ECONOMICS

Regional

ASEAN Economics

Year Ahead 2025: Navigating Trade War 2.0

Resilient Growth, Even as Global Trade War Looms

ASEAN's growth will remain resilient in 2025, with easing monetary policy, rising FDI, and a modest consumer recovery in the second half cushioning the shock from Trump's trade measures. We forecast ASEAN-6 GDP growth holding at +4.7% in 2025 and 2026, after recovering to +4.8% in 2024 from a weak +4% in 2023. With inflation in the comfort zone, we expect further monetary easing in the Philippines (-100bps), Indonesia (-75bps) and Singapore. The Fed will ease in 2025 (-75bps), but rate cuts will likely be calibrated and shallow. Risks to US core inflation is on the upside given Trump's immigration curbs, tariff hikes and financial deregulation.

Theme #1: Acceleration in Supply Chain Shifts

Trump's opening salvo is targeted at Mexico (25% tariff), Canada (25%) and China (additional 10%). His proposed tariff hikes on the three largest US trading partners will cover about $1.3trn or 43% of US total imports. Southeast Asia has been spared from his tariff tantrums so far. A wider tariff gap between China and ASEAN will likely accelerate the shifts in manufacturing supply chains. Translation of FDI approvals to actual investments have been slow, especially in Thailand, but may speed up in 2025. Investments may recover more convincingly, as lower interest rates and rising FDI revive domestic investment.

Theme #2: Tourism, Data Centres and ASEAN Integration

Several growth drivers, independent of trade tensions, remain intact. The tourism recovery will continue, with new markets (India, Korea) and China visitors gradually returning to pre-pandemic levels by end-2025. Both total and China visitor arrivals to Malaysia and Singapore are already near pre-pandemic levels. There is scope for catch-up in Thailand, Vietnam, Indonesia and Philippines. Data centres, which also spurs investments in renewable energy, are emerging as a growth driver in Malaysia, Indonesia, Singapore and Thailand. ASEAN will strengthen its economic integration, incl. via the Johor-Singapore SEZ and upgrade of ASEAN energy grid.

Theme #3: China - Consumption-Centered Stimulus

China will unveil more monetary and fiscal stimulus to backstop growth and cushion the impact from Trump's tariffs. We expect China to widen the augmented fiscal deficit to 5.5% of GDP in 2025, but the fiscal stimulus will not be aggressive enough to stop GDP growth from slowing to +4.5% in 2025. The real estate overhang will continue to weigh on private investment. ASEAN has not seen a meaningful impact from China's reopening or stimulus so far. Chinese import and commodity demand may remain muted in 2025. China's deflationary shock will likely persist, as higher US tariffs divert China's excess capacity and inventories to the rest of the world.

Wildcard: Trump Targets ASEAN, Revoke China PNTR Status

Trump targets a specific ASEAN country because of widening bilateral trade surpluses, currency manipulation, or undermining the dollar's reserve status (eg. BRICs). Vietnam is more vulnerable given its ballooning bilateral trade surplus with the US. Trump may ratchet tariffs on China by an additional 60% or revoke PNTR status, triggering a sharp yuan devaluation and severe shock to global trade flows.

Analysts

Chua Hak Bin
(65) 6231 5830
chuahb@maybank.com

Erica Tay
(65) 6231 5844
erica.tay@maybank.com

Brian Lee Shun Rong
(65) 6231 5846
brian.lee1@maybank.com

Luong Thu Huong
(65) 6231 8467
hana.thuhuong@maybank.com

Lee Jia Yu
(65) 6231 5843
jiayu.lee@maybank.com

1. ASEAN: Navigating Trade War 2.0

We forecast ASEAN-6 GDP growth holding at a resilient +4.7% in 2025 and 2026, after recovering to +4.8% in 2024 from a weak +4% in 2023. Easing monetary policy, rising FDI, and a modest consumer recovery in the second half will help cushion the shock from Trump's trade measures.

Global growth will likely moderate to about +2.9% in 2025 from +3.2% in 2024, weighed down by US policy uncertainty, an intensification of US-China rivalry, and a broadening global trade war. Both the US and China GDP growth are expected to slow in 2025 (see Table 1). Beijing is expected to ramp up fiscal support to backstop growth and cushion the impact from Trump's trade measures. China's fiscal stimulus will likely focus more on consumers, taking the form of subsidies, stronger social safety nets, and transfers to fund local government spending. China will be guarded in its retaliation against the US and will not risk escalating the trade war.

Trump's opening salvo is targeted at Mexico (25% tariff), Canada (25%) and China (additional 10%). His proposed tariff hikes on the three largest US trading partners will cover about US$1.3trn or 43% of US total imports. ASEAN has been spared from Trump's opening tariff salvo so far. The additional 10% tariff on Chinese imports could accelerate the relocation of MNCs and shifts in global supply chains to ASEAN.

Table 1: ASEAN-6 GDP Forecasts, 2022 to 2026F

	2022	2023	*2024F*	*2025F*	*2026F*
Indonesia	5.3	5.0	*5.1*	*5.2*	*5.3*
Malaysia	8.7	3.6	*5.2*	*4.9*	*4.6*
Philippines	7.6	5.5	*5.8*	*6.0*	*6.2*
Singapore	3.8	1.1	*3.6*	*2.6*	*2.3*
Thailand	2.5	1.9	*2.6*	*2.8*	*3.0*
Vietnam	8.0	5.0	*6.7*	*6.4*	*6.1*
ASEAN-5 (ex-SG)	6.0	4.4	*5.0*	*5.0*	*5.1*
ASEAN-6	5.7	4.0	*4.8*	*4.7*	*4.7*
China	3.0	5.2	*4.8*	*4.5*	*4.2*
US	2.5	2.9	*2.8*	*2.0*	*2.0*
EU	3.3	0.4	*0.8*	*1.2*	*1.4*
Global	3.6	3.3	*3.2*	*2.9*	*2.8*

Source: CEIC, Maybank IBG Research

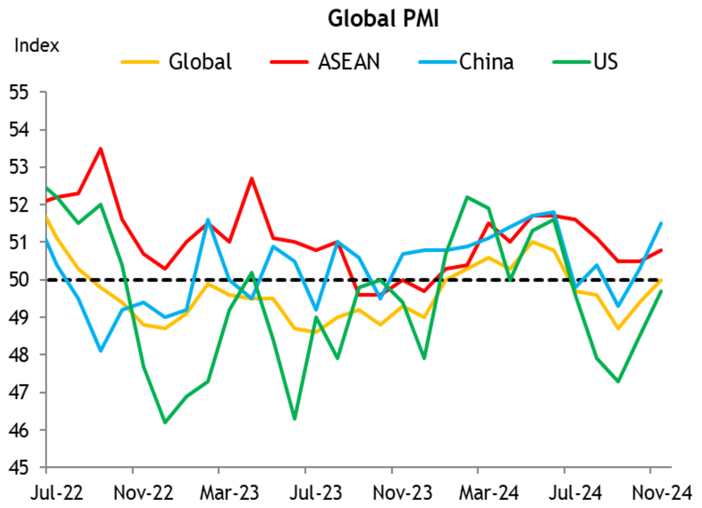
In 2024, the more trade-dependent economies – Vietnam, Singapore and Malaysia - saw GDP growth surprised on the upside, driven by a recovery in exports and manufacturing, particularly for electronics. In 2025, the same trade-dependent economies may see GDP growth moderate – Vietnam (+6.4%), Malaysia (+4.9%) and Singapore (+2.6%) - with export growth tapering in mid-2025, as Trump's tariffs start to dampen and disrupt global trade.

Growth laggards of 2024 will likely pick up speed in 2025, including Philippines (+6%), Indonesia (+5.2%) and Thailand (+2.8%). Consumer spending will pick up more visibly in the second half of 2025 when lower inflation, falling interest rates, and rising wages mend pandemic-stressed household balance sheets. Domestic demand will support overall growth and cushion the impact from a global trade war.

