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株式会社 日本総合研究所
The Japan Research Institute, Limited

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Topics Political and investment risks begin to resurface in Thailand

Thailand's economic growth rate in the period October to December, 2009, was 5.8%, a big improvement on the previous period. However, with the emergence of downturn risks from anti-government activities by the UDD and the delay in dealing with the Map Ta Phut issue, there is no room for complacency as regards Thailand's economic situation.

■ 5.8% economic growth rate in October to December, 2009

Thailand's real GDP growth rate for the period October to December, 2009, was 5.8%, converting to positive growth for the first time in four consecutive quarters. Furthermore, the seasonally adjusted growth rate (compared to the previous period) has been positive for three consecutive periods. Although this does reflect the fact that the previous year's growth rates were low, all indices have shown significant recovery.

In terms of exports, there was a major recovery in the same period of 11.9%, \$43.3 billion. Though exports to Japan, the US and Europe have failed to grow satisfactorily, those to ASEAN were up 18.3% in the same period, and those to China up 54.2%, similarly. Accordingly, the manufacturers' production index recovered to 13.9% growth in Q4, October to December, up from minus 5.0% in Q3, July to September. Electrical and electronic goods posted a solid performance, up 28.8% in the same period, and automobiles and transportation equipment, and parts and components, which had been slow in recovery, posted 8.7% growth, similarly.

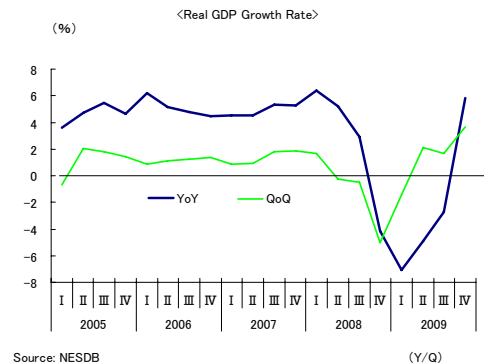
The number of foreign tourists visiting Thailand had dropped in the first half of 2009 due to political instability and fears of the H1N1 flu virus, but in October to December increased by 26.2%, compared to the same period in the previous year, to 4.2 million people. This in turn boosted growth in the hotel and restaurant service industries to 13.5% over the same period, recovering strongly from minus 2.5% in the period July to September. As for domestic demand, private consumption was up 1.4%, the first positive growth in three consecutive quarters. The durable consumer goods market is regaining its vitality and automobile sales were up 18.4%, similarly, to 182,387 units, the highest level since the October to December, 2006 timeframe.

According to a manufacturing industry business sentiment index produced by Bank of Thailand, those businesses responding that the situation is 'improved' recently outnumber those responding 'worsen', and there is an increase in the number of those that expect the situation to improve in the foreseeable future. Against this backdrop, NESDB (National Economic and Social Development Board) has revised its forecast for whole year economic growth upward, from between 3.0% and 4.0% (as of November, 2009) to between 3.5% and 4.5%. However, in addition to the possibility that the global economy will decelerate through the latter half of the year, the report pointed out that there are downside risks, such as the blunting of domestic demand due to inflation and falling export competitiveness because of the baht's appreciation, and suggested that a full economic recovery will require appropriate monetary and fiscal management.

■ Court-ordered seizure of former prime minister Thaksin's assets

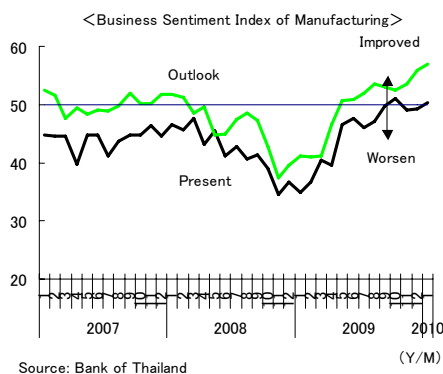
Further, the following political and investment risks need to be paid attention to.

