2025 Emerging Asia Market Outlook

Interview with Kenneth Ng and Soh Chih Kai

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ECONOMIC OVERVIEW

What are the key economic drivers today?

Kenneth Ng (On India): The Indian economy is currently entering a cyclical slowdown. The structural drivers—such as global companies realigning supply chains, shifting manufacturing to India, and the country's industrial buildout—remain relevant themes in the longer term. However, a pause in government projects due to elections, compounded by the effects of weak job growth in the services sector and tightening measures by the Reserve Bank of India (RBI), have all combined to noticeably impact consumption trends and corporate commentary on demand.

Soh Chih Kai (On Malaysia): If you break down Malaysia's GDP (Gross Domestic Product) components by expenditure, consumption remains the primary economic driver. Consumption, which accounts for around 55-60% of GDP, includes household spending on goods and services; by extension, this includes sectors like tourism, retail, and finance.

Another significant driver is investment, which accounts for roughly 25-30% of GDP and includes both private and public investments in infrastructure and capital goods. Foreign Direct Investments (FDIs) also contribute to this component.

Government spending, which refers to expenditures by the government on public services, infrastructure, and social programs, plays a vital role in the economy as well.

Lastly, exports are a crucial economic driver, with Malaysia being a major exporter of electronics, palm oil, and natural resources, particularly oil and gas.

Soh Chih Kai (On Indonesia): Indonesia is the fourth most populous country in the world, with a population of over 270 million people and favourable demographics, including a growing middle class. Its GDP per capita of approximately US$5,000 has the potential to double as the country strives to transform into a middle-income economy.

Indonesia has been pursuing value-up initiatives, such as mineral downstreaming in key commodities like copper and nickel, to improve its GDP, current account and currency stability. Additionally, large-scale infrastructure investments under the Jokowi administration have laid a foundation for economic monetisation under the Prabowo administration.

Looking ahead, improvements in agricultural and farm efficiency (which comprises 13% of the economy) and the government's push towards improvements in social infrastructure such as housing and nutrition are key initiatives towards broadening the base for sustained economic growth.

> ***The key takeaway for an India investment position is that there are multiple developments within India, that can enable India equities to be one of the structural stories of the coming decade.***
>
> **- Kenneth Ng**

> *Amidst the global volatility and trade tensions, Malaysia can provide a safer haven for investing and is one of the beneficiaries of the global supply chain relocation.*
>
> **- Soh Chih Kai**

Soh Chih Kai (On Thailand): The key economic drivers are tourism, government spending, and potentially an improvement in domestic consumption as a secondary effect of government spending. Exports, while positive, are not contributing as expected because Thailand has been in a trade deficit year-to-date and is not anticipated to turn into a surplus for the full year.

ECONOMIC OVERVIEW

How has the market fared through the recent volatility?

Kenneth Ng (On India): The Indian market has been weak through October, as high starting valuations, an increasing occurrence of earnings misses, and China's emergence as an alternative emerging market investment destination have converged into concerns on whether India's rally can sustain.

Soh Chih Kai (On Malaysia): Malaysia has done relatively well amidst the volatility encountered so far this year, positioning itself as one of the better-performing markets within the ASEAN (Association of Southeast Asian Nations) region. One of the main contributing factors is the stability of the current government, in contrast to the various government changes seen in Malaysia over the past 6-7 years. Government stability is important as it allows the government to carry out policies to drive economic growth, such as the Madani Economy Framework launched by Prime Minister Anwar Ibrahim in July 2023. Themed "Empowering the People," the Madani framework aspires to make Malaysia as a leading Asian economy and to improve its global standing in economic size, competitiveness, human development, and corruption perception.

The biggest impact from the upcoming U.S. presidential election will likely stem from trade and tariff initiatives that a new President Trump may implement. Nevertheless, Malaysia, with its strategic location, established manufacturing base, skilled workforce, and government incentives, has already benefited from the global supply chain relocation partly prompted by global trade tensions.