ASEAN will see multiple engines that will support growth in 2025, even as storm clouds loom from a global trade war (see *ASEAN Economics: Finding Growth in a Fragmented World*, 25 Oct 2024). These drivers include [1] Fed and ASEAN monetary policy easing; [2] consumer spending recovery on rate cuts, lower inflation and healthier labor markets; [3] rising FDI and reconfiguration of global manufacturing supply chains; [4] data center investment boom; [5] modest recovery in electronic exports; [6] steady tourism recovery; [7] China's stimulus measures and import recovery; and [8] ASEAN economic integration initiatives, including the Johor-Singapore Special Economic Zone and upgrading of the ASEAN energy grid.

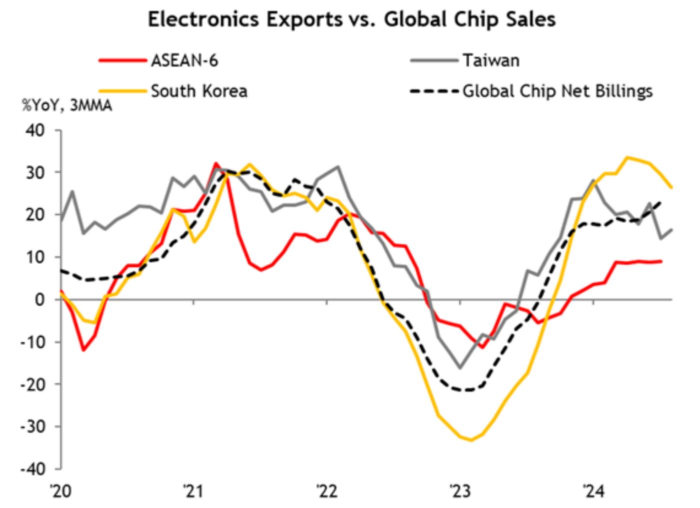
ASEAN's manufacturing and export outlook in 2025 is clouded by Trump's tariffs, but may be cushioned by the diversion of trade flows and manufacturing activity from China. Frontloading of orders before new US tariffs become effective will help boost manufacturing and exports in early 2025. The ASEAN PMI picked up to a 3-month high of 50.8 in November, amidst a broader global manufacturing recovery (see Fig 1). China's PMI picked up to 51.5 in November, consistent with the frontloading of orders.

Fig 1: ASEAN and China Manufacturing PMI Rebounding on Frontloading of Orders in Late 2024



Source: CEIC

Fig 2: Green Shoots in Electronics Exports in 2024 Could Wither in mid-2025 on Trump's Tariff Tantrums



Note: Data in ASEAN-6 for Singapore refers to domestic electronics exports (i.e. excludes re-exports)
Source: CEIC

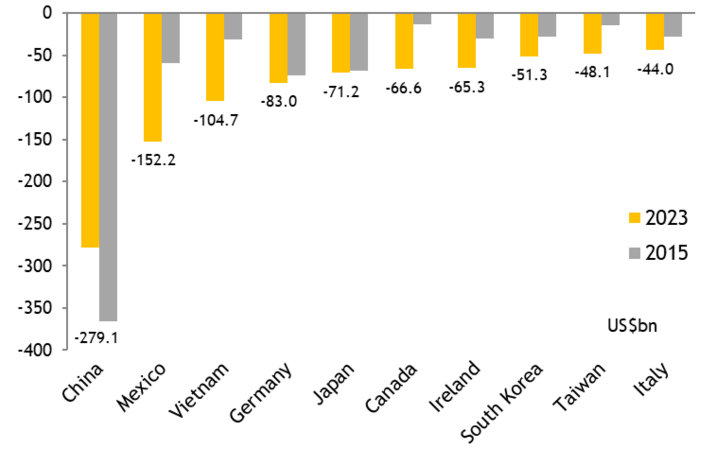
ASEAN will not be a priority or on Trump's radar in his first year. Trump will likely focus on purging the "deep state" from the arms of government; deporting illegal immigrants; firing the opening salvo on tariffs on Mexico, Canada and China; and rolling back Biden's executive orders, including the LNG export ban and prohibitions on drilling.

Trump's campaign threat of a 10%-20% blanket tariffs on the rest of the world will be harder to justify under Section 301, which was used to target specific countries – including China - for unfair trade practices, or under Section 232, for imports that threaten national security.

Blanket sweeping tariffs on the world is less effective as a negotiation leverage to extract specific demands. Rather than a blanket 20% tariff on the world, the risk could be higher for Trump to progressively ramp up tariffs on China towards 60% by the end of his term and to target specific countries which runs a large bilateral trade surplus with the US.

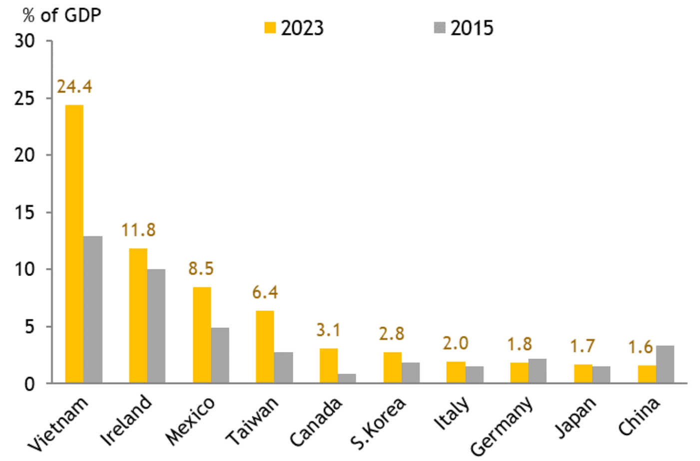
The top 3 countries with the largest bilateral trade surplus, in absolute terms, are China ($279bn), Mexico ($152bn) and Vietnam ($105bn) (see Fig 3). The top 3 countries with the largest bilateral trade surplus, as a % of their GDP, are Vietnam (24.4%), Ireland (11.8%) and Mexico (8.5%) (see Fig 4).

Fig 3: China, Mexico and Vietnam - Top 3 Countries with Largest Bilateral Trade Surplus with the US in 2023



Source: CEIC

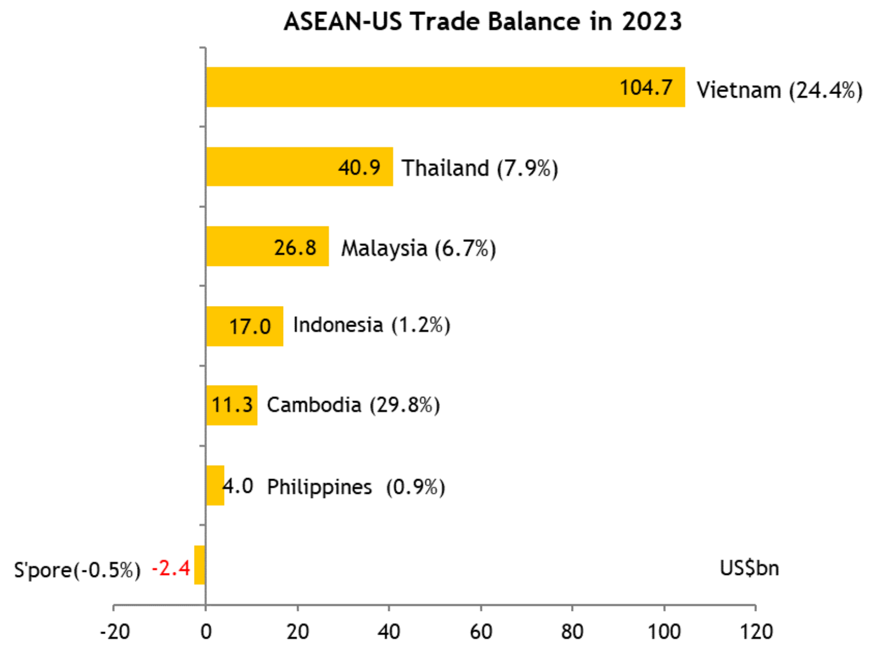
Fig 4: Vietnam, Ireland and Mexico - Top 3 Countries with Highest Bilateral Trade Surplus, as % Share of GDP in 2023



Source: CEIC

Vietnam is the most vulnerable target in ASEAN. Within ASEAN, Vietnam ranks the highest in terms of the bilateral trade surplus with the US, at $105bn, accounting for 24.4% of its GDP in 2023 (see Fig 5). Thailand is a distant second, with a bilateral trade surplus of US$41bn, or 7.9% of GDP. Malaysia runs a bilateral trade surplus of about US$26.8bn or 6.7% of GDP. Indonesia and Philippines run smaller bilateral surpluses. Singapore runs a small bilateral trade *deficit* with the US.

