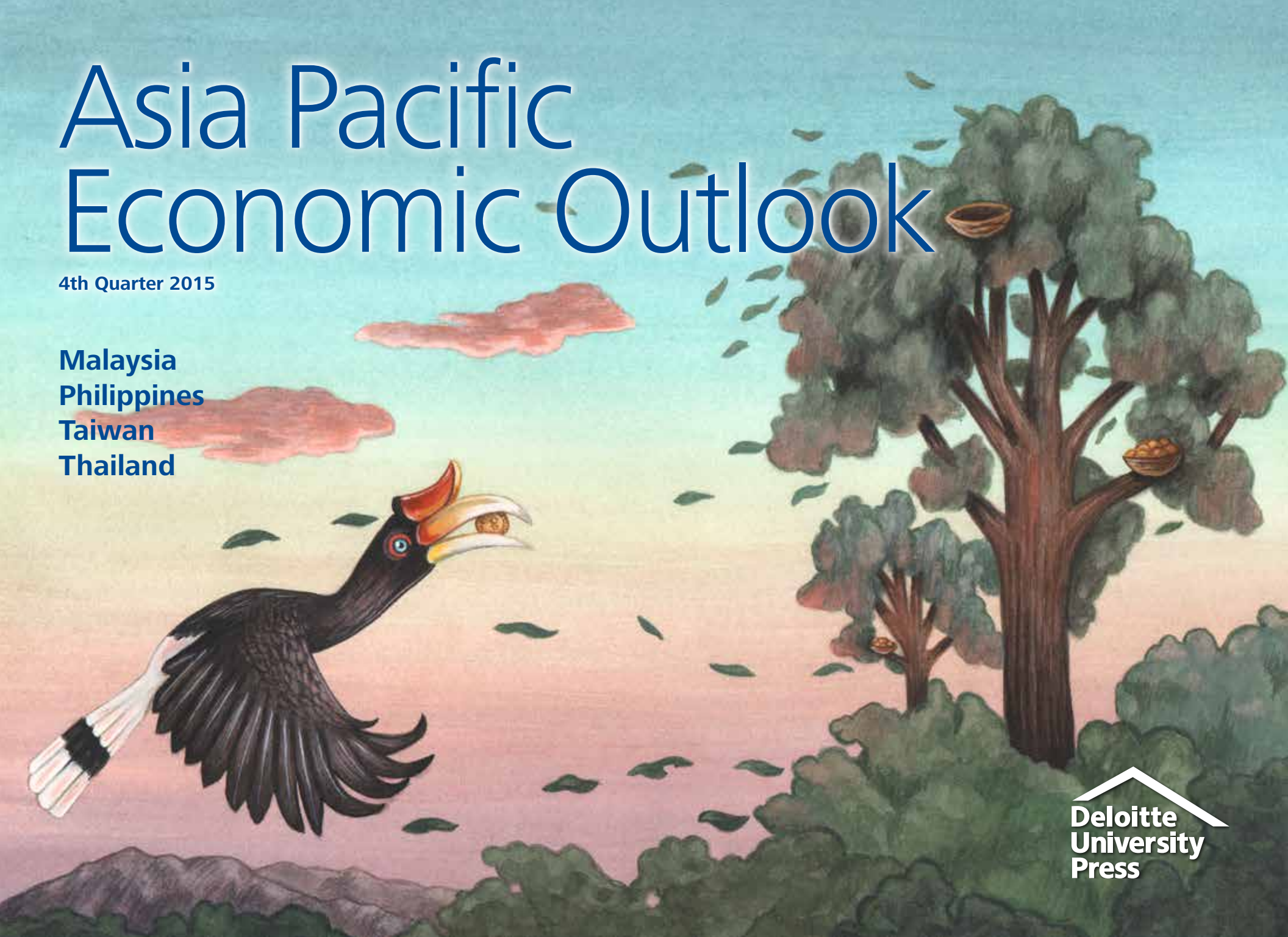
Asia Pacific Economic Outlook

4th Quarter 2015

Malaysia
Philippines
Taiwan
Thailand



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Contents

Underlying weakness in economic fundamentals, too, contributed to the slowdown.

Malaysia

Under severe stress, but not frail yet

By Dr. Rumki Majumdar

DECADES of strong growth has put Malaysia within sight of achieving the high-income status. In 2014, the economy enjoyed 6 percent annual growth. However, lately, the economy has been experiencing strong headwinds. Economic growth lost momentum in Q2 2015 and grew 4.9 percent year over year,[1] marking the slowest growth since 2013. The introduction of the goods and sales tax (GST) in April 2015 and low prices of liquefied natural gas (LNG), one of Malaysia's key exports, due to sluggish external demand were the primary reasons for slower growth.

Underlying weakness in economic fundamentals, too, contributed to the slowdown. Private consumption expenditure growth, which was at its lowest in four years, grew 6.4 percent in Q2, down from 8.9 percent growth in Q1. A weak labor market and high inflation resulted in lower private consumption expenditure, which was primarily driven by spending on food and beverages, transportation, and communication in Q2.

Gross fixed capital investment growth fell sharply in Q2 from 7.9 percent in Q1 to 0.5 percent, marking a record low for the series. The fall was partly due to contraction in spending on machinery and new equipment. Public investment also contracted by 8 percent as projects in the oil and gas sector were either scaled back or canceled due to falling oil prices. In general, high interest rates,

low business confidence, and poor economic reforms led to weaker private sector investment in the economy.

Impact of falling oil prices

Lower global oil and LNG prices in 2015 have impacted both Malaysia's fiscal and current account balances. The government's oil and gas income, which accounted for 31 percent of total government revenue in 2014, has been suppressed by lower oil prices, which have partly offset the benefits to public finances due to the recent removal of fuel subsidies and the introduction of the GST. Most likely, lower revenues will also impede the government's fiscal consolidation efforts, and the fiscal deficit may widen to over 3 percent of the GDP in the next few years.

Lower oil prices have also weighed on export receipts of energy producers. The prices of LNG, which constituted 8.4 percent of Malaysian exports by value in 2014, have also fallen significantly. Consequently, lower exports have partly offset reduced energy import bills because of lower global oil prices. The merchandise trade balance, and, thereby, the current account surplus is expected to shrink in the coming years.