Memories of the mass rally in Pattaya organized by the the red shirted UDD (the United Front for Democracy against Dictatorship) in April, 2009, which forced the East Asian Summit to be postponed, are all too fresh. Shortly after that, the UDD's main support base, the agricultural community, entered the



Source: NESDB

(Y/Q)



Source: Bank of Thailand

(Y/M)

busy farming season, and the government enforced special security measures each time the UDD announced plans to hold a rally, so there was no significantly disruptive unrest in the latter half of 2009. This turn of events coincided with a degree of economic recovery, and encouraged consumer confidence indices to trend towards improvement.

However, with the end of the busy farming season, UDD has once again become more active in its anti-government activities. Beginning with a rally held near the country home of former prime minister Surayud in January, a number of small rallies were held in Bangkok in February, ahead of the court ruling on the freezing of former prime minister Thaksin's assets. On February 26, the Supreme Court ruled to allow the seizure of Bt46.4 billion out of some Bt76 billion of assets belonging to Thaksin and his family. Unrest immediately following the judgement was avoided due to the fact that the court did not rule to seize all of the Thaksin assets, Thaksin himself appealed for supporters not to resort to extreme measures, and the government had strengthened its security measures. However, the UDD announced its intention to begin holding rallies in various locations from March 12, and to hold a million nationwide rally on March 14. Actually, ten thousand people have gathered in Bangkok and shifted anti-government activities to the business district in April. Those anti-government activities look likely to continue up until the farming busy season (June), and the situation continues to warrant careful attention.

■ **Tardiness in handling Map Ta Phut**

In addition, the government's tardiness in dealing with the Map Ta Phut issue is causing investment risk.

On September 29, the Central Administrative Court issued an injunction stopping 76 construction and other projects, worth Bt400 billion, on the Map Ta Phut Industrial Estate in Rayong province in the east of Thailand, on the grounds that the projects may not have fully complied with the provisions of Article 67 of the 2007 constitution.

The constitution stipulates that projects that are thought likely to be injurious to health or the environment need to undergo a public hearing and then be subject to an environmental impact assessment (EIA) and a health impact assessment (HIA) by an independent body. However, the prescribed independent body does not yet exist, and the projects underwent environmental assessment by the industrial estate authority instead, and the government held the view that there was no problem with this.

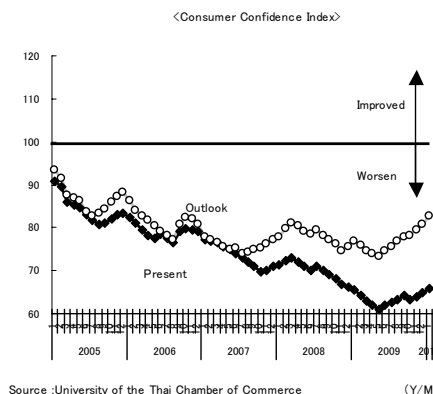
The government immediately appealed the court's ruling, but the Supreme Court confirmed on December 2 that 11 projects that had been approved before the enactment of the 2007 constitution were good to go ahead, but that construction and other operations of the remaining 65 projects must stop (the injunction on one project was subsequently lifted).

The government set up a special panel, headed by former prime minister Anand and comprised of representatives of government and industry, local residents and other experts. The committee was charged with deliberating the holding of public hearings and assessments and the laws pertaining to the establishment of the required independent body, and was able to formulate some related legislation by January. However, it is thought that it will take at least six months to establish and implement the approval process. On the other hand, the Federation of Thai Industries (FTI) led the filing of a complaint with the Central Administrative Court but, though the injunctions on nine projects were lifted, there was no great headway made.

NESDB has voiced the opinion that, unless the projects are restarted by the third quarter of 2010, the economy will be adversely affected. There is growing apprehension that the projects were stopped in spite of having been approved by the industrial estate authority, and that the government has taken so long to get to grips with the issue, and that these together will cause both domestic and foreign investors to lose confidence in Thailand.