Fig 5: Vietnam Trade Surplus with US (US$105bn) Accounted for 24.4% of IGDP, Far Above Thailand (US$41bn) and Malaysia (US$27bn) in 2023



Source: CEIC

China, Vietnam and Singapore meet two of the 3 criteria of being labelled as a "currency manipulator" on the US Treasury Watch List. Singapore is not likely to tick the third box, as Singapore runs a bilateral trade deficit with the US. Both China and Vietnam may be more at risk of ticking all the 3 criteria. Malaysia has recently been dropped from the watch list, as her current account surplus has fallen well below the 3% of GDP threshold (see Table 2).

Table 2: China, Singapore and Vietnam Meet 2 of the 3 Criteria of a "Currency Manipulator" on US Watch List

Country	[1] Bilateral Trade Surplus with US > $15bn	[2] Current Account > 3% of GDP		[3] Foreign Exchange Intervention (>2% of GDP)		
	Goods and Services Surplus with US (USD Bn, 4Q Trailing Sum)	Balance (% of GDP, 4Q Trailing Sum)	Balance (USD bn, 4Q Trailing Sum)	Net Purchases (% of GDP, 4Q Trailing Sum)	Net Purchases (USD bn, 4Q Trailing Sum)	Net Purchases 8 of 12 months
China	247	1.2	211	0.3 to -1.5	58 to - 267	Yes
Indonesia*	16.4	-0.5	-7.5	0.2	2.6	No
Malaysia	23	1.5	6	-2.2	-9	No
Philippines*	3.5	-2.3	-10.3	1.3	5.8	No
Singapore	-31	20.1	104	9.4	49	Yes
Thailand	40	2.0	10	-0.5	-3	No
Vietnam	112	5.4	24	-1.5	-6	No
Cambodia*	11.4	-25.7^	0.2	-0.03^	-0.01^	No^

Indicators that met thresholds are marked red. Latest data as of 2Q 2024

**Indonesia, Philippines and Cambodia: Based on estimates for goods trade as they are not included in US Treasury's report.*

^Based on 2022 annual figures as 2023 GDP is unavailable

Source: US Department of the Treasury, CEIC, IMF Article IV Reports of Cambodia, Indonesia and Philippines, Maybank IBG Research, National Bank of Cambodia, Bureau of Economic Analysis US Department of the Treasury, "Report to Congress - Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States", Nov 2024. National Bank of Cambodia, "Annual Report 2023", 10 May 2024

With control of both the House and Senate, Trump can extend the expiring Trump 1.0 tax cuts but probably only for a temporary period, given the high US fiscal deficit at about 6% of GDP. Large corporate tax cuts will be more challenging to get through Congress, as Trump's control of the Senate falls short of the 60 "filibuster" votes.

We expect the Fed to continue easing in 2025, but the rate cuts will likely be calibrated and shallow. We expect the Fed to cut the funds rate by 75bps to 3.5% - 3.75% by end-2025. US core inflation will likely be stuck at above the 2% target given Trump's inflationary policies, including tariff hikes, immigration curbs and financial deregulation. This will restraint the Fed from cutting aggressively.

Other central banks may cut interest rates to a greater degree than the Fed in 2025, including the European Central Bank (-100bps) and Bank of England (-100bps). The US dollar may be well supported on elevated interest rates and tariff hikes, despite its over-valuation and mounting fiscal deficit and debt.

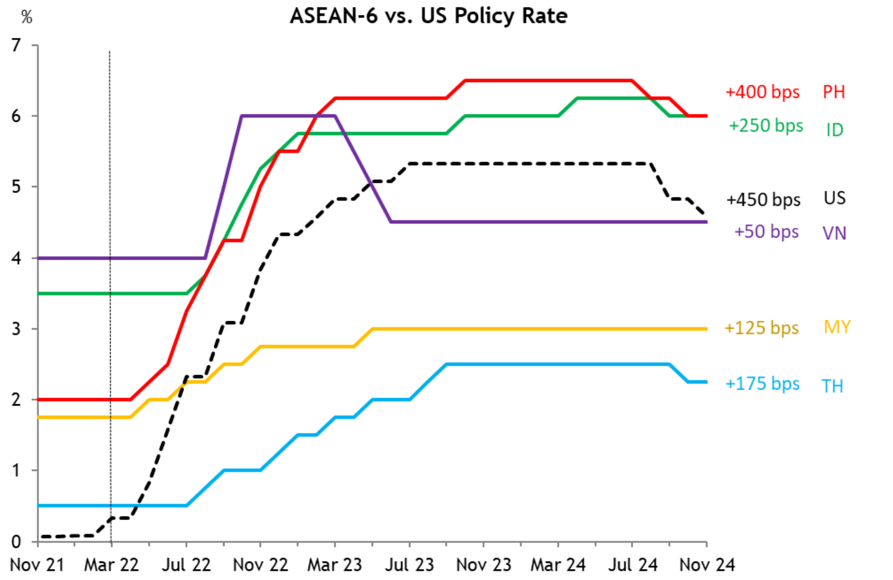
Table 3: US, China and ASEAN Central Banks: Policy Rate Forecasts

	Benchmark Interest Rates, % p.a.				
	2023	Current	*2024F*	*2025F*	*2026F*
US	5.25-5.50	4.50-4.75	*4.25-4.50*	*3.50-3.75*	*3.00-3.25*
China	3.45	3.10	*3.10*	*2.85*	*2.85*
Malaysia	3.00	3.00	*3.00*	*3.00*	*3.00*
Singapore	3.71	3.20	*3.10*	*2.65*	*2.35*
Indonesia	6.00	6.00	*5.75*	*5.00*	*4.50*
Thailand	2.50	2.25	*2.25*	*2.25*	*2.00*
Philippines	6.50	6.00	*5.75*	*4.75*	*4.25*
Vietnam	4.75	4.75	*4.75*	*4.75*	*4.75*

Source: Bloomberg, CEIC, Maybank IBG Research

In 2025, we expect China (-25bps), Philippines (-100bps) and Indonesia (-75bps) to cut policy rates further (see Table 3). We expect central banks in Malaysia, Thailand and Vietnam to hold rates in 2025, as their tightening during the Fed rate hike cycle was not as aggressive (see Table 3). In 2024, several ASEAN central banks have already started easing on lower inflation and Fed rate cuts, including the Philippines (-50bps), Indonesia (-25bps) and Thailand (-25bps) (see Fig 6).

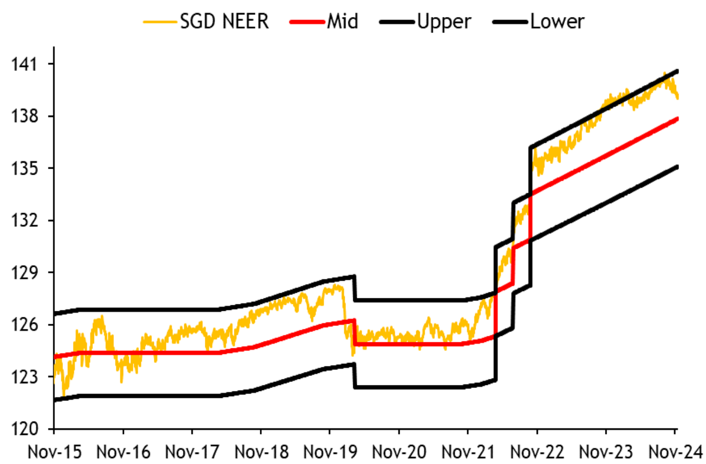
Fig 6: Central Banks in Philippines, Indonesia & Thailand Started Easing Late 2024