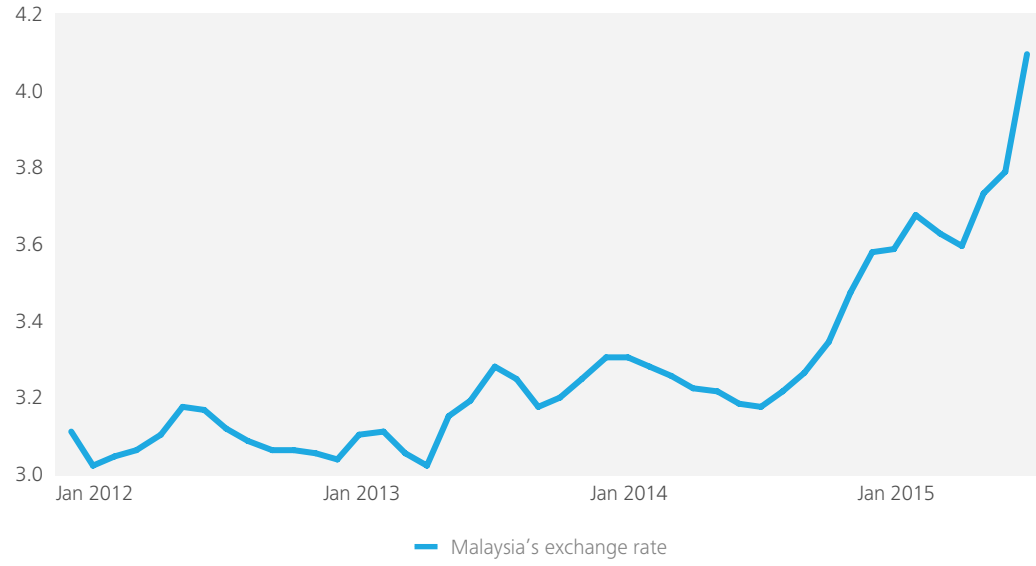
However, lower oil prices have eased inflation pressures. The economy has been experiencing a steady rise in prices since the beginning of 2015. Inflation jumped from 2.5 percent in June to 3.3 percent in July, marking a six-month high. Falling oil prices are likely to bring down the producer price index, and consumer price inflation may ease in 2015–16.

Currency in trouble

Lately, Malaysia's currency has come under immense pressure due to poor economic performance, fiscal challenges, and volatility in capital outflows. In addition, political scandal around the alleged mismanagement of funds and the suspected involvement of the prime minister have weakened the government's position and added to political uncertainties. External factors, such as China's economic slowdown and devaluation of the Chinese renminbi, have resulted in faster depreciation of the Malaysian ringgit. The anticipated policy rate hike in the United States this year and soft energy prices have also aided the fall.

Recently, the ringgit depreciated to levels not seen since the Asian financial crisis of the

Figure 1. Sharp depreciation in the ringgit



Source: Bank Nagara Malaysia, Haver Analytics, Deloitte Services LP economic analysis.

Graphic: Deloitte University Press | DUPress.com

The government's oil and gas income, which accounted for 31 percent of total government revenue in 2014, has been suppressed by lower oil prices, which have partly offset the benefits to public finances due to the recent removal of fuel subsidies and the introduction of the GST.

late 1990s. Foreign reserves have fallen by more than 25 percent over the past year, indicating that the central bank has continually intervened in the foreign exchange market to limit further depreciation of the ringgit, currently Asia's worst-performing currency.

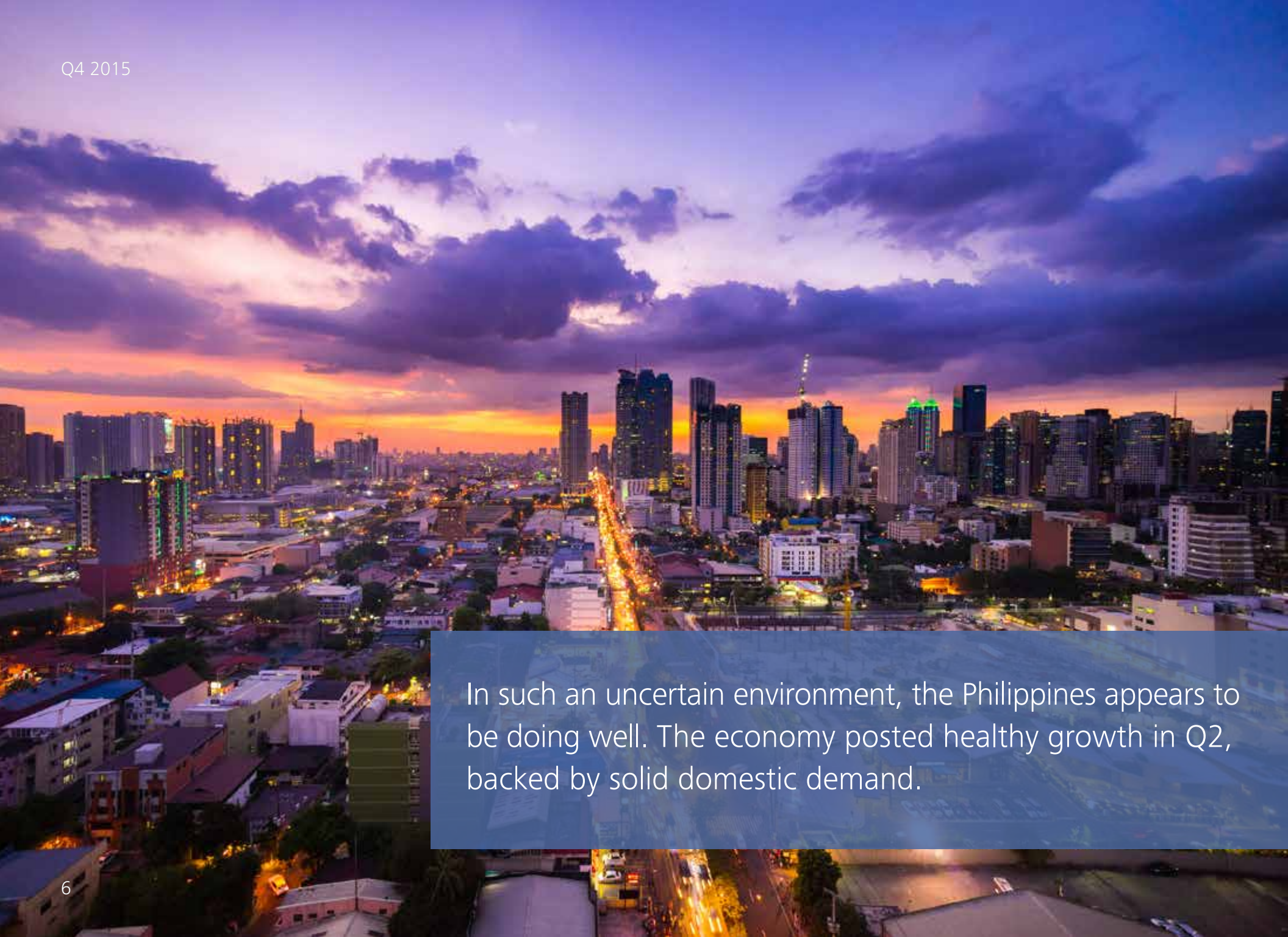
The central bank has promised to refrain from capital controls, which implies that domestic concerns and global uncertainties may accelerate capital outflows in the near term. This will likely put further downward pressure on the ringgit. However, it is highly unlikely that the central bank will hold itself back when faced with a sharp depreciation in the ringgit. As a matter of fact, there are rising market expectations that the central bank may raise interest rates in the upcoming monetary policy meetings to check further depreciation in the currency.

However, increasing interest rates may stifle capital investment and consumer demand, and may pose a threat to already slowing growth. A tighter monetary policy may not bode well for a highly indebted Malaysian economy. Key sectors of the economy are knee-deep in debt. Household debt stabilized in 2014, but continues to remain high at around 88 percent of GDP. Corporate debt is also high, and since most of it is dollar-denominated, a depreciating currency may weaken corporate balance sheets, as well as add stress on banks that lent money to these corporates.

