

# Turning up the heat on ASEAN's potential

Notes from the road



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**“The ministry is conserving energy, with a government directive asking agencies to limit air conditioning temperatures to an average of 26 degrees!”**

**Sawadika! Landing in Bangkok, Thailand – a country famously coined the “Land of Smiles” due to the warm hospitality of its people, and a concept rooted in both deep cultural traditions and a successful 1960s tourism campaign – a wall of heat hits us!**

We are participating in a regional ASEAN conference where we are hoping to gauge the mood for this promising region, which has lagged the broader emerging markets (EM) space. At the time of writing, with the Strait of Hormuz remaining closed and oil prices tracking higher, this region has not been spared. Asia hasn't seen an energy shock in 50 years and corporates at the conference can see stress emerging in both economies and industries. The broader concern is the emerging supply risk across the region, with India facing acute LPG shortages, while Thailand and other ASEAN economies are implementing energy-saving measures and WFH directives. The first signs emerge in our macro meetings with the Thai Ministry of Finance – we are told to please take off our jackets if we find it too hot, as the ministry is conserving energy, with a government directive asking agencies to limit air conditioning temperatures to an average of 26 degrees!

ASEAN – an acronym for the Association of Southeast Asian Nations – is a geopolitical and economic organisation comprising 10 Southeast Asian countries. Economic integration is focused on the ASEAN free trade agreement (FTA), which reduces tariffs and promotes trade among member countries, whilst the AEC (ASEAN Economic Community) aims to create a single market and production base facilitating the free flow of goods, services, investment, and skilled labour.

At the conference there are over 300 foreign and domestic institutional investors and over 150 corporates, which is a surprisingly high number, as the region has been outshone by its North Asian neighbours which evidently benefit much more from the tech trade and AI supply chain. In our meetings with Thai, Malay, Philippine, Indonesian and Vietnamese companies, there are a few common threads apparent, notably that foreign direct investment (FDI) is coming in from those multi-national corporations looking to diversify their supply chains away from China.

Tourism also remains a theme for these equatorial countries but more specifically healthcare, longevity and medical tourism, which are areas where ASEAN is converging with China on healthcare innovation and ageing populations. Meanwhile, market reform and capital discipline are other areas of focus across the region; Singapore, Malaysia and Indonesia realise their index risk is rising as they are low liquidity markets and rely on domestic institutions as important stabilisers.

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### Thailand

Thailand itself – a market that has been weighed down by structural issues such as an ageing population, high household debt, slowing tourism, and a constantly changing political regime – is now seeing material change. There is at last policy continuation in Prime Minister Anutin, the former caretaker PM who has just won an election with support from the King. During his 72 days of interim government, he initiated a significant reform programme, focused on speed and execution. Under this new government, the focus will be on investments and attracting FDI. In fact, last year Thailand saw a record year of 60%+ rise in FDI geared towards higher-value-added sectors such as semiconductors, EVs, and renewables, as well as high-tech agriculture and electronics.

Anecdotally, we hear from companies that they are investing more, in manufacturing and R&D, not only to diversify their supply chains but also because Thailand is extremely open to doing business. Later this year it is expected that a Thai/EU FTA will be signed and there is a rapid visa programme in place to allow for work permits. The Thai equity market offers a significant dividend yield, with many stocks yielding over 6%. Focussed on attracting capital back to its equity market, the Thai Stock Exchange is running a “Value-Up” programme that targets improved capital allocation and better returns to shareholders.

Thailand has land, power and water in abundance, a combination that is needed for hyperscalers’ datacentre needs. We are seeing these companies set up base in the country. Tourists, and particularly Chinese tourists, are returning in droves, and this is a significant driver of the economy.



The gleaming interior of the Thai Ministry of Finance.



Visiting bustling Bangkok.

In addition to the beaches, weather and cuisine, medical tourism and retiree support is becoming an increasing driver of tourism. We visit Bangkok’s top hospital, Bumrungrad, where two-thirds of the patients have come from overseas to be treated for all sorts of core morbidities, receiving world-class care at a fraction of the cost in their own countries. In fact, Bumrungrad signs government-to-government contracts that ensure a steady flow of overseas patients; the state then reimburses them for their care as they simply cannot provide these procedures.

## The Philippines

Meanwhile, Filipino corporates tell us that there too the government has implemented a partial WFH directive in order to conserve energy. The Philippines, which grew almost 5% last year, was beset by natural disasters while fiscal budgets that were allocated to rebuild the infrastructure were largely squandered due to corruption. Infrastructure investment is vital for the Philippines to continue to grow, because having a young, dynamic and optimistic population (note the slogan: “life is more fun in the Philippines”), is not sufficient to attain the next level of growth and wealth creation. Imagine what the country could achieve in terms of growth if the fiscal disbursements functioned properly, is what we were told by the ever-optimistic corporates. For all its shortcomings, given no manufacturing base and very little energy or self-sufficiency of any kind, the Philippines does have two very resilient GDP contributors – overseas-worker remittances and Business Process Outsourcing (BPO), which have proven the test of time throughout the cycles. The market is the cheapest it has ever been, and this is beginning to entice investors again.

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## Indonesia

It's a much more sombre story meeting Indonesian corporates, which are bogged down with a potential MSCI reclassification, a start-stop type administration that has been slow to disburse fiscal budgets, and a middle class feeling the pinch. Investors remain sidelined, opting to look elsewhere within the ASEAN space.

## Vietnam

The Vietnamese companies we meet tell a much more optimistic story, with the country registering 8% GDP growth last year<sup>1</sup> and with targets of 10% growth for this year and the next 10! Under the new government of To Lam, the administration is following through with its plans. This government is very businesslike and focused on efficiency. It reduced its own government workforce by 20% last year and this happened in just one week, with some departments being cut by 50%<sup>2</sup>. Legal frameworks are being reviewed, such as land and investment laws, in order to expedite licences and reduce bureaucracy. There is significant public investment with extensive construction projects and new roads, airports and ports being completed on time. Meanwhile, property developers tell us that upon new launches projects get sold out within the day; this is because new household formation in Vietnam is 450,000 families per year, and yet there are only 80,000 new units being built across the country. With affordability remaining robust, it is not surprising that these units are being snapped up. Things appear to be booming in Vietnam!

### Summary

We leave a sweltering Thailand behind, with new ideas in our pockets and a renewed optimism for what have been largely forgotten markets within the EM complex. These are dynamic and diverse economies under transformation. Whether this promise can be fulfilled is yet to be seen, however with the markets considerably lagging their tech-driven North Asian counterparts, at current attractive valuation levels, it appears that investors are at least revisiting the prospect.



<sup>1</sup> Vietnam GDP Annual Growth Rate.

<sup>2</sup> Over 22,000 government positions cut as Vietnam reforms public sector.

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