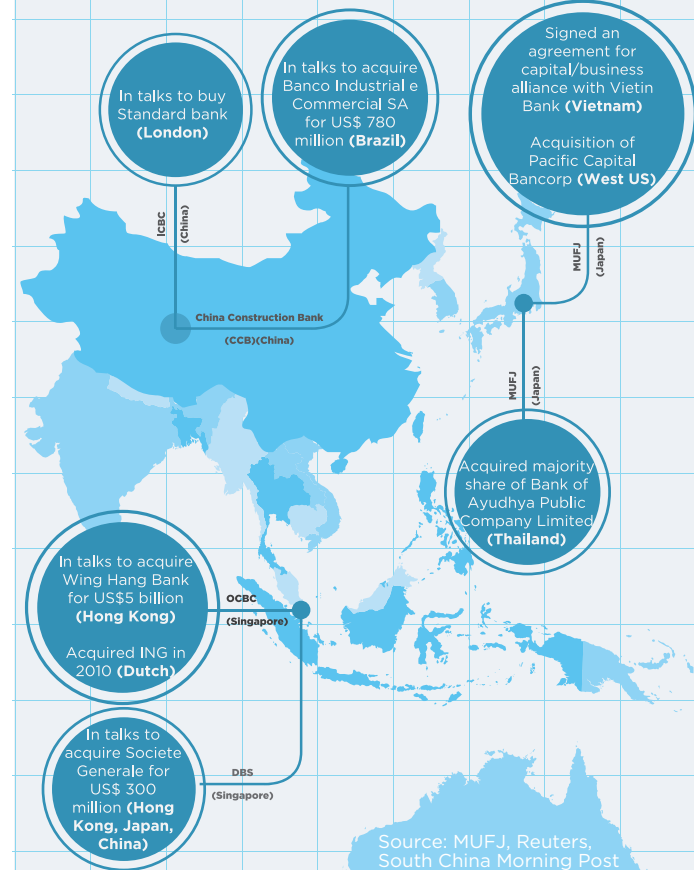


**Bolstered by rising consumer saving and solid credit ratings, Asian banks have managed to increase their market presence in foreign economies where US and European banks are currently deleveraging.**

- ▶ Analysts at the Bank for International Settlements have declared that 12.8% of emerging market loans were provided by Asian banks in 2013, a figure that is expected to continue on its rising trend as the west begins its tapering efforts
- ▶ Recently, Freeport-McMoRan Copper & Gold Inc, the worlds largest copper producer, procured US\$7 billion in financing from a mixture of its usual US and European banks; however, a substantial portion of the aforementioned loan also came from 21 Asian banks from China, Japan, Singapore, India and Indonesia, reflecting the growing trend of Asian lenders expanding overseas
- ▶ In particular, Singapore's OCBC Bank increased its foreign lending by 22% over the course of six months, with 6% of profit growth attributed directly to foreign investments for the past three years; meanwhile, Singapore's DBS Group Holdings Ltd. increased its foreign loans by approximately 10% over 6 months, according to Dealogic data
- ▶ It should be noted however, that Japanese banks such as Mitsubishi UFJ (MUFJ) overshadow South East Asian banks in cross-border lending due to the nation's low interest rates; foreign lending increased by 34% since 2008 to US\$3 trillion according to analysts at the International Institute of Finance
- ▶ Though the increased market presence of Asian banks in international markets seems to signal future increases in profits, worrying trends in slowing manufacturing numbers in China, weaker projections in the US and increased volatility international markets might threaten future earnings

[WallStreetJournal \(3 Feb 2014\)](#)

### RECENT MERGERS & ACQUISITIONS BY ASIAN BANKS



Source: MUFJ, Reuters, South China Morning Post

## 05 INDONESIA LEADS ASEAN IN THE HIGHEST LEVEL OF TOBACCO INDUSTRY INTERFERENCE



**The Southeast Asia Tobacco Control Alliance (Seatca) recently released findings on its first-ever Tobacco Industry Interference Index, which rates country efforts against Article 5.3 of the WHO Framework Convention on Tobacco Control (FCTC).**