Despite challenges, the economy is expected to maintain a robust growth track in the long term. The government's upcoming 11th Malaysia Plan 2016–2020 is crucial to ensure Malaysia remains competitive in a rapidly evolving region. In addition, the government is aiming to achieve the status of a developed nation by 2020 through rapid investment in infrastructure. All these will likely help the economy sail through challenging times.

Endnotes

1. Growth will be measured year over year in this article, unless specified otherwise.



In such an uncertain environment, the Philippines appears to be doing well. The economy posted healthy growth in Q2, backed by solid domestic demand.

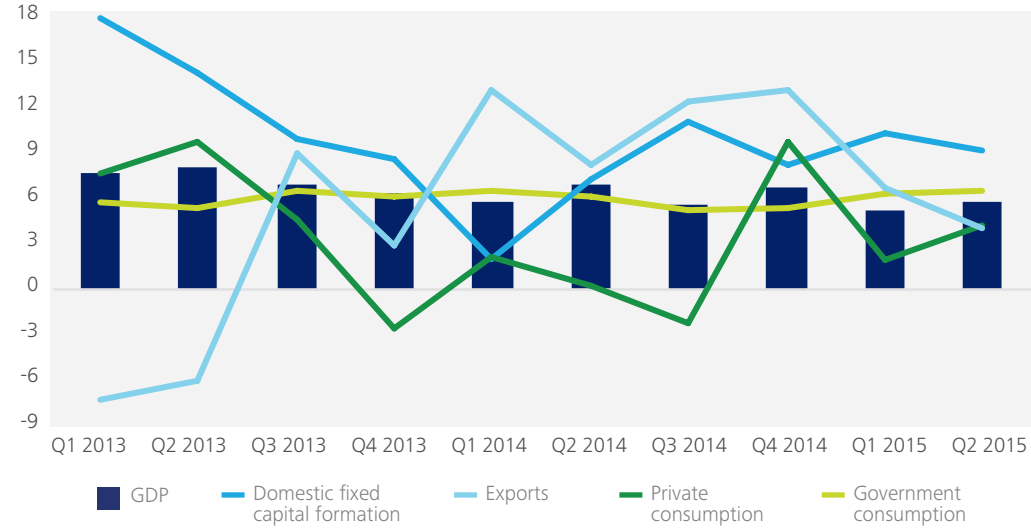
Philippines

Going good in turbulent times

By Akrur Barua

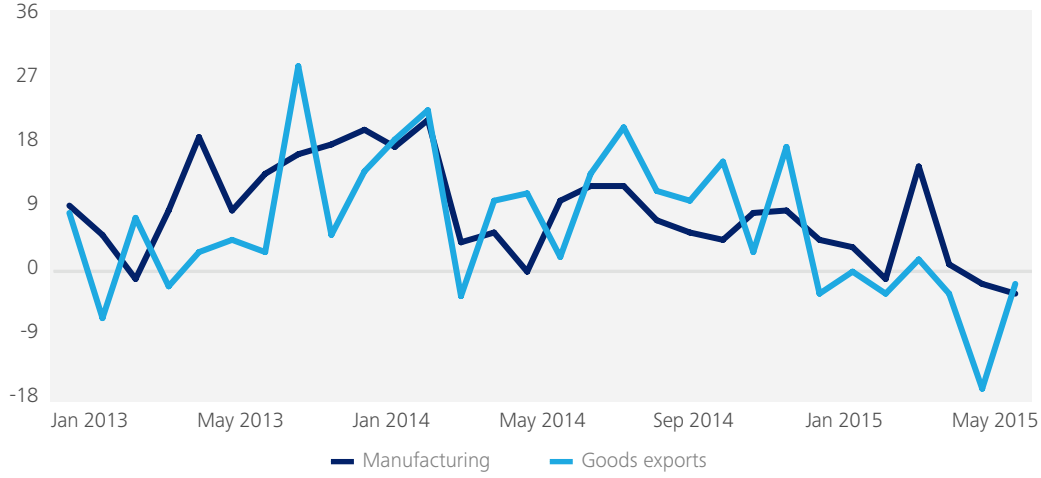
THESE are testing times for the world economy. Sluggish growth in the United States and Europe, a slowing China, uncertainty over monetary policy tightening in the United States, and a sudden yuan devaluation in August have dented financial markets and currencies. In particular, GDP growth is likely to be a casualty for many emerging economies. In such an uncertain environment, the Philippines appears to be doing well. The economy posted healthy growth in Q2, backed by solid domestic demand. With presidential elections slated for May 2016, public spending is also set to rise. Add to it solid external balances, low inflation, and rising remittances, and the economy looks poised to ride out the current global uncertainty. There are, however, two points of caution. First, elections next year will likely bring policy uncertainty, thereby weighing on private investments. Second, slow growth in China will impact Filipino exports. Consequently, annual GDP growth for the Philippines is likely to fall short of the government's 7 percent target in 2015 and will instead end up in the 5.5–6.0 percent range.

Figure 1. Private consumption contributed strongly to GDP growth (percent) in Q2



Source: Haver Analytics; Bloomberg; Deloitte Services LP economic analysis. Graphic: Deloitte University Press | DUPress.com

Figure 2. Declining exports are weighing on manufacturing growth (percent)



Source: Haver Analytics, Deloitte Services LP economic analysis. Graphic: Deloitte University Press | DUPress.com

GDP growth picks up pace in Q2 2015

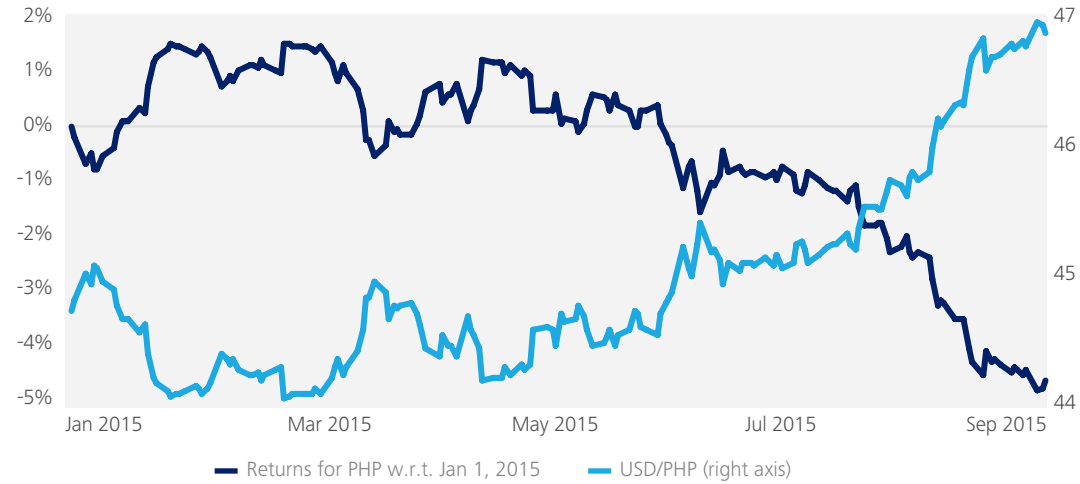
In Q2, the economy expanded by 5.6 percent year over year, up from 5.0 percent in Q1. Strong domestic demand came to the economy's aid in the face of a weak external sector. Private consumption growth rose to 6.2 percent in Q1 from 6.0 percent in Q1. Consumers benefitted primarily from low inflation and healthy remittances. Government consumption more than doubled to 3.9 percent in Q2 from Q1 due to speedier disbursements of funds for infrastructure. According to the Department of Budget and Management, government spending on infrastructure and capital outlay went up by 37.3 percent in Q2.[1] Fixed investment growth slowed down a bit in Q2. However, at 8.9 percent, the figure is still a healthy one.