In the event that such political and investment instability lasts for a protracted period of time, this will not only throw short term economic recovery off balance, but may very well have a severe impact on economic growth over the long term as foreign corporations rethink their Thailand investment strategies.

(Keiichiro Oizumi)



Source :University of the Thai Chamber of Commerce

(Y/M)

Taiwan Employment situation continues to improve

Domestic and foreign demand continue to recover

Taiwan's real GDP growth rate for the period October to December, 2009 (compared to the same period of the previous year), was 9.2%, a big leap up from minus 1.0% (revised) in the period July to September. Private consumption was up 6.3%, total fixed capital formation 11.1% and exports 19.1%, with both domestic and foreign demand driving economic growth.

Export growth for February was 32.6% up on the same month of the previous year. While the pace of growth appears to have slowed in comparison with late 2009, this is thought to be partly due to the different timing of the Lunar New Year (January in 2009, February in 2010), and the same figure combined for January and February was a 54.0% increase compared to the same period of the previous year.

China-bound exports are driving this current recovery in exports. As China's drive to encourage ownership of electrical appliances in rural households got fully underway, exports to China of mainly liquid crystal displays, semiconductors and other electronic parts and components recovered rapidly from mid 2009, and posted 45.0% growth in February (103.8% for January and February combined, compared to the same period of the previous year).

Retail sales, which had recorded 9.2% and 14.1% growth in November and December, 2009, respectively, slumped to minus 7.7% in January. This negative growth is thought to have been due to the effects of the timing of the Lunar New Year and the end of the automobile tax reduction, and it is believed that recovery is in fact continuing.

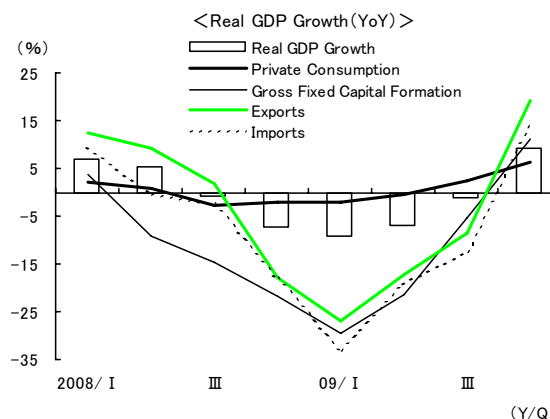
Accompanying the recovery in domestic and foreign demand, the manufacturers' production index for January was up by 77.0%. With the recovery in production, the unemployment rate (seasonally adjusted) has fallen steadily, from 5.93% in November to 5.77% in December and 5.73% in January. The number of those employed, which had fallen to 102.2 million in March, 2009, turned to positive growth, year on year, by December, 2009, as did the manufacturers' average monthly earnings in October of that year, clear signs that incomes and employment are improving steadily. Along with the expansion in demand, it is expected that employment will increase further, particularly in the manufacturing sector. According to a survey by the Executive Yuan's Council of Labor Affairs, the number of new workers being sought rose to 69,000 in the period April to June.

From rapid recovery to stable growth

Recently, in addition to the conventional PCs and semiconductors, foreign manufacturers have begun more and more to outsource production of liquid crystal televisions to Taiwan, a field in which price competition has become ever more fierce. It is true that these positive developments are on the increase, but the future performance of the economy needs to be viewed with some care.

Along with exports, export orders received are continuing to grow strongly, year on year, but the actual level is still low. The probability is high that the sudden decline will be followed by a rapid recovery and then gradual growth in the future. Also, consumption in 2009 was greatly boosted by automobile sales promotion measures, so there is a strong likelihood that there will be a visible recoil in 2010. The government's forecast for economic growth in 2010 (annualized and compared to the previous year) is minus 3.88% in the period January to March, 0.09% in April to June, 0.97% in July to September, and 2.99% in the final quarter, October to December (4.72% for the whole year). Taiwan's government will need to continue with policy management that prioritizes the economy.

