

MEKONG DELTA RISK MONTHLY



ECONOMICS: For the first time since China’s WTO membership in 2001, Cambodia, Laos, Myanmar and Vietnam are set to grow faster than China with a growth rate of around 7% - compared with China’s 6.7% in 2018 and 6.5% for 2019-20, according to the World Bank. Thailand is forecasted to achieve 4.2-4.7% in 2018, the highest rate over the last 5 years, and maintain 4% over the next two consecutive years, as per Thai government agencies.

POLITICS: Following the death of President Tran Dai Quang on Sept. 21, the ruling Communist Party (CP) nominated its general secretary, Ngyen Phu Dong, as the next president. Traditionally the CP has four key posts: president, prime minister, chief of CP and the national assembly chair. If approved, it would mean Trong would be the *first* Vietnamese leader to hold two titles since founding president and revolutionary Ho Chi Minh. Since winning a power battle with former PM Nguyen Tan Dung in 2016, Trong has cracked down on corruption which have resulted in state executives and politburo member facing trial of allegations of mismanagement and embezzlement.

SECURITY: On Oct 5, the International Criminal Court (ICC) initiated a preliminary investigation into potential war crimes committed by leading military/politicians in Myanmar following the deportations of hundreds of thousands of Rohingya Muslims from Myanmar into Bangladesh. Whilst Myanmar is not a member, ICC argues it has legal oversight since Bangladesh is a signatory. ICC is expected to publish a preliminary report “within reasonable time.” However US national security advisor John Bolton has said ICC lacks legitimacy and is a threat to US sovereignty and national interests.

FOREIGN INVESTOR REGULATORY ACTIONS: On Aug 1 the new Myanmar Companies Law 2017 was enacted, replacing the colonial Companies Act 1914, which allows foreigners to own up to 35% stake in local companies. It also allows small companies to set up a company with a single shareholder, single director and no longer need to submit financial reports. Foreigners are allowed to engage in export/import trade, insurance sector and the stock market. All existing companies will have to re-register over a six months period by using the Myanmar Companies Online (MyCO) online system.

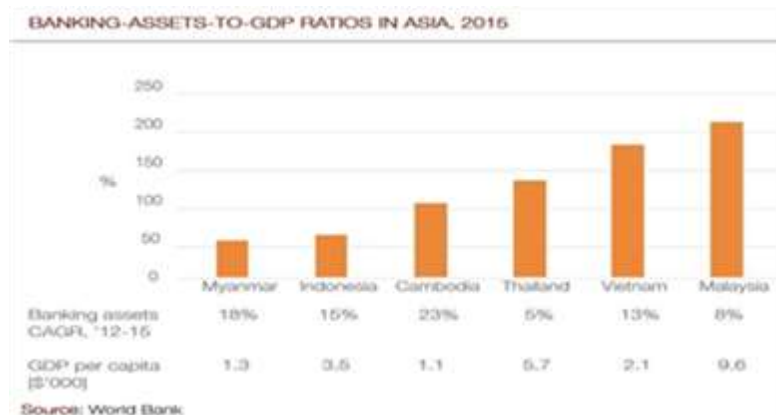
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China:

President Trump's \$200bn tariff on Chinese imports and retaliatory tariffs on \$60bn of US imports is likely to escalate further to a trade war (tariff on all Chinese imports). Fresh allegations of Chinese tampering with the mid-term elections together with a Bloomberg report of technology hardware made in China containing hidden spyware could put serious constraints on the global supply system and threaten China's role as the 'factory of the world'.

China's ability to offset impact of trade war through monetary stimulus is limited. A new study by UOB Kay Hian, a leading Singaporean bank, finds that local governments' "hidden debt" at \$3.9-4.2trn. It leaves limited room for many provinces (especially the non-coastal provinces) to support the Belt & Road Initiative without direct funding from the central government.

Myanmar:

The EU Commission will send an emergency, high-level EU mission to Myanmar to assess the situation how the Rohingya issue is being dealt with. An UN fact-finding mission had criticized Myanmar, which now may lead to the withdrawal of the 'Everything But Arms arrangement,' (EBA), which guarantees completely tariff-free access to the European market for all exports except for weapons and ammunition. Cancelling the EBA would threaten thousands of manufacturing and garment industry jobs.