Exports grew a muted 3.7 percent in Q2, down from 6.4 percent in Q1. This was the slowest pace of export growth since Q4 2013. Slow growth in China, the third-largest market for exports from the Philippines, has been weighing on export growth in recent times. In June, goods exports fell 1.8 percent, continuing from a 17.4 percent decline in May. Slowing exports are also reflected in weak manufacturing data. In June, manufacturing output fell by 3.6 percent, the second straight month of contraction.

BSP to keep rates on hold in 2015

In its August meeting, the Bangko Sentral ng Pilipinas (BSP) decided to maintain its current stance on monetary policy. Pressure has mounted on the BSP in previous months to ease rates due to slowing exports and their impact on GDP growth. Price pressures have also been low, with inflation below the lower threshold of the BSP's 2–4 percent target since May. However, the BSP has been cautious due to a weakening peso even though the currency has fared better than peers such as the Malaysian ringgit and the Indonesian rupiah. Speculation related to a US Federal Reserve (Fed) hike and the sudden yuan devaluation in August has forced the peso down by 4.6 percent against the US dollar this year. Also, despite low inflation, BSP is worried that an elongated dry season could impact grain prices and hence push up inflation. Most importantly, the logic of a rate cut is in contrast to strong domestic demand growth (above 6 percent so far this year). In such a scenario, the BSP is not likely to ease rates in the near term. Instead, it will keep an eye on moves by the Fed and its impact on the peso. In fact, a Fed hike could prompt the BSP to hike rates in 2016 to maintain the current interest rate differential.

Figure 3. The peso fell to a five-year low against the US dollar in September



Source: Bloomberg, Deloitte Services LP economic analysis.

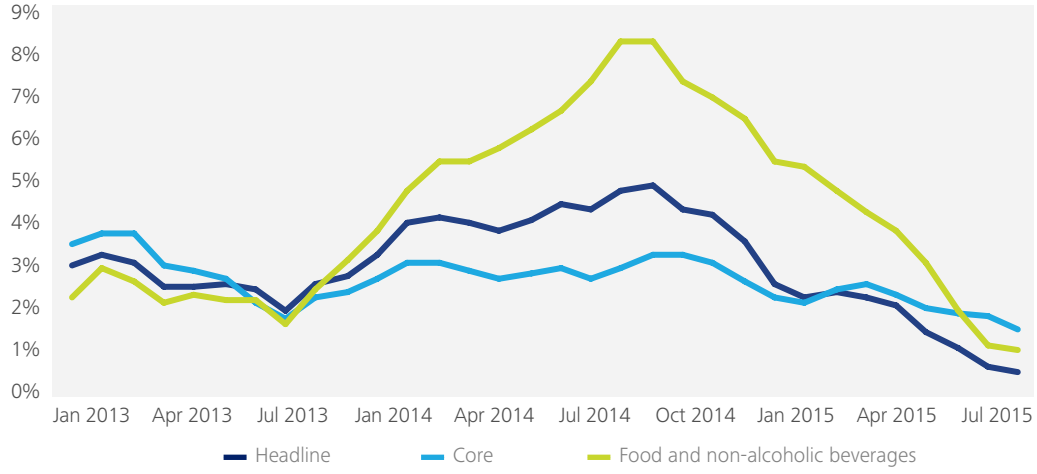
Graphic: Deloitte University Press | DUPress.com

Private consumption to remain a key growth driver

Consumers, yet again, are expected to be the bulwark of the economy this year. The unemployment rate (seasonally adjusted) fell to 6.2 percent in Q2 from 6.4 percent in Q1.[2] The labor market is likely to improve further if the pace of government spending, especially on infrastructure, increases. Consumers will also continue to benefit from low inflation. In August, headline inflation was a mere 0.6 percent, continuing its steady decline since January. Slowing food and fuel prices have

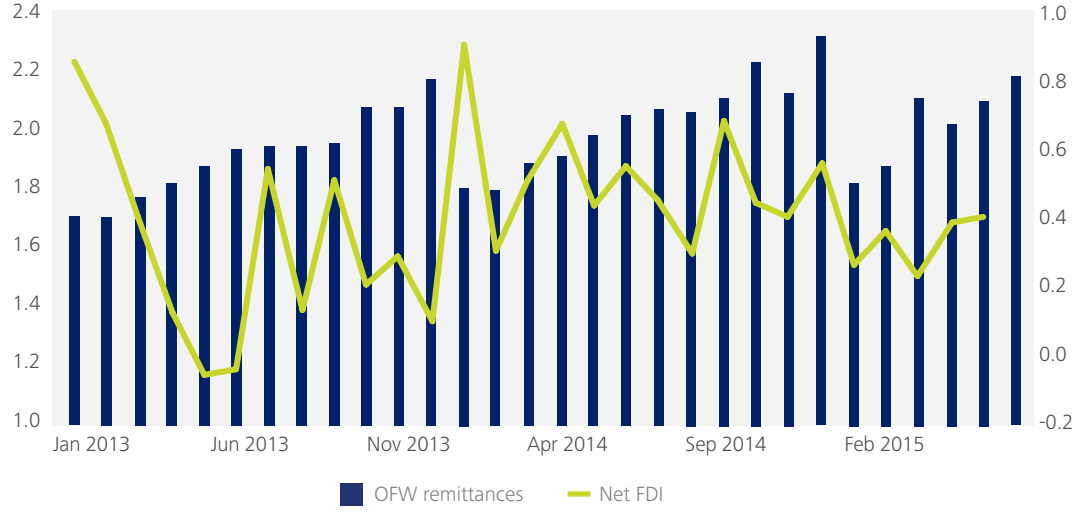
Although price pressures are likely to bottom out in the coming months, inflation will remain relatively low this year, thereby aiding consumer finances.

Figure 4. Inflation has gone down sharply this year, benefitting real income



Source: Haver Analytics, Deloitte Services LP economic analysis. Graphic: Deloitte University Press | DUPress.com

Figure 5. Remittances (USD billion) are up, but net FDI (USD billion) is down



Source: Haver Analytics, Deloitte Services LP economic analysis. Graphic: Deloitte University Press | DUPress.com

percolated down to core inflation (1.6 percent in August) as well. Although price pressures are likely to bottom out in the coming months, inflation will remain relatively low this year, thereby aiding consumer finances. Remittances will also add to strength in private consumption. Remittances by overseas Filipino workers (OFW) grew 6.3 percent year over year in June and are up by about 5.8 percent in the first half of the year.