(Hidehiko Mukoyama)



Source: Directorate General of Budget, Accounting and Statistics

Malaysia Real growth rate 4.5% in Q4

■ Economic recovery exceeds expectations

Malaysia's real GDP growth rate in the fourth quarter, October to December, 2009, was 4.5%, a change to positive growth for the first time in three consecutive quarters. This prompted Prime Minister Najib to declare that the Malaysian economy was over the worst. However, the economic slump in the first half of the year was very significant and the growth rate for the whole year was just minus 1.7%, year on year.

Domestic demand grew by 3.6%, compared to the same period in the previous year, encouraged by increased government spending as part of economic stimulus measures, in addition to healthy private consumption. In terms of external demand, exports recovered massively to 9.6% growth, \$46.7 billion, in the same period, well up from minus 25.4%, \$41 billion, in the previous period. In particular, electronic and electrical goods were up by 22.2% and contributed significantly to the export recovery. Exports to China and ASEAN grew. Consequently, the manufacturers' production index, which had been performing poorly, converted to 5.1% growth in the same period.

In spite of continuing uncertainty over the future of the global economy, Prime Minister Najib revised the forecast for Malaysia's economic growth in 2010 upwards from the 3% forecast made early in the year to 5%, and expressed the view that the continuing implementation of administrative reform would make the achievement of 6% economic growth a possibility.

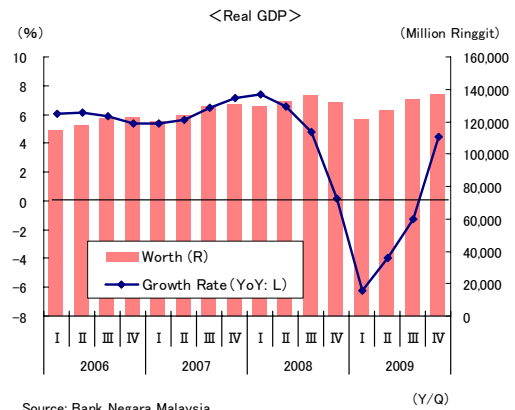
Bank Negara Malaysia was of the opinion that the economy was over the worst and firmly on the road to recovery, and raised the policy interest rate for the first time in a year on March 4, from 2.0% to 2.25%. The expectation in the market is that the rate will be raised further in gradual stages as the economic recovery progresses.

■ Plan prioritizing social development expected soon

Malaysia has set the goal of becoming an industrialized nation by 2020, as set forth by the Mahatir administration, as a national target (Vision 2020). However, the economy has not been able to grow according to plan since the economic crisis of 1997 and, as things stand at present, would need to achieve an average annual growth of 8% in order to meet the target.

In response, the Najib administration is currently working on an Eleventh Five Year Plan (2011 to 2015) that will target 7% growth. Some are critical that the goal of becoming an industrialised nation by 2020 and of achieving the target growth rate is too optimistic, but the Najib administration has adopted the stance that it is important to set and work towards a high target, and have expressed the view that their intention is not only to raise income levels but also to raise Malaysia's Human Development Index (HDI), which takes into account education, medical provision, to a level comparable with the industrialized nations. Since its inauguration, the current administration has prioritized social development, under the slogan 'One Malaysia'. For example, in December, 2009, some 55 clinics were set up to provide medical services at a cost of one ringgit to those people with no medical insurance. In this fashion, with the motto 'People First, Performance Now', the government has been quick to implement social development policies, not only economic stimulus policies. Much attention will be paid to the details of the Five Year Plan to be announced shortly.