- ▶ The newly created index measures interference in the creation of health and smoking laws in ASEAN countries by analysing the role of played by the tobacco industry in policy development, CSR contributions, and delays in anti-smoking legislation
- ▶ As measured by the aforementioned index, Indonesia, followed closely by Malaysia and the Philippines were found to have the most aggressive tobacco lobbies; meanwhile, Brunei, Thailand, and Laos are said to actively counter industry participation in the policy development process
- ▶ The FCTC scorecard also observed a positive correlation in delays in anti-smoking legislation and the level of tobacco industry input into policy development, showcasing a variety of instances in which

legislation was delayed by years at a time in Indonesia, Malaysia and the Philippines in particular

- ▶ Industry analysis by Seatca highlights that in recent years, CSR spending within the ASEAN region has risen; Philip Morris International (PMI) in particular, a leading cigarette firm, increased its CSR spending from US\$8.2 million in 2009 to US\$10.2 million in 2012, whilst doubling its spending in the Philippines and Thailand, and increasing its CSR expenses in Malaysia five-fold
- ▶ The findings state that though the aforementioned rise in CSR initiatives seem positive, tobacco firms are in fact using said outreach programmes as advertisements to bypass consumer protection laws preventing tobacco firms from advertising their products
- ▶ The report also concluded that whilst countries have a long way to go in implementing FCTC Article 5.3 guidelines, some progress has been made towards preventative measures in industry related interference

[VOA News \(4 Feb 2014\)](#)

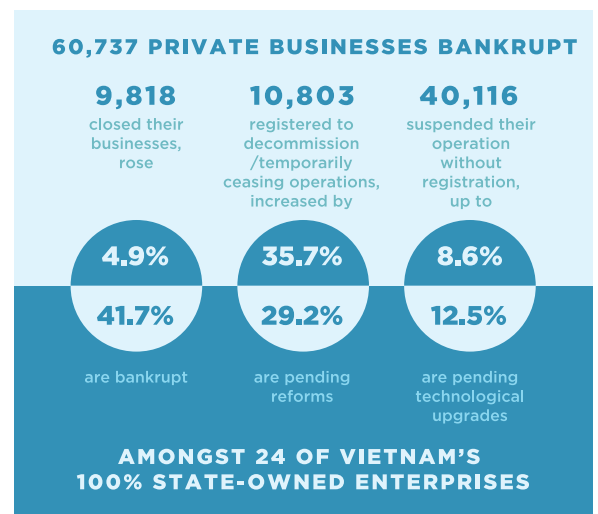
## 06 PRIVATE SECTOR GROWTH SLOWS IN VIETNAM



**The Vietnam Government favouritism towards state owned businesses has meant little to no private sector support, leading to an increasing trend in failing private sector businesses.**

- ▶ In a recent report released by the Vietnamese General Statistics Office, business closures in 2013 rose by 11.9%, bringing total closures to 60, 737 firms for the year
- ▶ The majority of failed firms were found to be from the private sector; in stark contrast, State Owned Enterprises (SOE) reported all time profit highs, with the Vietnam Oil and Gas Group earning US\$ 71.4 million in 2013
- ▶ A HSBC report revealed that 86% of all jobs are created through the private sector, whilst the state sector merely employs 10% of the workforce; despite these figures, 70% of all government development assistance and half of government investment goes into state owned businesses, leaving little to no funds for private sector support
- ▶ Meanwhile, the Vietnamese government is struggling with growing levels of bad debt which may serve to hinder future growth, 53% of which can be attributed to loans defaulted on by SOEs; former planning and investment deputy minister, Nguyen Mai, stated that a level playing field for both private and government owned firms was necessary for market efficiency and long term growth

[www.gso.gov.vn](http://www.gso.gov.vn) (4 Feb 2014)



## 07 SINGAPORE SEEKS TO IMPROVE OVERSEAS VIABILITY IN STATE-BASED ENTERPRISES



**As Singapore continues to function as an economic powerhouse throughout the ASEAN region, its government seeks to improve international market access through start-up assistance.**