The need to keep up the momentum

One of the weak links of the country has been government spending, which, as a share of GDP, is much lower than regional peers'. In Q1, low government spending was a key factor weighing on economic growth. There are signs, however, that public spending growth is slowly recovering. For example, public construction went up by 20.4 percent year over year in Q2, reversing from a sharp fall in Q1. The budget for FY 2016 has also been passed with large outlays for economic and social spending. But, the budget itself might not be enough. The government could benefit from speeding up implementation of planned public-private partnership (PPP) schemes. A move in July to initiate bidding for a key railway project is a welcome breather.

Accelerating the pace of implementation of such projects is also important given that presidential elections are due in 2016. As these elections draw near, political uncertainty could increase, thereby forcing businesses to deter investment plans. Already, this appears to be a factor weighing on net foreign direct investment (FDI), which fell by 41.9 percent year over year in the first five months of 2015. It is critical for policymakers not to lose the economic momentum of the past few years until a new government takes over in 2016. This is particularly true when economic fundamentals in the country are still strong, with a strong current account surplus, a healthy fiscal balance, and low household debt.

Any new administration will have to continue to focus on making the economy more competitive in the medium to long term. It will help the Philippines move up the value chain in both services and manufacturing. Such a strategy will not only provide jobs and aid small and medium enterprises, but will also help to enhance the country's economic prowess within Asia, a region set to emerge as the nerve center of global growth over the next decades.

Endnotes

1. Official Gazette (Department of Budget and Management), "Infrastructure spending increases by 37.3 percent in second quarter," August 26, 2015; http://www.gov.ph/2015/08/26 infrastructure-spending-increases-in-2nd-quarter/.
2. Seasonally adjusted by Haver Analytics.

The weakness in exports had a spillover effect on business investment which has performed poorly.

Taiwan

China's weakness takes a toll

By Dr. Ira Kalish

THE unexpectedly severe weakness of the Chinese economy is taking a toll on Taiwan. In the second quarter, Taiwan's real GDP was down 2.0 percent from the first quarter, the sharpest quarterly decline since the fourth quarter of 2008 at the height of the global financial crisis.[1] This was due to an unusually sharp drop in exports. Moreover, the decline in exports clearly continued into the early part of the third quarter, with July exports down 11.9 percent from a year earlier and August exports to China and Hong Kong down 16.6 percent.[2] Taiwanese exports to China and Hong Kong account for about 40 percent of the country's total exports. Exports to China and other East Asian economies fell sharply in the first half of 2015, while exports to the United States and Europe, which together account for a little less than 20 percent of exports, fell only modestly. Moreover, the weakness in exports had a spillover effect on business investment which has performed poorly. Thus, even if growth recovers in the third and fourth quarters, it is likely that full-year growth of the Taiwanese economy will be less than half the 3.8 percent growth clocked in 2014.

On the other hand, Taiwan's consumer sector continued to grow at a steady pace. A combination of lower oil prices, wages rising faster than the very low level of inflation, and continued job growth have contributed to strength in domestic demand. However, as the impact of a weak Chinese

economy continues, it could undermine the growth of employment and wages. Still, unemployment is very low right now, productivity is growing at a strong pace, and prices are actually falling. Thus, a continued increase in real (inflation-adjusted) wages seems likely in the coming year. That, in turn, should be helpful in boosting consumer demand. Nevertheless, Taiwan has become increasingly dependent on exports in recent years. Thus, China's continued weakness will be a source of concern.

China's weakness influences the Taiwanese economy in several ways. First, Taiwanese exports to China are an integral part of China's manufacturing supply chain. The weakness in Chinese exports hurts the pipeline through which Taiwan supplies China with components used to make finished products, particularly in electronics. Second, the weakening of Chinese business investment affects Taiwan, as the country supplies China with technology products that are used for investment purposes.

Finally, Taiwan's financial system is integrated with that of China. Taiwanese banks hold a large volume of loans to Chinese businesses. In fact, China is the largest foreign debtor to Taiwanese banks. If China's financial system becomes stressed, it could have a negative impact on Taiwanese bank earnings.

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The good news

On the positive side, Taiwan has benefitted from the decline in oil prices, thus suppressing inflation to the point where prices are now declining. Not only has this boosted consumer spending power, it has also given the central bank room to devalue the currency without fear of igniting inflation. Consequently, the central bank allowed the currency to depreciate during the summer in an effort to boost the competitiveness of exports—or at least to avoid an appreciation against the Chinese currency as China engaged in devaluation. The Taiwanese currency is now at its lowest level against the US dollar in about six years. Moreover, given that Taiwan is currently experiencing consumer price deflation, it needn't worry about the inflationary effects of further currency depreciation. As such, when the US Federal Reserve raises interest rates in the next few months and years, Taiwan may be able to avoid raising interest rates and could even choose to cut rates if the economy weakens further. Indeed the central bank has held its benchmark rate at 1.875 percent since 2011.[3] Also, given that Taiwan runs a current account surplus (which means that it is, on balance, lending to the rest of the world), Taiwan needn't worry about the consequences of an increase in capital outflows. As such, the country is in a favorable position in terms of its financial relationship with the rest of the world.

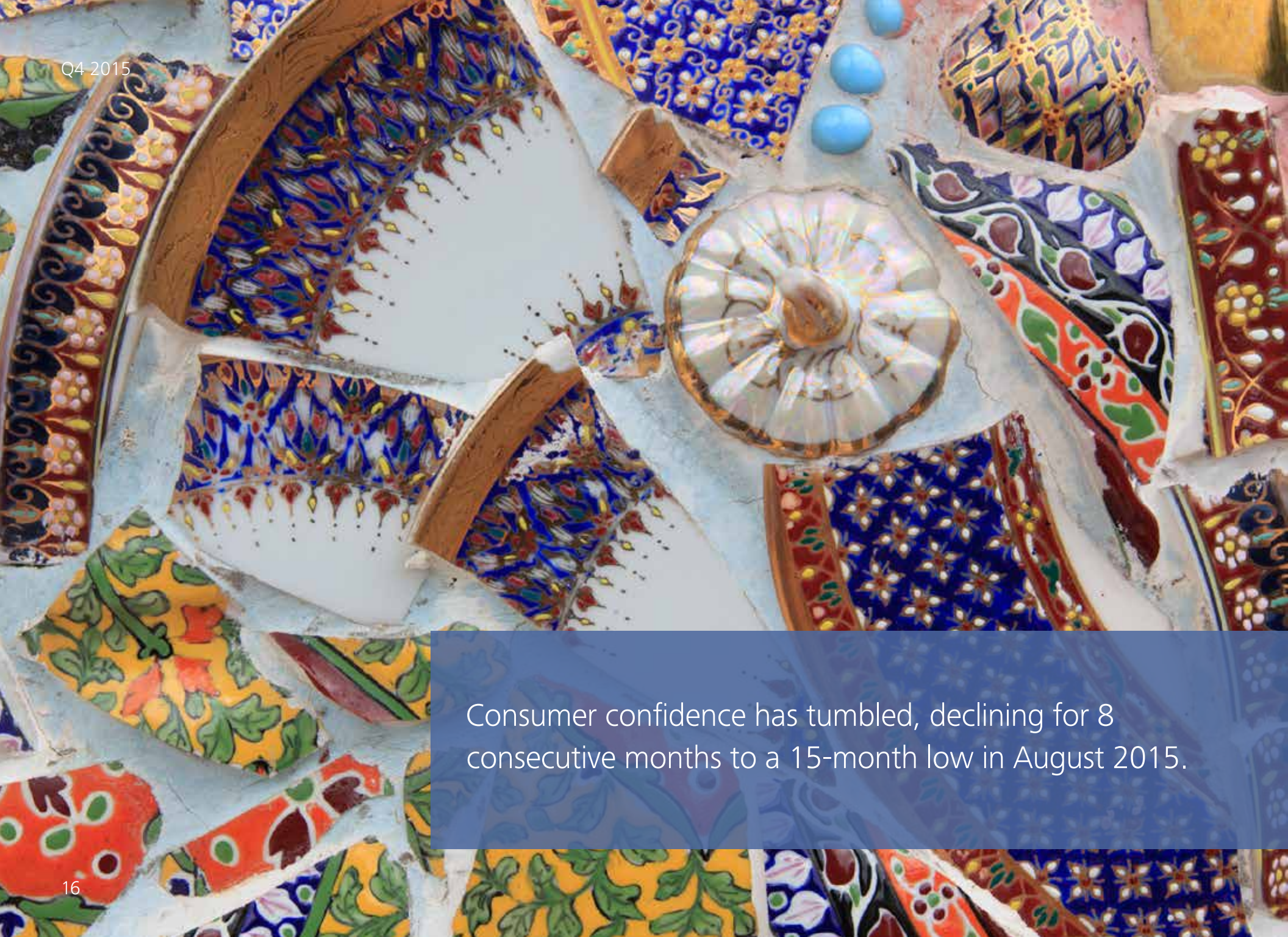
In addition, the government's finances are in good shape, with a barely perceptible budget deficit of less than 1 percent of GDP, and a debt/GDP ratio of less than 33 percent.[4] Thus, the government retains considerable flexibility if it chooses to use fiscal policy to offset the negative impact of weak external demand.