(Keiichiro Oizumi)



Philippines 0.9% real GDP growth in 2009

0.9% real GDP growth in 2009

The Philippines' real GDP growth rate fell from 7.1% in 2007 to 3.8% in 2008, and in 2009 fell to its lowest level since the currency crisis of 1997, 0.9%. This is more or less at the bottom end of the government's target of between 0.8% and 1.8%. Because of the fact that money remitted home by Filipinos working abroad, which had until 2008 grown by double digits every year, managed only 5.6% growth, worth \$17.3 billion, growth in personal consumption slumped to just 3.8%. In addition, due to the effects of the global economic slowdown, plant and equipment investment growth fell to minus 19.0% in the period January to June, and export growth for the year fell to minus 21.9% (customs cleared basis). The central bank lowered the policy interest rate by a total of 2%, and the government implemented fiscal stimulus measures worth 330 billion pesos, but the effects of these measures have been limited.

In terms of industrial origin, agriculture grew 0.1% (3.2% in 2008), industry minus 2.0% (5.0%), and services 3.2% (3.3%). Typhoons struck the Philippines in late September and early October and crops, principally rice, suffered major damage, which caused the agricultural sector to grow negatively in the period October to December. In industry, infrastructure related and other public projects were expanded as the government implemented economic stimulus measures, and construction grew 5.8% as a result. Meanwhile, as private sector production activity slumped, manufacturing growth fell to minus 5.1%. Services sector growth had managed an annual average of 7.3% in the years between 2004 and 2007, but was only in the 3% range for 2009, following a similar performance in 2008. The financial sector led by the good performance of banks (7.1%), and government services boosted by the implementation of economic stimulus measures (5.0%), were solid, but falling exports brought about a slump in waterborne transportation, holding transportation and storage to negative growth (minus 1.5%), and also damaged the wholesale trade (minus 12.0%).

Future prospects and items of concern

In October to December, manufacturing managed to return to positive growth, and personal consumption grew by 5.1%. Other signs that the economic recovery is strengthening included the fact that plant and equipment investment growth was minus 0.1%, evidence of a contraction in the pace of deceleration. In the future, both consumption and investment are expected to continue to post gradual recovery. Also, though the pace of recovery in exports will be weak, it will still represent a significant improvement on the previous year. This year's real GDP growth rate will likely be between 3.0% and 3.5%. The government's target is for growth of between 2.6% and 3.6%.

Future risk factors will include, firstly, fiscal and monetary policy trends. Because the typhoon damage forced agricultural product prices to rise, and January's consumer price index increase rate was 4.3%, compared to the same period in the previous year, the central bank raised the bill discount rate from 3.5% to 4.0% in January. There is also a possibility that the government will raise the policy interest rate around the middle of the year. Further, the implementation of economic stimulus measures pushed up the fiscal deficit's ratio against GDP from 0.9% in 2008 to 3.9% in 2009, and it is expected to be on the order of 3.5% this year. The contribution of fiscal expenditure to economic growth will inevitably decline with time. Secondly, there is the outcome of the presidential elections to be held in May. Currently, Senator Aquino, son of former president Corazon Aquino, and the wealthy Senator Villar are virtually neck and neck in terms of popular support, and future developments will need to be watched closely. Basically, it is expected that there will be a smooth handover of power, but there are concerns of renewed political disturbance under the new presidency, and the possible impact on economic policy management.

<GDP Growth Rates by Industrial Origin>

	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4	(YoY%)
Real GNP	6.4	5.3	6.2	6.7	3.1	3.2	3.1	2.4	
Real GDP	3.9	4.2	4.6	2.9	0.6	0.8	0.4	1.8	
Agriculture, Fishery, Forestry	2.8	4.9	2.5	2.9	2.1	0.2	1.5	-2.8	
Industry Sector	2.7	4.0	7.6	5.3	-2.5	-1.7	-5.0	1.1	
Manufacturing	2.4	6.1	5.4	3.4	-7.6	-7.4	-7.8	1.3	
Construction	-4.3	2.3	20.5	14.5	14.0	14.0	0.9	-5.8	
Service Sector	5.2	4.0	3.3	1.3	2.0	2.7	3.8	4.2	
Transportation, Communication, Storage	5.6	3.9	2.9	4.5	5.6	1.0	-1.5	1.9	
Finance	12.2	1.0	1.8	-4.6	1.2	5.8	11.5	11.0	