Soh Chih Kai (On Indonesia): The Indonesian market has been a laggard in ASEAN in 2024, mainly due to political uncertainty surrounding the Indonesian elections and muted commodity prices compared to 2023.

Looking ahead, we expect the more stable and inclusive political environment under the new Prabowo administration to be conducive for business and economic growth. Additionally, fundamental improvements in the commodity cycle could create a more resilient Rupiah, attracting foreign investors back into Indonesia.

Soh Chih Kai (On Thailand): The market was weak earlier this year due to concerns about the stability of Thailand's governing coalition prior to and following the dismissal of Prime Minister Srettha Thavisin. However, the appointment of new Prime Minister Paetongtarn Shinawatra and the formation of the new cabinet were smoother and swifter than market expectations. This led to a strong rebound in the Thai market following the earlier sharp correction, fueled by optimism that the expansionary economic policies initiated by former PM Srettha will be continued.

The U.S. presidential election may cause near term market volatility, as investors could be apprehensive about the economic policies and geopolitical direction of a new administration under Trump

INVESTMENT OPPORTUNITIES

What are the bright spots in the markets?

Kenneth Ng (On India): The investment opportunities are mostly in industrials and shifting consumption trends.

Within industrials, the key themes are defense indigenization, an urgent need to build power connectivity and capacity, and train infrastructure. There is also a focus on domestic manufacturing and growing exports. Various capital goods and building materials play into this theme, including industrials, pharma, auto components, and materials companies.

In the second basket, one has to look out for how consumption trends are changing as affluence builds up, as distribution channels evolve and as young consumers become a bigger force among the consumers. As wealth builds up, real estate demand is real. So is the theme of financialization of savings.

Soh Chih Kai (On Malaysia): Following up from the various economic policies mentioned earlier, there are certain potential bright spots worth exploring. With the NETR (National Energy Transition Roadmap), the utilities sector appears promising, especially as Malaysia is committed to increasing its renewable energy investments and enhancing its national grid. The New Industrial Masterplan has also provided potential investment opportunities in infrastructure and industrial development, including data center expansion.

Malaysia remains a key player in electronics and electrical manufacturing, particularly in semiconductors. The rise of AI, Industry 4.0, a focus on automation and smart manufacturing, along with the government's National Semiconductor Strategy, which includes incentives, should present further investment potential.

Soh Chih Kai (On Indonesia): The pro-growth Prabowo administration could encourage broader growth across various industries, which have so far been dominated by the strong performance of the banking sector.

The commodity sectors, such as agriculture and metals like copper and nickel, could see improving fundamentals after a cycle of weakness in 2023.

The consumer sector could also benefit from government policies aimed at supporting the low-end economy, while the construction, cement, and housing sectors may benefit from the government's focus on increasing housing supply in overcrowded metropolitan areas.

Soh Chih Kai (On Thailand): Tourism and healthcare related companies should continue to benefit from long-term growth trends. In tourism, higher tourist arrivals are expected to persist as Thailand remains a top destination for visitors to the Asia/Southeast Asia region. In healthcare, greater demand for private healthcare from Thai nationals, as well as an increase in foreign patients seeking medical care in Thailand should sustain earnings growth for the sector.

With the potential pick-up in economic recovery driven by the government's expansionary plans, the consumer sector could also perform well in the near term.

INVESTMENT OPPORTUNITIES

How are government policies and technological advancements shaping investment trends in your market?

Kenneth Ng (On India): Government policies mostly fall under the industrialisation basket. Broadly speaking, a wide range of incentives has been introduced to encourage the migration of supply chain functions across various industries into India.

> *The past decade of Jokowi's administration focused on fiscal prudence and infrastructure development. In the next 5-10 years, a pro-growth Prabowo administration can leverage these foundations to accelerate Indonesia's path to a middle-income economy.*
>
> **- Soh Chih Kai**

For example, the solar power industry has received numerous incentives to drive growth. Similarly, efforts to attract the semiconductor industry aim to support the electronics manufacturing sector in India. The automotive supply chain is another key sector benefiting, as is the pharmaceutical industry. Overall, a variety of sectors are benefiting from the range of technological incentives.