The popularity of Aung San Suu Kyi's National League for Democracy (NLD) party will be tested in a by-election on Nov 3 for 13 vacant seats. This will be the second by-election under the current government (assumed power in Nov 2015), and the first was held on April 1, 2017, when, out of 19 vacant seats, the NLD won 9 and the Union Solidarity and Development Party (USDP) 2.

Thailand:

Two key organic laws relating to the election of MP and selection of senators have received royal approval paving the way for a general election with a tentatively timeframe of February 24 to May 5, 2019. It would be the first time since the military junta took over the Yingluck Shinawatra-administration (sister of the ousted prime minister Thaksin Shinawatra due corruption allegations in 2006) in 2014 that an election was to be held.

On Oct 1, the government launched terms of reference for bids of 4 megaprojects worth a combined Bt370bn (\$11bn) in the Eastern Economic Corridor (EEC), which is an essential part of the 20-year national strategy plan. They include: the U-tapao airport (200 billion baht); a maintenance, repair and overhaul (MRO) center (11 billion); the third phase of the Laem Chabang seaport (150 billion); and the third phase of the Map Ta Phut seaport (11.1 billion). The cabinet is scheduled to hear the details on Oct 1

Laos:

Following the collapse of a hydropower project in July killing dozens of people, the Laos government has suspended approval of new dams and said it would review all dams currently under construction. Laos has 46 operating hydroelectric power plants in 2017, with 54 more in the pipeline, and sales of electricity abroad account about 30% of its exports. The government is keen on growing renewable and clean energy generation such as solar and wind turbines.

Costing \$5.8bn and stretching 414km a Chinese financed new railway is being built linking Kunming, capital of Yunnan (China), with Vientiane, capital of Laos, which is set to be ready by 2021. After that the plan is to link with Thailand, Malaysia and Singapore to allow an uninterrupted railway system linking Southeast Asia with China.

Cambodia:

On back of the general elections in July which was marked by “harassment and intimidation and as well as severe restrictions when it comes to essential political rights”, the EU notified on Oct 5 that they are launching the withdrawal of their Everything But Arms preferences. “Without clear and evident improvements on the ground, this will lead to the suspending of the trade preferences that they currently enjoy,” and the impact could threaten the existence/livelihood of hundreds of thousand low-end manufacturing jobs mainly controlled by Chinese firms. The government is looking to grow its tourism industry from 5.6m visitors in 2017 to 7m by 2020 and 10m by 2025. A new report from a Thai think-tank sees great opportunities in hotels, restaurants and travel agents & transportation.

Vietnam:

The new EU-Vietnam Free Trade Agreement (EVFTA) is likely to be ratified in October or November and come into effect in early 2019. Analysts believe it could add 0.5% points to the 7% annual GDP growth thanks increased access to EU

markets for garments and footwear as well as seafood and other agro-processing products. From the EU side, they will have access to public procurement in healthcare, bid for contracts from Electricity of Vietnam, the state-owned enterprise, and other major infrastructure projects, such as roads, railways and airports.

On July 31 two Japanese companies, Idemitsu Kosan and Teikoku Oil signed an agreement with PetroVietnam, the state-owned oil and gas major. The goal is to develop and gas located in the Sao Vang-Dai Nguyet project, which is within China's s-called 'nine-dash line' (e.g. maritime area claimed by the Chinese in the South China Sea). Commercial production is targeted to start in 3Q 2020. It can be seen as a indicator for Vietnam's and Japan's latest stance on the divisive South China Sea territorial claim by China.

MONTH AHEAD KEY EVENT: *On Oct 18-19, EU member countries will sign off a new “Asia-connectivity strategy” at the 12th Asia-Europe (ASEM) meeting where the main targets include improving transport, digital and energy links while stressing sustainability by adhering to good environmental, social and governance (ESG) standards. It is EU's first and most comprehensive counter strategy to China's Belt & Road Initiative which was launched in 2013.*