Politics

The current Kuomintang Party (KMT) government will face voters in early 2016, and the latest polls suggest it has an uphill battle to remain in power. The KMT has been friendly with China and has encouraged closer economic relations, especially through its proposal for an unpopular Trade in Services Agreement with China. Critics claim that this agreement will make Taiwan too economically dependent on China. They note that Taiwan has lost jobs to China as trade and investment has been liberalized. They complain about Taiwanese companies investing heavily in China. Proponents of the agreement point out that Taiwan is very dependent on the export of manufactured goods, especially IT and telecom goods, and that liberalization of services trade will allow Taiwan to diversify its economy—even if that means more economic interaction with China. If the KMT loses the election, it could have a negative impact on further economic integration with China. This would depend on which opposition party emerges as the most powerful. There is the Democratic Progressive Party which is averse to closer ties with China, and there is the People First Party, which favors closer ties with China.

Endnotes

1. Oxford Economics, "Country economic forecast," Taiwan, August 2015.
2. National Statistics, Republic of China (Taiwan), "Latest indicators," http://eng.stat.gov.tw/mp.asp?mp=5.
3. Oxford Economics, "Country economic forecast," Taiwan, August 2015.
4. Oxford Economics, "Country economic forecast," Taiwan, August 2015.



Consumer confidence has tumbled, declining for 8 consecutive months to a 15-month low in August 2015.

Thailand

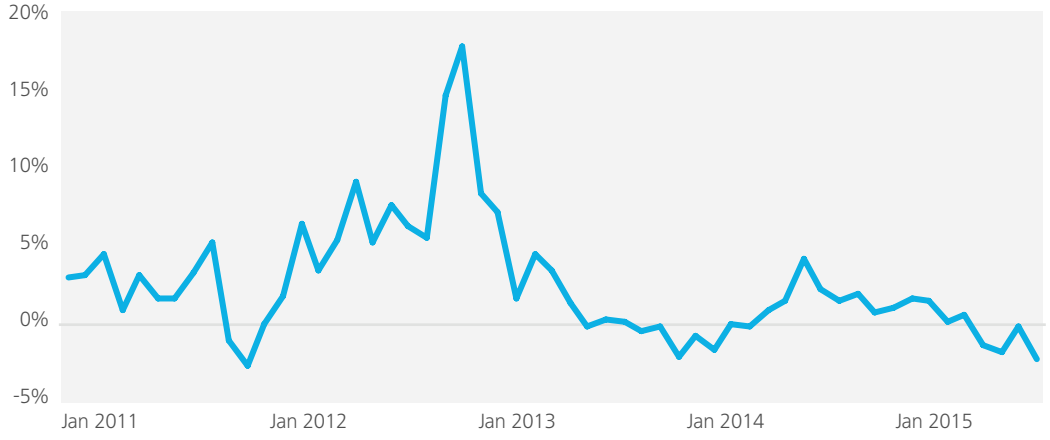
A lackluster recovery

By Lester Gunnion

THAILAND'S economic recovery has been uninspiring. Economic growth continues to be reined in by weak private consumption and investment and the absence of growth in exports. Household debt remains perilously high, and the country's future political path is still uncertain. Consequently, consumer confidence has tumbled, declining for 8 consecutive months to a 15-month low in August 2015. On the external front, weak demand has stymied growth in exports. Further cause for concern stems from a slowing Chinese economy, the devaluation of the yuan, and the impending interest rate hike by the US Federal Reserve.

Thailand's weak economic performance over the first half of the year resulted in the Bank of Thailand (BOT) lowering its annual growth forecast for 2015. Factors promoting growth through the near term such as a recovery in tourism, low oil prices, and an accommodative monetary policy are likely to be overshadowed by the downside risks to overall economic performance. It is therefore likely that the BOT will further lower its forecast for GDP growth in 2015.

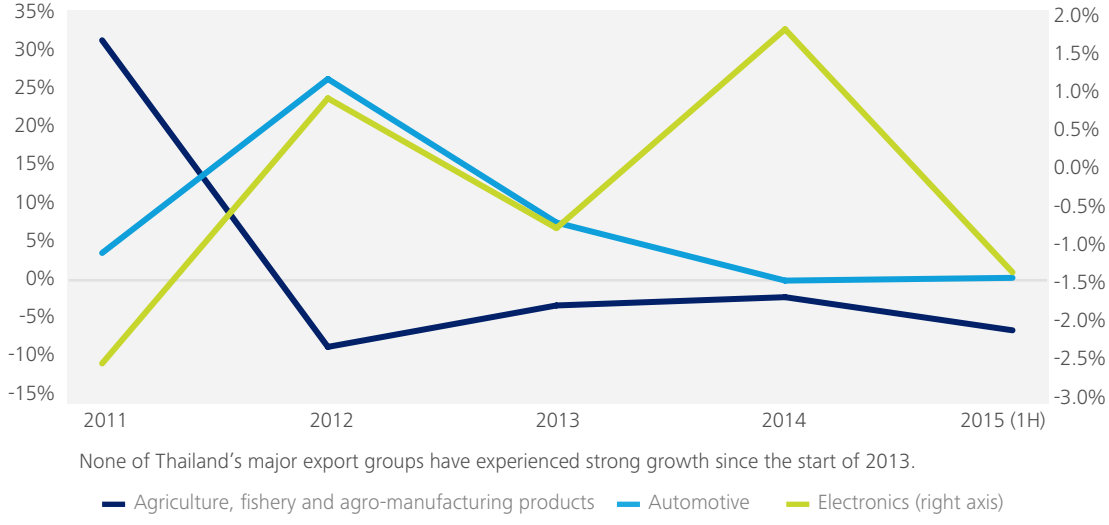
Figure 1. Private consumption index, % change YoY



Year-over-year private consumption growth in Thailand has remained weak over the last couple of years.