Source: CEIC, Bloomberg

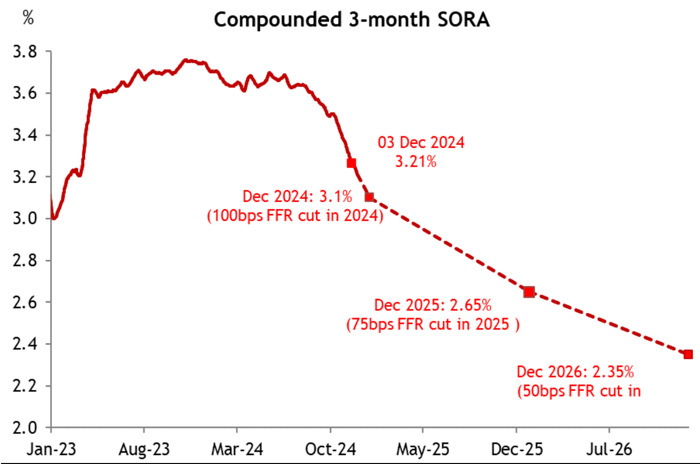
We expect the Monetary Authority of Singapore to ease monetary policy via a reduction in the slope of its S$NEER appreciation bias in early 2025, with core inflation set to fall comfortably below 2%. We are not expecting a change in the width or center of the band. We forecast the Singapore 3-month SORA benchmark rate falling to 2.65% by end-2025 from the current 3.21% (see Fig 8).

Fig 7: The S$NEER is Trading Below the Upper Bound of Band



Note: Last data point as 3 Dec 2024
Source: Maybank GM-FX Team

Fig 8: Singapore 3-month SORA Has Been Sliding, Forecasted to Fall to 2.65% by end-2025



Note: Last data point as 3 Dec 2024
Source: MAS, Maybank IBG Research

Inflation rates have fallen in 2024 to the comfort and target zones of ASEAN central banks from their peaks in 2022 (see Table 4 and Fig 9). Supply chain disruptions from the pandemic and Russia-Ukraine war have largely dissipated. China's excess capacity and weak domestic demand are exerting deflationary pressures on ASEAN via lower cost of imports and the diversion of excess capacity from US markets.

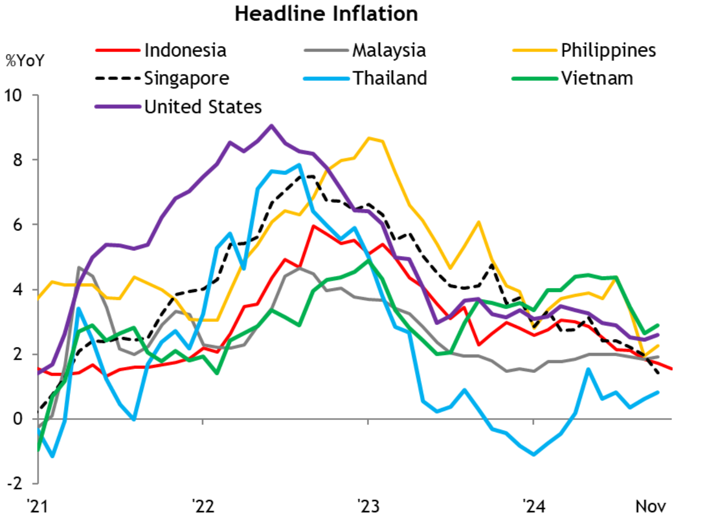
In 2025, we forecast inflation to continue falling in the Philippines (+3.1%), Singapore (+1.7%) and Vietnam (+3.4%). Fuel subsidy cuts in Malaysia (+3%) and Indonesia (+2.6%) may lead to some upward price pressures, but remain within the comfort zone of their central banks. Indonesia is planning to raise the VAT rate to 12% from 11% in 2025. Higher US tariffs on China will likely mean that the deflationary pressure on ASEAN from Chinese goods and excess capacity will persist in 2025.

Table 4: ASEAN-6 Inflation Forecasts, 2022 to 2026F

	2022	2023	*2024F*	*2025F*	*2026F*
Indonesia	4.2	3.7	*2.3*	*2.6*	*2.7*
Malaysia	3.3	2.6	*1.9*	*3.0*	*2.3*
Philippines	5.8	6.0	*3.2*	*3.1*	*3.0*
Singapore	6.1	4.8	*2.4*	*1.7*	*1.6*
Thailand	6.1	1.2	*0.6*	*1.2*	*1.5*
Vietnam	3.2	3.3	*3.7*	*3.4*	*3.4*
ASEAN-5 (ex-SG)	4.6	3.5	*2.3*	*2.6*	*2.6*
ASEAN-6	**4.7**	**3.6**	***2.3***	***2.5***	***2.5***
China	2.0	0.2	*0.3*	*1.4*	*1.5*
US	8.0	4.1	*3.0*	*2.8*	*2.5*

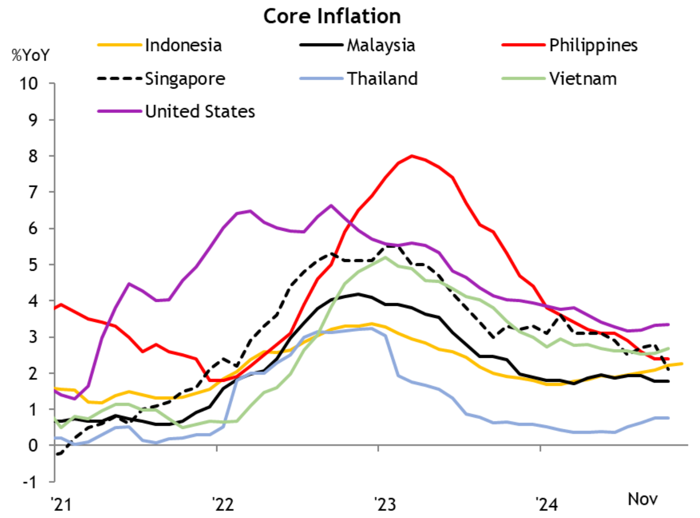
Source: CEIC, Maybank IBG Research

Fig 9: Headline Inflation Has Eased Significantly Across ASEAN from Their Peaks in 2022



Source: CEIC

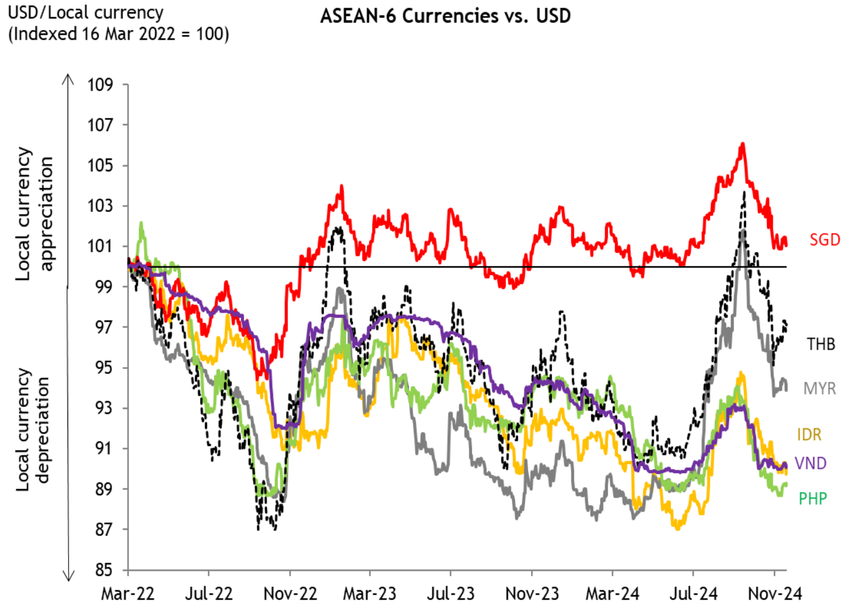
Fig 10: Softening Core Inflation as Supply Chain Disruption Dissipated



Source: CEIC

ASEAN currencies have appreciated since August 2024 when markets started pricing in a turn in the Fed rate cycle. The THB, MYR and SGD have appreciated relative to the IDR, VND and PHP. ASEAN currencies have however surrendered some of these gains since Trump won the Presidential race in November (see Fig 11). The Singapore dollar and Thai baht have been the two outperforming currencies in ASEAN since the Fed started its tightening cycle.