Soh Chih Kai (On Malaysia): With the stability of the government, Prime Minister Anwar has been able to roll out various economic development policies. Key initiatives include the NETR, New Industrial Masterplan 2030, and the National Semiconductor Strategy.

The NETR outlines the country's strategic plan to transition to a more sustainable and low-carbon energy system, while the New Industrial Masterplan is designed to transform and elevate the country's industrial sector over the next decade. The National Semiconductor Strategy is a comprehensive framework aimed to position Malaysia as a global leader in the semiconductor industry.

These economic development policies present potential investment opportunities in Malaysia, provided the government executes them effectively.

Soh Chih Kai (On Indonesia): The pro-growth Prabowo administration could encourage broader growth in various industries, which have so far been dominated by the strong performance of the banking sector.

As mentioned, the consumer sector could also benefit from government policies supporting the low-end economy, such as the Free Lunch program and minimum wage increases. Meanwhile, the construction, cement, and housing sectors could benefit from the government's focus on increasing housing supply in overcrowded metropolitan areas.

> ***Thailand's key economic drivers are tourism, government spending and potentially an improvement in domestic consumption from the secondary effect of higher fiscal expenditures.***
>
> **- Soh Chih Kai**

Government initiatives supporting EV (Electric Vehicles) adoption for transportation could help develop a circular EV economy, from mine to motor. Indonesia has been encouraging EV manufacturers to capitalize on the country's abundant nickel reserves to develop a robust EV ecosystem

Soh Chih Kai (On Thailand): The Thai government has communicated an expansionary plan, which includes continued efforts to digitalize government services, encourage the integration of AI (Artificial Intelligence) in companies, attract FDI higher up the value chain, promote tourism, address the high household debt situation, and introduce gaming (casinos) to the country.
If executed well, these initiatives could encourage investments in sectors poised to benefit, such as IT (Information and Technology) services and infrastructure suppliers (including data centers), industrial real estate developers, tourism-related service providers, banks and finance companies, property and construction, and consumption.

CHALLENGES & RISKS

What challenges are the markets facing?

Kenneth Ng (On India): The biggest challenge facing the Indian market is valuations. India is by no means a cheap market. All the factors mentioned above are well-known and thus reflected in above-average valuations. As a result, when corporate earnings go through a cyclical slowdown, any earnings disappointment can be punished via fairly large swings in share prices.

The other challenge in sustaining these premium valuations is the availability of alternative investment markets. China and India are two of the largest markets within the emerging markets space. Prior to the recent sell down, India's valuations were consistently reaching new highs, based on the argument that China was not an investable market. However, this perception is now being challenged due to China's low valuations and the central government's resolve to tackle all that is ailing in China.

Whether China will emerge as an alternative investment location is perhaps the most important external factor influencing India's market performance. Otherwise, India is a fairly domestic-driven and is less affected by factors such as global interest rates and US election outcomes.

Soh Chih Kai (On Malaysia): In the short to medium term, the main challenges Malaysia faces are largely macro-driven, particularly with regard to potential trade tariff policies the new US president Trump may initiate. Economic uncertainty, driven by global volatility and fluctuations in commodity prices, also poses risks to Malaysia's export-driven economy. Currency fluctuations of the Malaysian ringgit could create uncertainty for international trade and capital flows.

Domestically, although the government has announced various economic policies, Prime Minister Anwar and his ministers must now execute them and deliver the necessary results to improve the livelihoods of the people. Given the high public and household debt, certain necessary but unpopular reforms, such as energy subsidy cuts, have to be carried out. However, these reforms may face backlash from the grassroots population and create discontent among Malaysians.