Source: Haver Analytics, Deloitte Services LP economic analysis. Graphic: Deloitte University Press | DUPress.com

Figure 2. Thailand's major exports, % change YoY



None of Thailand's major export groups have experienced strong growth since the start of 2013.

Source: Haver Analytics, Deloitte Services LP economic analysis. Graphic: Deloitte University Press | DUPress.com

A weak first half results in lower annual growth forecast

Thailand's economy grew 2.9 percent year over year in the first half of 2015. However, the weak base for calculating year-over-year growth in 2015 (weak growth in 2014) misrepresents the actual state of the economy.

Quarter-over-quarter figures reveal a more realistic picture. On a quarter-over-quarter seasonally adjusted basis, growth in Q1 slowed to just 0.3 percent from 1.1 in the previous quarter. Growth in Q2 was marginally better than in Q1 but still weak at just 0.4 percent.[1]

Weak economic data resulted in the BOT revising its annual growth forecast for 2015 to 3.0 percent from an earlier estimate (April 2015) of 3.7 percent.[2] The likelihood of further downward revision remains high.

Production figures remain weak

On a quarter-over-quarter seasonally adjusted basis, the agriculture sector declined 1.5 percent in Q1, followed by a further decline of 1.0 percent in Q2. This sector is significant, as the livelihood of Thailand's large rural population (more than 50 percent of the total population) is either directly or indirectly linked to agriculture. The sharp decline in agriculture is a result of the El-Nino-fueled drought

Though a weaker baht would benefit exporters and add some much-needed inflationary pressure, a combination of downside risks makes robust economic growth a highly unlikely prospect in the near term.

that affected several provinces in Thailand. A further blow to the sector came from low global prices for the country's major crops, namely, rice, rubber, and sugar.

In the non-agriculture sector, manufacturing declined 0.5 percent in Q1 and 1.8 percent in Q2 as both internal and external demand remain weak. The surge in construction in Q1 failed to spill over into Q2.

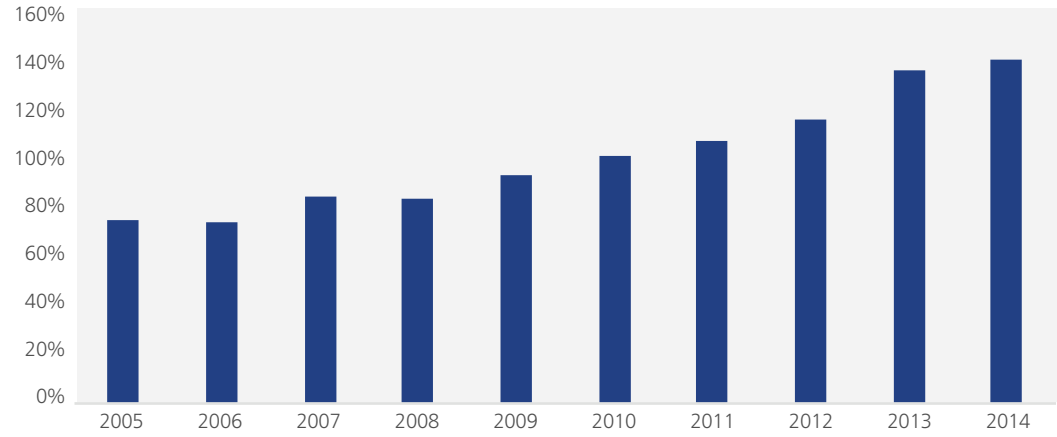
Expenditure growth remains sluggish

On a quarter-over-quarter seasonally adjusted basis, private consumption expenditure has improved since a weak fourth quarter last year. Growth has edged up from -1.3 percent in Q4 to 0.7 percent in Q1 and then to 1.0 percent in Q2. Though the improvement is encouraging, growth in private consumption remains too weak to make a significant contribution to GDP growth. Weak private consumption stems from a decline in consumer confidence. The consumer confidence index compiled by the University of the Thai Chamber of Commerce fell to 72.3 in August 2015, the lowest level since May 2014 when military rule began.[3]

In Q2, both private and public investment declined, reversing growth in Q1. Private investment declined by 3.1 percent, while public investment declined by 8.8 percent. As a result, total fixed capital formation declined 3.7 percent quarter over quarter in Q2 after growing 6.9 percent in Q1.

Trade was also weak in the first half of the year. Exports contracted 3.9 percent in Q1 and 1.0 percent in Q2. Imports fell by 0.6 percent and 2.2 percent respectively.

Figure 3. Thailand's household debt, % of disposable income



High household debt remains a major concern for the Thai economy.

Source: Oxford Economics, Deloitte Services LP economic analysis.

Graphic: Deloitte University Press | DUPress.com

Thailand's export woes are linked to an uneven global recovery

Export growth is critical to the success of Thailand's economy. Exports account for more than 60 percent of Thailand's GDP.[4] However, Thailand's exports have shrunk over the last two calendar years and are likely to shrink this year as well. The BOT forecasts a drop in exports of more than 1.5 percent in 2015.[5] Exports in terms of US dollars have fallen every month for the first seven months of 2015, declining 7.7 percent in June from a year ago, the largest drop since late 2011.[6]