- ▶ Singapore's Start-Up Programme (iStart) was deployed in November of 2013 by its Infocomm Development Authority (IDA), a statutory board of the Singapore government which is in charge of accelerating growth in its Infocomm sector
- ▶ The initiative targeted information and communication firms seeking to enter Indonesia, the Philippines, US, Thailand, and Vietnam through the use of two months worth of mentoring, workshops, and networking events provided by consultancy firms to help Singaporean enterprises better understand market dynamics and practical business viability
- ▶ In the near future, the IDA's startup program seeks to foster higher

levels of integration with China and the rest of the ASEAN region, whilst targeting firms which produce Web Applications, Digital Media, Finance, eCommerce, cloud computing and gaming

- ▶ Though the IDA seeks to promote growth in SME's through regional expansion (as eligible firms must have a turnover of less than US\$100 million and no more than 200 employees), enterprises entering less developed nations may actually negatively impact emerging markets as local firms are forced to face robust competition; at the same time, the globalisation of firms also means the transference of business practices and technologies which will enhance growth in emerging markets

[Global Indonesian Voices \(4 Feb 2014\)](#)

## 08 MYANMAR MONITOR

### POLITICS

▶ Four journalists with the Unity Weekly newspaper and the newspaper's CEO have been detained in connection with a report about an alleged secret chemical weapons factory, which the story claims to have been built in 2009 on more than 3,000 hectares of land confiscated from farmers in the north-western city of Pauk. The authorities have seized copies of the issue throughout the country.

[Reuters \(4 February 2014\)](#)

▶ Opposition leader Aung San Suu Kyi refutes reports last week that a report on the upcoming changes to the Myanmar Constitution shows anti-reformist sentiment. The petition against changes that would allow Suu Kyi to run for president, that was reported to have gathered over 100,000 signatures, was only mentioned in footnote and with no details of the signatures. An overwhelming share of the official responses claimed support of the planned Constitutional changes.

[The Irrawaddy \(4 February 2014\)](#)

### ECONOMY

▶ New discoveries of natural gas or oil will not be exported until the country's own domestic demand is satisfied, according to a senior planner in the Ministry of Energy. More than 80% of the gas produced by three major offshore fields—the Yadana, Yetagun and Shwe—are exported to Thailand or China. The ministry will name the winners of a major international auction for 30 offshore exploration licenses later this month.

[The Irrawaddy \(7 February 2014\)](#)

### BUSINESS AND INVESTMENT

▶ Japanese automaker Nissan will invest more than US\$200 million in an assembly factory in Myanmar due to be operational by 2015. The company plans to produce several thousand small passenger cars and pick-up trucks yearly.

[The Irrawaddy \(8 February 2014\)](#)

▶ A consortium including Singapore's Changi Airport Planners and Yongnam Holdings Inc, and Japan's JGC Corp. has been invited to re-enter negotiations to build and operate an international airport in Myanmar after discussions have broken down with the previously named preferred bidder. The order is estimated to be worth around US\$1 billion and includes a 30-year public-private partnership to build, run and maintain the airport.

[Reuters \(4 February 2013\)](#)

### FOREIGN AFFAIRS

▶ Two politicians from Myanmar's troubled Rakhine state escaped unharmed from a drive-by shooting while visiting Malaysia, raising concerns that religious strife back home may again be spilling over to Myanmar's neighbours. Assaultants on a motorcycle shot at the vehicle of Aye Thar Aung, president of the Arakan League for Democracy and Aye Maung, a legislator, on 5 February.