Source: National Statistical Coordination Board

(Satoshi Shimizu)

Vietnam Trade deficit and rising commodity prices still a concern

■ Recovery in mining and manufacturing and exports

The Statistics Bureau has announced its economic indices for the period January to February. Almost all of them give a clear impression of economic recovery. Mining and manufacturing posted an impressive growth rate of 13.6%, compared to the same period in the previous year. In terms of individual sectors, the state sector posted 8.1%, the private sector 15.1% and the foreign sector 15.4%, with all of these sectors performing strongly. In the foreign sector, though crude oil and gas fared poorly due to the slump in crude oil production, posting minus 11.4% in the same period, the non petroleum and gas sector was strong, returning 19.5%, similarly, and driving the sector overall.

Export growth was 0.1% compared to the same period in the previous year, worth \$8.9 billion. At first glance, the pace of recovery in this case might appear rather pedestrian, but the previous year's figures were greatly enhanced by gold exports and, when this is factored out, the corresponding growth rate is 17.1%. It is the foreign sector that has been driving export growth. Crude oil and gas exports fared poorly in the same period, with minus 15.4% growth, but non petroleum and gas exports were strong, posting 39.0% growth similarly. In terms of specific items, significant growth was observed in electronic goods and computers (30.6% in the same period), machine parts and components (75.1%, similarly), and wire and cables (99.7%).

Local exporters have also been enjoying recovery. While the growth rate was down 21.1% for the same period, this translates into plus 7.1% when the aforementioned gold exports are factored out. Though primary produce such as coffee (down 26.8%) and rice (down 6.8%) fared poorly, labor intensive products, such as textiles (up 16.8%), footwear (up 4.0%), and processed timber products (up 29.2%), were all solid. Total retail sales, on an actual basis, were up 17.9%, compared to the same period in the previous year, evidence that individual consumption is performing strongly. This is also borne out by the fact that imports posted a rapid growth of 39.6% in the same period. The Statistics Bureau is looking at a GDP growth rate of between 5.7% and 5.9% for the January to March timeframe. Prime Minister Nguyễn Tấn Dũng has expressed the expectation that the economic growth rate for 2010 will be 7.0%, in excess of the government's target of 6.5%, and he seems ever more confident about the economy's performance in the foreseeable future.

■ Effects of dong devaluation

The main issues facing the government in the meantime will be the trade deficit and the curbing of rising prices. The Statistics Bureau expects the trade deficit to reach \$2.5 billion in the first quarter, January to March. There will be no problem if this pace is maintained throughout the year, but if the deficit should spiral out of control as it did in 2008, there is every possibility that rumors of a balance of current account crisis will be generated.

In mid February, Central Bank lowered the dong's base rate, following a similar move in November, 2009. One of the aims of this measure was to curb excessive import growth through a weak dong. As February's import figures appear to attest, down from \$7.4 billion in December, 2009, to \$4.7 billion, the measure would appear to have been effective to a degree. However, some feel that the slump in February's import performance was due in large part to the timing of Tết, the Vietnamese Lunar New Year, and it is by no means certain that the trade deficit will continue to contract in the months ahead.

Even if import growth were to be curbed by devaluing the dong, Central Bank will find itself having to face the new problem of import inflation. The consumer price index increase rate for January to February was 8.0%, compared to the same period in the previous year. Part of the reason for this would appear to have been the rise in food prices as well as the rise in import prices, following the dong's devaluation. With electricity charges going up from March and other upward pressure on commodity prices increasing, some believe that Central Bank will have no other recourse but to raise interest rates. Much attention will be on how Central Bank handles the issues of foreign exchange and commodity prices, and whether economic growth can be sustained.

(Yuji Miura)