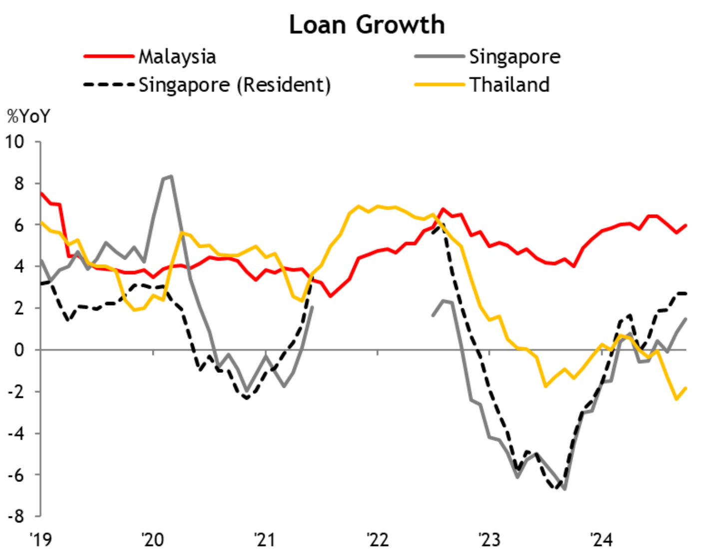
Fig 11: ASEAN Currencies Have Recovered from Their Lows Since the Fed Shifted to an Easing Stance, Particularly the THB and MYR



Source: Bloomberg

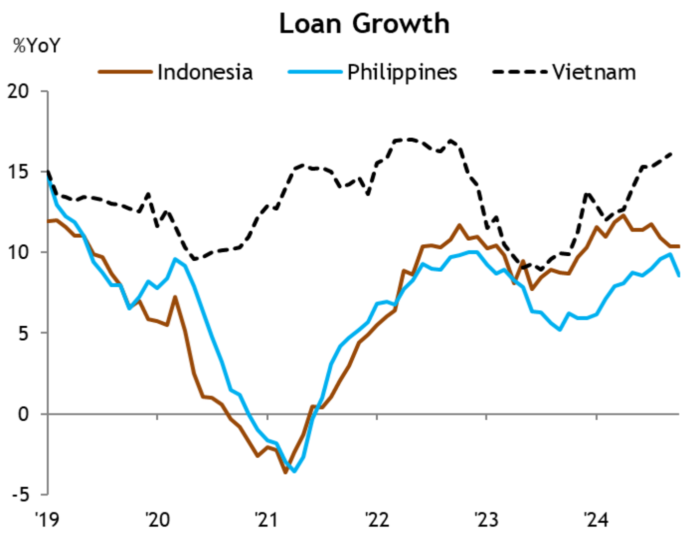
Bank lending typically slows when central banks tighten and interest rates are high. But loan growth was already recovering in several ASEAN countries even before interest rates were cut, including the Philippines, Singapore and Malaysia (see Figs 12 and 13). Vietnam's loan growth has been recovering since the State Bank of Vietnam cut policy rates in 1H 2023. However, Thailand continues to see loans contract, while Indonesia's loan growth is slowing.

Fig 12: Loan Growth in Singapore and Malaysia Picking Up, Contracting in Thailand for Six Consecutive Months



Note: Last data point as of Oct 2024
Source: CEIC

Fig 13: Loan Growth in Vietnam Rising, But Moderating in Indonesia and the Philippines



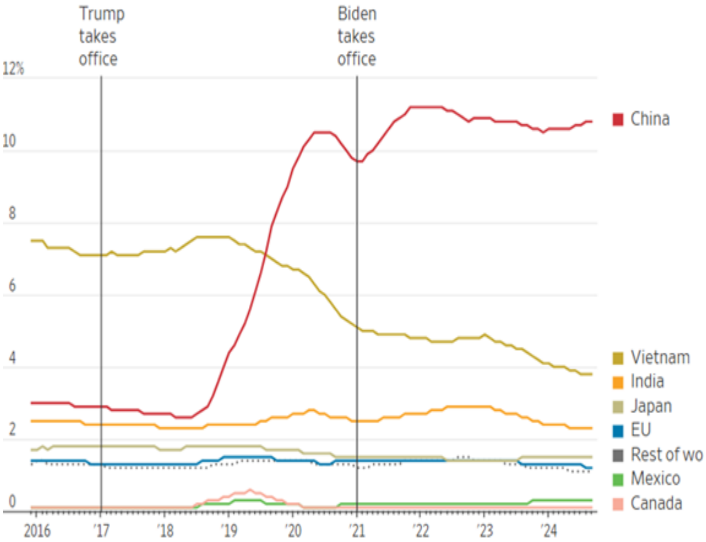
Note: Last data point as of Oct 2024
Source: CEIC

2. Theme #1: Acceleration in Supply Chain Shifts

Trump's tariffs and trade policies on China and the rest of the world will have a major bearing on global trade, FDI and supply chains. Trump's opening salvo is targeted at Mexico (25% tariff), Canada (25%) and China (additional 10%). His proposed tariff hikes on the three largest US trading partners will cover about $1.3trn or 43% of US total imports. Both Mexico and Canada have gained market share of US imports since the US-China trade war began in 2018 (see Fig 15).

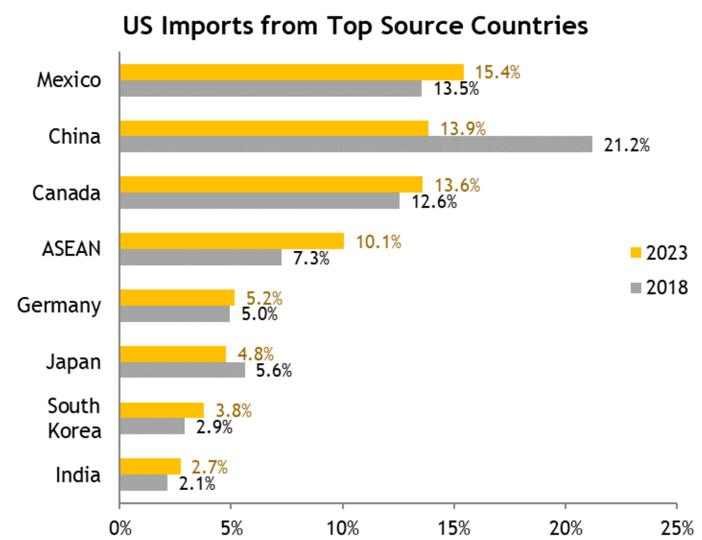
We expect the shifts in manufacturing supply chains to ASEAN to accelerate, with Trump's latest tariffs on the US three largest trading partners. ASEAN is America's fourth largest source of imports after Mexico, Canada and China. Share of US imports from ASEAN has risen to 10.1% of total US imports in 2023, up from 7.3% in 2018. Gains have however been uneven across ASEAN, with Vietnam, Thailand, Singapore and Malaysia seeing larger increases in the share of US markets than the Philippines and Indonesia.

Fig 14: US Effective Import Tariff Rates by Trade Partners (12-month Rolling Average)



Source: The Wall Street Journal[1], Trade Partnership Worldwide, Census Bureau

Fig 15: Share of US Imports from ASEAN, Mexico and Canada Rising, as Share from China Falls



Source: CEIC, Maybank estimates.

ASEAN has seen rising FDI applications and approvals on the back of the US-China trade war and geopolitical rivalry. From early on, Vietnam emerged as the clear beneficiary of the "China+1" and reconfiguration of global manufacturing supply chains. There was however debate on which other ASEAN country might also be a big winner. Both Malaysia and Thailand saw a significant increase in FDI application and interests, but the translation of that interest into actual investments was slow in coming.