[The Wall Street Journal \(9 February 2014\)](#)

## 09 CHINA HALTS DEAL WITH THAILAND OVER CORRUPTION INVESTIGATION



CHINA



THAILAND

**In response to recent findings raised by a corruption probe into Thailand's US\$4 billion rice subsidy programme, China has halted the purchase of 1.2 million tons of Thai rice.**

- ▶ The deal, which accounted for 14% of annual Thai rice exports, further devastated the already floundering Shinawatra administration which had come into power on the platform of rice subsidies; in addition to this, state-owned Krung Thai Bank refused to issue further funding to float the subsidy scheme, citing reasons related to the recent corruption probe
- ▶ Due to falling international rice prices, the Thai government has accumulated an estimated record reserve of 15 million tones of rice in an

attempt to drive up said commodity prices in order to avoid sharp losses; with the subsidy programme already costing the country US\$4.46 billion, said stockpiling has only serves to cause irregularities in governmental cash flow which has further inflamed farmers in Thailand who have yet to receive their payment

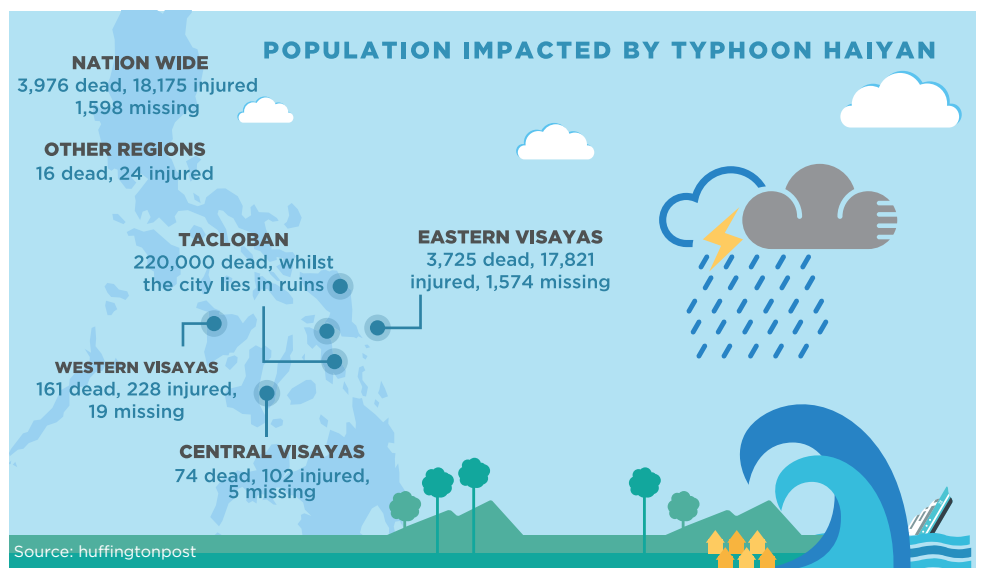
▶ Meanwhile Thailand's Commerce Minister Niwatthamrong Bunsongphaisan recently released a statement indicating that a tender would be carried out in the following week to begin selling off the excess rice stocks which were created by the failed Chinese deal

[Reuters \(4 Feb 2014\)](#)

## 10 HOUSING BOOM IN THE PHILIPPINES SHOWING SIGNS OF SLOWING



PHILIPPINES



**Annual growth in the value of private construction activity slowed by 0.6% and 0.4% in the last two quarters of 2014, hinting that the Filipino housing boom may be slowing despite strong economic growth.**

- ▶ The Philippines Economic Planning Secretary Arsenio Balisacan recently released a statement denying a slowdown in private construction activity, explaining that the declining numbers were due to the seasonal nature of infrastructural construction as the rainy season prevented construction late in the year; Chief Economist at ATR Kim Eng Securites Luz Lorenzo also attributed the slowdown to temporary setbacks as "developers stop new projects to clear out existing inventories"

- ▶ However, several property market insiders cautioned that the slowdown could be symptomatic of slowing demand in the Filipino real estate market; Wilson Flores, a property broker stated that newly finished homes in Manila remained unsold for months, whilst wealthy Filipinos continue to invest in properties, artificially inflating prices
- ▶ Through a combination of low interest rates and lower downpayment requirements, the Filipino Market has enjoyed unmatched growth for the past two years; even going as far to create a projected housing shortfall of 5.8 million homes in 2016 despite reconstruction efforts sparked by 2013's Typhoon Haiyan

[Business insider \(4 Feb 2014\)](#)