To build a more resilient and competitive domestic economy that can withstand global uncertainties, the government will aim to implement several strategic responses, including economic stimulus packages, investment incentives such as tax breaks for FDIs, skills development programs, and significant investments in infrastructure. Monetary policies can also be used to manage debt burdens and capital flows.

Soh Chih Kai (On Indonesia): While Indonesia's resource potential and demographics hold great potential for growth, the ability to maintain a stable political environment and an efficient government capable of executing policy intentions are the key factors for success in Indonesia.

The stability of the Rupiah is also paramount for growth, with a favourable current account surplus being an essential ingredient. Political stability is the most important factor in encouraging wealth retention within the country.

Soh Chih Kai (On Thailand): In the near to medium term, the stability of the coalition government is key to sustaining the recovery of the Thai market.
In the longer term, Thailand must realign its industrial production capacity and capabilities to meet global market demands. It needs to invest heavily in education and revamp the curriculum to

equip the workforce with the skills needed to produce higher-value products and services.

2025 OUTLOOK

What major trends will impact the economy in the next 5-10 years?

Kenneth Ng (On India): The major trend in India is that it is likely to be a beneficiary of today's China vs. the West tension. China has been the manufacturing factory for much of the world, for the better part of the past three decades. As the Western world prepares for contingencies in the event of a conflict with China, several developments are unfolding:

1. Companies are diversifying their manufacturing locations out of China to minimize supply chain disruptions in case of access barriers.

2. For critical products like medicine, electronic chips, solar panels, and defense equipment, countries are seeking non-Chinese manufacturing partners. The willingness to approve technology transfers to Indian entities and the intent to buy in volume are helping these industries build expertise and scale.

3. For intermediate products like specialty chemicals and industrial components, carbon reduction targets in China and Europe are partly driving production shifts to India.

4. Lastly, the availability of engineers and pharmaceutical research talent in India also supports the shift of some activities to the country

Soh Chih Kai (On Malaysia): Over the next 5 to 10 years, several major trends are expected to significantly impact the Malaysian economy.

A strong focus on sustainability will drive investments in green technologies and renewable energy to support Malaysia's carbon-neutral goals. Digital transformation and technology adoption will enhance productivity across industries, while efforts to build global supply chain resilience may establish Malaysia as a strategic manufacturing hub.

An aging population will increase demand for healthcare services, and there will be a heightened focus on upskilling the workforce to meet the needs of a rapidly changing job market. Additionally, geopolitical dynamics may influence trade and investment, while urbanisation will drive the need for infrastructure development.

Soh Chih Kai (On Indonesia): Over the next 2-3 years, investments in mineral downstreaming are likely to fully bear fruit, driving GDP growth and exports towards a sustained and stable currency. The effectiveness of the Prabowo administration in driving sustained growth, as well as improving the foundational low-end segment of the economy, will be a key driver for medium and long-term economic growth.

Soh Chih Kai (On Thailand): Thailand has an aging population, which will impact economic productivity and consumption growth in the medium to long term. This is a common issue faced by many countries, especially developed nations. The Thai government needs to address this by introducing policies to reverse the declining fertility rate. Additionally, the Thai government must tackle deficiencies in the public education system to equip students with the relevant skills and knowledge to meet the fast-changing demands of the global economy.

2025 OUTLOOK

What is the key takeaway for investors in your market?

Kenneth Ng (On India): The key takeaway for an India investment position is that there are multiple developments within India that can enable India equities to be one of the structural stories of the coming decade. India has given 14% compounded returns over the last twenty years, and we see enough catalysts for it to still repeat that in the next twenty.

Soh Chih Kai (On Malaysia): The key takeaway for investors looking to invest in Malaysia is to appreciate the combination of government stability, growth potential, and resilience. Malaysia has finally achieved some political stability, providing a platform for the government to implement policies that will grow the economy. The government is working to create a better business environment and attract foreign investments, while focusing on digital transformation and sustainability. They are also investing in infrastructure and manufacturing, creating numerous opportunities in these areas.