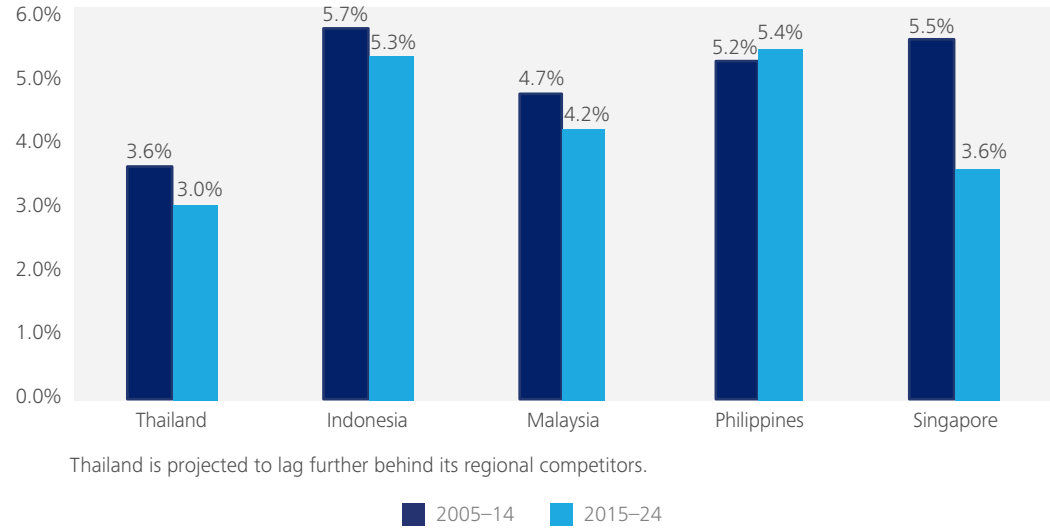
Thailand's weak export performance is likely linked to the uneven recovery of the global economy. Exports to China, Thailand's largest trading partner, accounted for 11 percent of total exports in 2014. Exports to the United States, European Union, and Japan accounted for 10.5 percent, 10.3 percent, and 9.6 percent of total exports in 2014, respectively. Furthermore, the Association of Southeast Asian Nations (ASEAN) accounted for 26 percent of Thailand's total exports in 2014. Strikingly, in the first half of 2015, Thailand's exports to almost all its major trading partners declined relative to the same period a year ago. Exports to China fell 7 percent, while exports to the European Union and Japan fell 7 percent and 6.6 percent respectively. A slowdown in China has far-reaching effects, indirectly resulting in Thailand's exports to ASEAN shrinking by 4.2 percent in the first half of 2015. China's recent devaluation of the yuan is yet another concern for Thai exporters, as a weaker yuan is likely to weaken the purchasing power of China's importers. The only bright spot for Thailand's exports is the United States, which climbed 4.1 percent from a year ago in the first half of 2015.

Another factor behind Thailand's weak export performance is that some of its electronic exports are outdated in terms of technology. For example, Thailand is the world's second-largest producer of hard disk drives. However, hard disk drives, used primarily in personal computers, are being replaced by solid state drives that are used in tablets. Electronics are the largest component of Thailand's export portfolio (14.6 percent of total exports in 2014). Year-over-year growth in electronics exports

averaged more than 8 percent between 2005 and 2010 but slowed to -0.2 percent from 2011 to 2014. Weak growth has continued into 2015 as well (-1.4 percent in the first half of 2015). Thailand will need to get a foothold in the high-tech supply chain if it is to register growth in this segment. This will be a challenge as manufacturers move to countries such as Vietnam and the Philippines where labor is cheaper.

Thailand's automotive sector has not fared much better. Automotive exports grew 0.7 percent in the first half of 2015 after registering just 0.1 percent growth in 2014. Furthermore, agriculture and related sector exports contracted by 6.3 percent in the first half of 2015, continuing from a 1.9 percent contraction in 2014.

Figure 4. Average annual potential GDP growth, %



Source: Oxford Economics, Deloitte Services LP economic analysis. Graphic: Deloitte University Press | DUPress.com

Downside risks are likely to overshadow the positives

Factors such as political uncertainty, high household debt, the possibility of a further slowdown in China, and an impending hike in interest rates in the United States are likely to overshadow the drivers of near-term growth in Thailand.

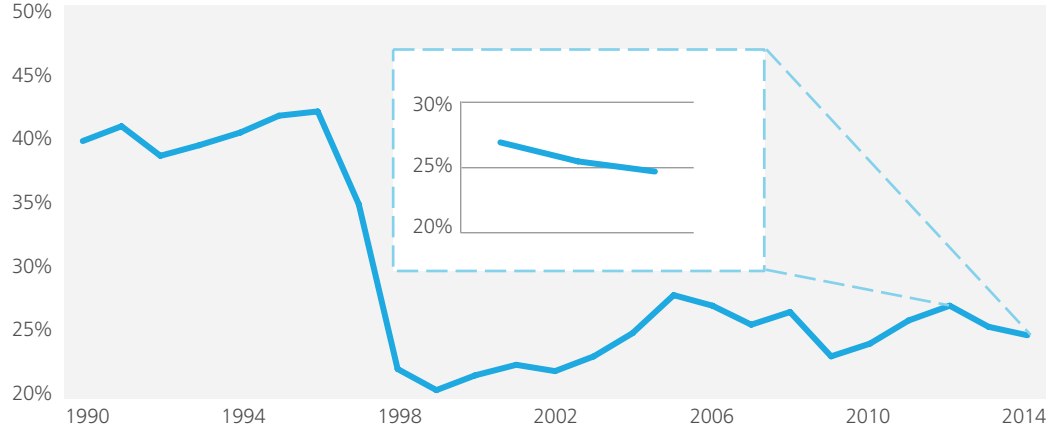
A rebound in tourism, though positive, is largely due to Chinese tourists, who accounted for a fifth of all international visitors in 2014. Further weakening of the yuan and a sharper slowdown in China could reverse the trend. The recent bomb blast in the capital city is also likely to have a negative impact on tourism. Similarly, the positive effect of low energy prices and accommodative monetary policy (the BOT cut the policy interest rate to 1.5 percent in April) are benign due to the indebtedness of Thai households (86 percent of GDP at the end of 2014),[7] political uncertainty, and weak external demand. Lastly, a hike in short-term interest rates in the United States in the near term could exacerbate capital flight, further weaken the baht, and reduce foreign investment. Though a weaker baht would benefit exporters and add some much-needed inflationary pressure, a combination of downside risks makes robust economic growth a highly unlikely prospect in the near term.

Thailand needs to bolster growth through investment

Near-term prospects of GDP growth remain modest at best, and growth over the coming years remains a long-term concern.

Thailand is currently Southeast Asia's second largest economy. However, Thailand's potential

Figure 5. Total fixed investment, % share of GDP



Total fixed investment as a percentage of GDP has been on a downward trend since 2012.

Source: Oxford Economics, Deloitte Services LP economic analysis. Graphic: Deloitte University Press | DUPress.com

growth over the next decade lags behind regional competitors. The administration at the helm of affairs will need to boost potential GDP growth through investment. Public investment assumes importance in the absence of historical drivers of growth such as private consumption and exports.

Investment should be focused on improving infrastructure and boosting productivity through higher value addition. A clear roadmap to improve infrastructure will help keep foreign investment from flowing out of Thailand to its neighboring competitors. Similarly, improved productivity will help keep Thailand's export-oriented model competitive. Any progress, however, will depend heavily upon how Thailand addresses its internal problems, not least among which is the need for a stable polity.

Endnotes

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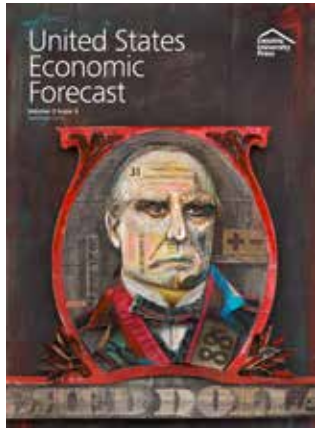

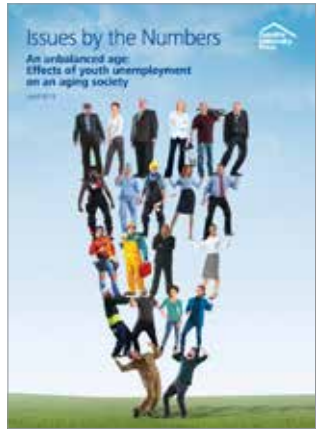

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