Recent investment data suggest that Malaysia is emerging as the other major beneficiary, after Vietnam, with both total and private investment growth accelerating. Malaysia appears on the cusp of an investment wave, driven by five drivers: green, technology, infrastructure, Johor-Singapore Special Economic Zone and government-linked investments (see *Malaysia Macro: Investment Upcycle of the Third Wave*, 4 August 2024).

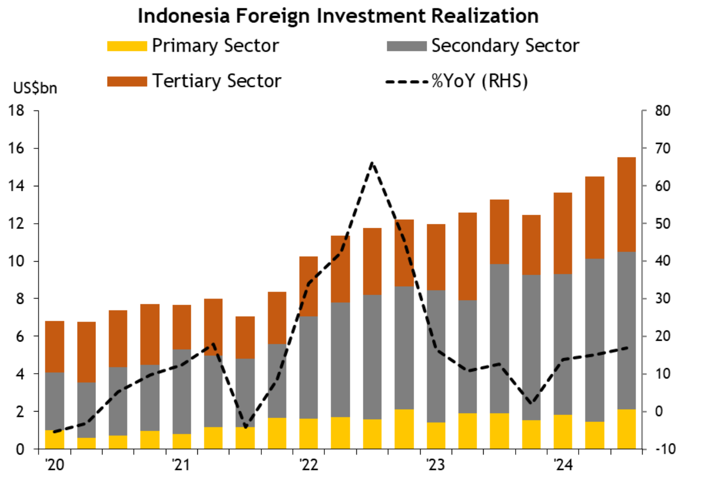
Thailand's gross and private fixed capital formation has, in contrast, been contracting, suggesting that FDI interest is failing to materialize into actual or crowd-in domestic investment. Politics and leadership changes may be clouding the investment outlook and disrupting the disbursement of public funds for infrastructure projects.

[1] The Wall Street Journal, " Breaking down Trump's tariffs on China and the world, in charts", 3 Dec 2024

Chinese firms may also be reviewing their investment plans given America's tariff hikes and threats to broaden the tariff coverage to "*Made by China*", not just "*Made in China*" goods. For example, the US Commerce Department has recently increased the anti-dumping import tariffs on solar panels from Malaysia (21.3% tariff), Thailand (77.9%), Cambodia (117%), and Vietnam (125.4%), alleging that Chinese manufacturers were using these countries as alternative production bases. Several Chinese companies have indicated plans to shift production to Indonesia and Laos, where the US tariffs do not apply.

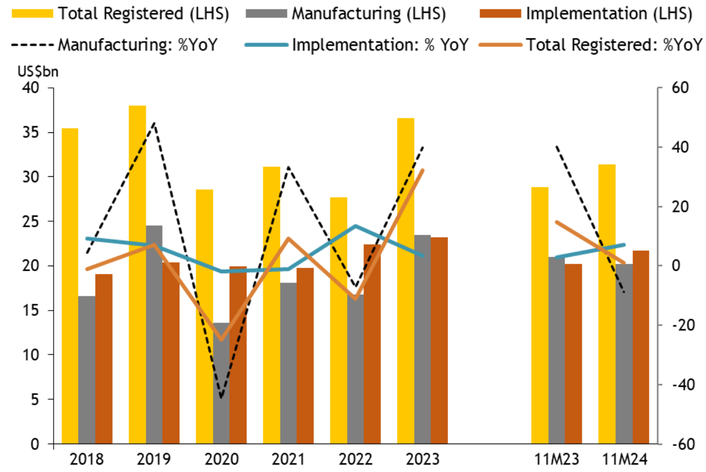
Share of China FDI into ASEAN have picked up since its reopening and account for a significant proportion of total FDI in Thailand (20.2% in 1H 2024) and Indonesia (13.9%), and a more modest share in Vietnam (8.6%) and Malaysia (7.9%). China's FDI into the Philippines has plunged to negligible levels since President Marcos came into power and adopted a more pro-America stance.

Fig 16: Indonesia FDI Realization Surged +17% in 3Q 2024, Strongest Growth since 4Q 2022



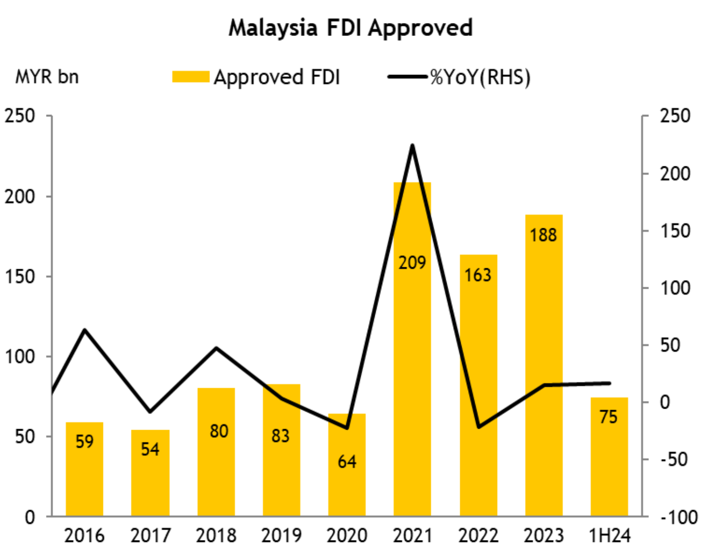
Source: CEIC

Fig 17: Vietnam Disbursed FDI Rose +7.1% in Jan-Nov 2024, Faster than +1.0% Growth in Pledged FDI



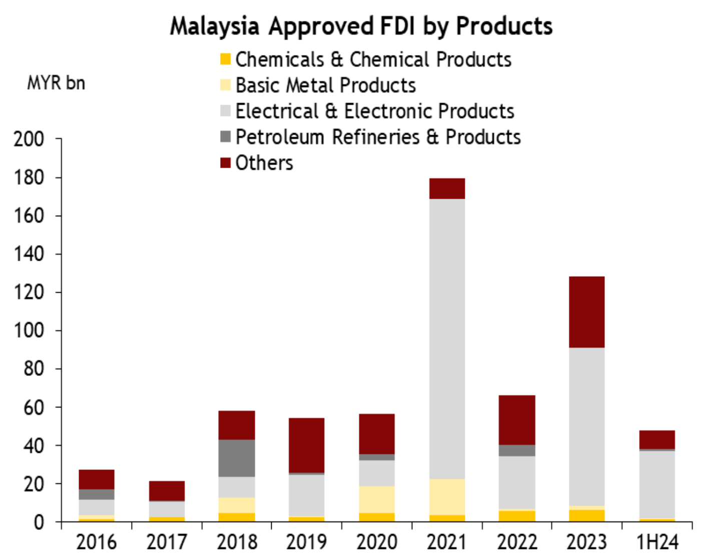
Source: CEIC

Fig 18: Malaysia - Total Approved FDI Surged +16.7% to MYR75bn in 1H 2024, Driven by Manufacturing



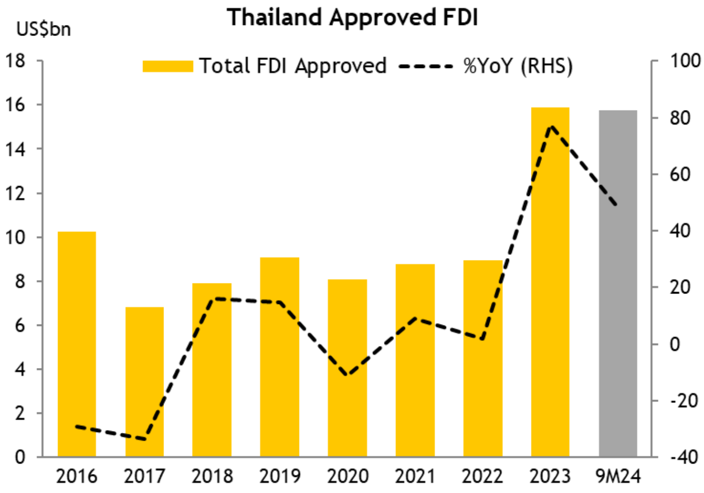
Source: CEIC

Fig 19: Malaysia - Electrical & Electronic Products (75%) Attracted the Bulk of Manufacturing FDI in 1H 2024