Amidst the global volatility and trade tensions, Malaysia can provide a safer haven for investing and is one of the beneficiaries of the global supply chain relocation.

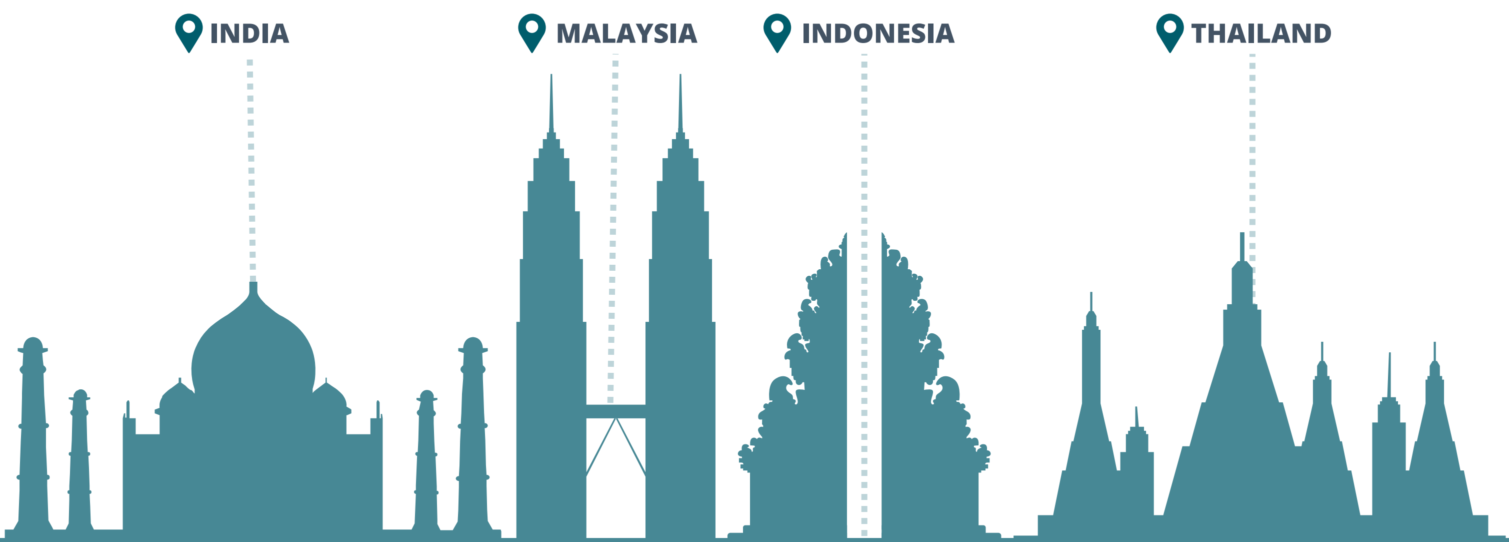
Soh Chih Kai (On Indonesia): The previous 10-years of Jokowi's administration has been marked by fiscal prudence, as well as infrastructure development. Over the next 5-10 years, a pro-growth Prabowo administration can take advantage of the infrastructure foundations laid by Jokowi to develop a pro-growth strategy to accelerate Indonesia's path towards a middle income economy.

Indonesia's foreign policy is likely to be more strategic, with the foreign and military experience of Prabowo enabling Indonesia to be more independent and relevant in a multipolar world. This can enable foreign investors to recognize the stability of Indonesia as an investment destination.

Soh Chih Kai (On Thailand): If the current coalition government remains in office for its full term, Thailand's economy is likely to continue its recovery in the near term, given the expansionary bias of government policies. This could potentially spur corporate earnings growth, supporting market performance.

In the medium to longer term, policies addressing key issues for Thailand's economy such as population growth and the education system, need to be followed regardless of the governing party, as these affect the longer-term economic prospects.

All data are sourced from Lion Global Investors and Bloomberg as at 7 November 2024 unless otherwise stated.



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