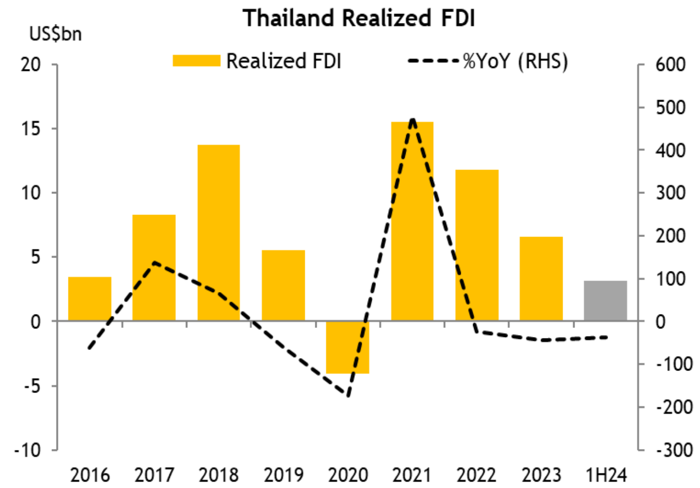
Source: CEIC

Fig 20: Thailand - Approved FDI Surged +48.2% in Jan-Sep 2024, But Translation into Actual Investments Has Been Slow



Source: CEIC

Fig 21: Thailand - Realized FDI Remains Weak, Contracting by -36.1% in First Half of 2024



Source: CEIC

Trump's broadening of the trade war to Mexico and Canada, not just China, will widen the tariff gap and make ASEAN a more attractive investment location. Trump is also threatening 100% tariffs on BRICS countries (Brazil, Russia, India, China and South Africa) if they attempt to displace the US dollar with their own reserve currency. ASEAN has been spared from Trump's tariff tantrums so far. MNCs may pull the trigger on the FDI approved so far in ASEAN, and shift production and supply chains at a faster pace, benefiting even the laggards such as Thailand and Philippines in 2025.

3. Theme #2: Tourism, Data Centers and ASEAN Integration

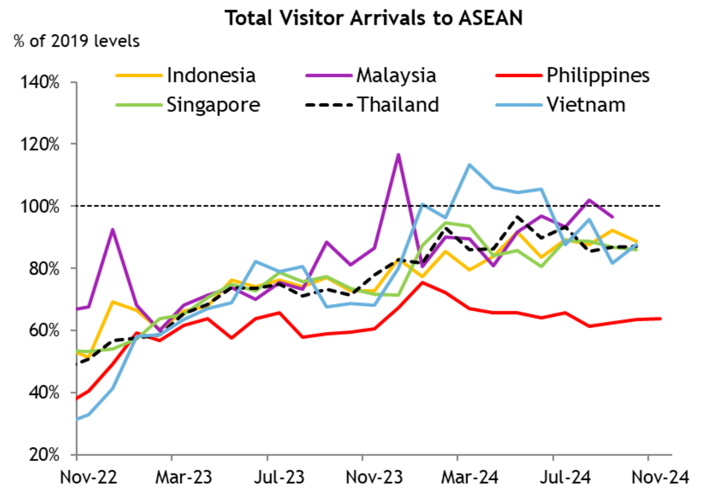
Several growth drivers, independent of trade tensions, remain intact. Tourism, data centres and economic integration will support ASEAN growth in 2025.

First, ASEAN's tourism recovery in 2024 has been more robust and steady, compared to 2023 when the recovery was a story of two halves. The tourism recovery lost steam in the second half of 2023, largely because China's "revenge travel" after the reopening turned out to be shorter and smaller in magnitude (see *ASEAN Macro Tourism Recovery: Sizzle or Fizzle in the Dragon Year?* 19 Jan 2024).

China's tourism recovery picked up pace in ASEAN in the first half of 2024 and the momentum appears to be sustained in the second half. Visa waivers for China tourists in Thailand, Malaysia and Singapore helped to boost visitors.

The tourism recovery will continue in 2025, with visitor arrivals to most ASEAN markets returning to pre-pandemic levels by year-end with the exception of the Philippines. Non-China markets (Korea, US, Australians, India, Middle East) are emerging as important sources. China visitors will gradually return to pre-pandemic levels by end-2025 with arrivals to Malaysia and Singapore already near pre-pandemic levels. There is scope for catch-up in Thailand, Vietnam and Indonesia in 2025 – where China visitors are still less than two-thirds of pre-pandemic levels. The Philippines is pivoting and relying on higher-spending visitors from the US, Korea and Australia.

Fig 22: Tourism Recovery Stronger in Malaysia, Singapore & Thailand, Slower in the Philippines



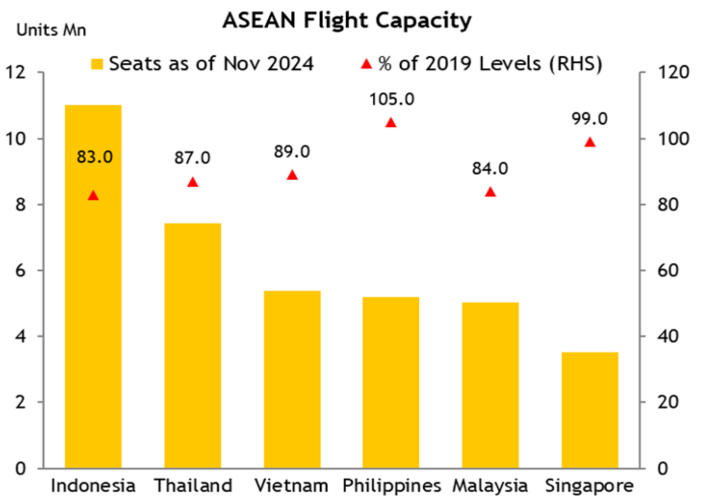
Note: China tourist arrivals data included Hong Kong to Malaysia.
Source: CEIC

Table 5: China Visitors Near Pre-Pandemic Levels in Malaysia and Singapore, But Lag in Thailand, Indonesia and Vietnam

	Person th	As of	% of Pre-pandemic Levels
Thailand	460	Oct-24	55.6%
Malaysia	245.6	Sep-24	103.6%
Vietnam	305.5	Oct-24	51.1%
Singapore	234.5	Oct-24	90.7%
Indonesia	95.3	Oct-24	59.5%
Philippines	17.3	Nov-24	13.6%
ASEAN-6	**1,367**	**Sep-24**	**58.4%**

Source: CEIC

Fig 23: ASEAN Flight Capacity Recovered More Quickly in the Philippines and Singapore as of Nov 2024



Source: OAG

Table 6: Tourism Receipts as Share of GDP Still Below Pre-Pandemic Levels in ASEAN in First Half of 2024

	2019		2023		1H 2024	
	US$bn	% of GDP	US$bn	% of GDP	US$bn	% of GDP
Thailand	61.6	11.3	34.5	6.7	22.2	8.8
Vietnam	32.8	9.8	28.5	6.6		
Singapore	20.3	5.4	20.2	4.0	11.0	4.2
Indonesia	18.5	1.6	19.0	1.4	7.9	1.2
Malaysia	20.8	5.7	15.6	3.9	9.6	4.8
Philippines	9.3	2.5	8.7	2.0	5.9	2.7

Source: CEIC

ASEAN flight capacity are near pre-pandemic levels in the Philippines (105%) and Singapore (99%), and is lagging behind in Indonesia (83%), Malaysia (84%) and Thailand (87%). Flight capacity for China-Singapore and China-Malaysia are already above pre-pandemic levels. Flight capacity will be ramped up in 2025 to near pre-pandemic levels across ASEAN by the end of 2025. Several ASEAN countries – including Singapore and Vietnam – are investing heavily in airports and flight capacity for the longer term.

Second, data centres, which also spurs investments in renewable energy, are emerging as a growth driver in Malaysia, and potentially, Indonesia and Thailand. Global tech firms are flocking to Southeast Asia to build data centres at a time when infrastructure and computing power to enable artificial intelligence (AI) is rapidly rising. The new investments are boosting construction; improving the region's digital infrastructure; and creating skilled jobs and specialized talent in AI, cyber security and data science.

Data centre demand is expected to grow at around +20% a year for the next 5 to 7 years, according to Maybank tech analyst Hussaini Saifee (see *ASEAN Data Centre: Ride the Multi-year Data Centre Wave*, 24 Sep 2024).

The top ASEAN countries emerging as major data centres appear to be Malaysia, with a large lead, followed by Indonesia, Singapore and Thailand, based on total commitments (see Table 7). Singapore has been the preferred destination for many years, but imposed a four year halt on data centre construction between 2019 and 2022 to manage the impact on the environment. Malaysia seized the bulk of data centre investments during that period and may take over Singapore's lead by the end of the decade.

Table 7: Malaysia Emerging as ASEAN Data Centre Hub, Largest in Terms of Under Construction and Commitments

MW	Total Live	Total Under Construction	Total Committed	Total Early Stage
ASEAN				
Malaysia	**280**	**159**	**766**	**2,016**
Singapore	988	69	387	1
Indonesia	236	65	541	677
Philippines	61	50	86	422
Thailand	66	44	132	400
Vietnam	46	10	42	45
Cambodia	17	5	11	-
Other Asia-Pac Markets				
China	4,517	919	1,536	324
India	768	568	1,723	3,224
Japan	1,454	357	1,500	972
Australia	1,054	294	1,449	1,127
South Korea	660	274	764	1,129
Hong Kong	621	124	454	45
Taiwan	253	47	52	18
New Zealand	79	15	57	110

Source: DC Byte, Maybank IBG Research Report "ASEAN Data Centres: Ride The Multi-year Data Centre Wave", 24 Sep 2024

Some of the tech titans investing in ASEAN include Microsoft, which will invest $2.2bn in Malaysia over the next 4 years to build cloud and AI infrastructure. Amazon Web Services announced plans to invest an estimated $6.2bn in Malaysia to set up a data centre and cloud. Amazon said it would invest $5bn in data centres in Thailand.

The Johor state of Malaysia has emerged as a major magnet of data centre investments in the region, due to its close proximity to the finance and tech hub of Singapore, low operating costs, infrastructure improvements and generous government incentives. Johor has garnered more than 50 applications from hyperscalers (large cloud service providers), according to Malaysian authorities. Malaysia has as a result seen a boom in data centre construction and commitments.

Third, ASEAN will strengthen its economic integration, including via the Johor-Singapore Special Economic Zone (JS-SEZ) and upgrade of the ASEAN energy grid. The JS-SEZ aims to bolster the business ecosystem and strengthen economic integration between Malaysia and Singapore with freer movement of people, goods and capital (see *ASEAN: Johor-Singapore SEZ: What's Special and Different?* 10 May 2024).

Fig 24: Proposed Rapid Transit System (RTS) Link between Woodlands and Bukit Chagar to be Completed by end-2026

Source: Straits Times Graphics, Maybank IBG Research

Table 8: Initiatives Progressing Toward Signing JS-SEZ Deal

Initiatives Outlined in JS-SEZ MoU	Progress
A one-stop business/investment service centre in Johor	*Open the Investment Malaysia facilitation centre Johor (IMFC-J)*
Adoption/implementation of a passport-free QR code clearance system on both side	*Launching QR code in mar-24 in Singapore, Jun-24 in Malaysia*
Adoption of digitised processes for cargo clearance at land checkpoint	On-going
Co-organizing an investor forum	*Held the JS-SEZ investment forum in Jun-24*
Facilitating Malaysia-Singapore renewable energy cooperation in JS-SEZ	On-going
Curating training and work-based learning initiatives	On-going
Developing joint promotion events between Johor and Singapore	On-going

Source: Malaysia Ministry of Economy, Socio-Economic Research Centre

The ASEAN energy grid will have to be expanded and upgraded to meet the growing demand for cross-border trade in renewable energy. Singapore targets to import 6GW of low-carbon electricity (a third of energy mix) by 2035 and has signed renewable energy import agreements with Indonesia (3.4GW), Vietnam (1.2GW), Cambodia (1GB) and Laos (1GB). Malaysia lifted its renewable energy export ban to Singapore in 2023. Singapore will import 100MW of clean electricity from Malaysia under the Laos-Thailand-Malaysia-Singapore Integration Project (LTMS-PIP), while another 100MW will be supplied to Singapore via the Energy Exchange Malaysia (ENEGEM) Platform.

Table 9: Singapore's Renewable Import Agreements

Country	Annual Capacity	Date Announced	Details
Vietnam	1.2GW	Oct 2023	Sembcorp will develop offshore wind and other capacity with Petrovietnam Technical Services for export to Singapore, via new 1000km subsea cables.
Indonesia	3.4GW	Sep 2023 and Sep 2024	2GW of electricity will be sourced from five solar power projects developed by Keppel Energy, Pacific Medco Solar Energy, Adaro Solar International, EDP Renewables APAC, and Vanda RE. Keppel will begin to import 300MW of lower-carbon electricity from Indonesia, starting from end-2027. Electricity will be transmitted through a shared subsea cable system, developed by Keppel, EDP and Vanda. Two new projects (1.4GW) by Singa Renewables and Shell Eastern Trading approved on 5 Sep 2024.
Cambodia	1GW	Mar 2023	Keppel inked long-term agreement with Cambodia's Royal Group Power Company to import primarily solar-powered electricity through onshore overhead high voltage transmission lines and subsea high voltage transmission cables.
Laos/Malaysia	200MW	Jun 2022 and Sep 2024	Singapore saw its first import of 100MW of renewable hydropower in Jun 2022 (for a 2 yr period), following Sep 2021 agreement between Keppel Electric and Electricite du Laos. Electricity transmitted via cross-border power trade using existing interconnections, through Thailand and Malaysia. In Sep 2024, Keppel's license to import electricity was extended till 2026 with capacity doubled to maximum of 200MW from Laos and Malaysia.
Australia	1.75GW	Oct 2024	Singapore granted conditional approval to Sun Cable to import 1.75GW of low-carbon electricity from Australia's Northern Territory to Singapore, via new subsea cables measuring 4,300km. The import is expected to start after 2035.

Source: EMA

4. Theme #3: China – Consumption-Centered Stimulus

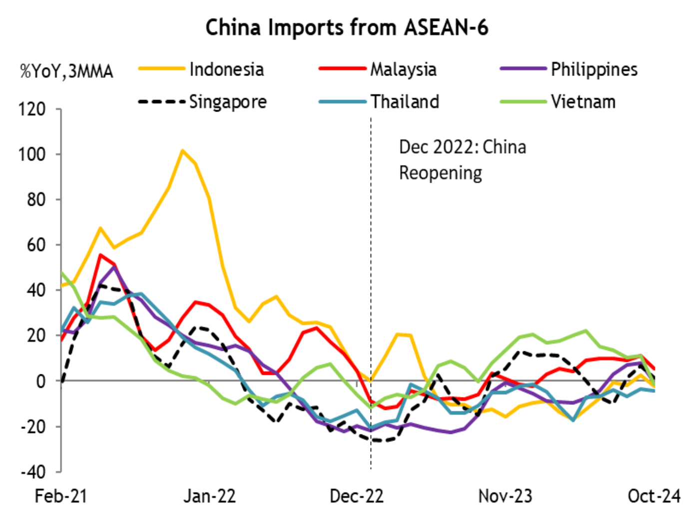
China will unveil more monetary and fiscal stimulus to backstop growth and cushion the impact from Trump's tariffs. We expect China to widen the augmented fiscal deficit to 5.5% of GDP in 2025, but the fiscal support will not be aggressive enough to stop growth from slowing to +4.5% in 2025 from +4.8% in 2024. The real estate overhang will continue to weigh on private investment. ASEAN has not seen a meaningful impact from China's reopening or stimulus so far. China's deflationary shock on ASEAN will likely persist, as higher US tariffs divert China's excess capacity and inventories.

China's imports from ASEAN has been relatively muted since its reopening, reflecting its weak domestic demand. China imports from ASEAN contracted 7.3% in October. China's imports from ASEAN has been somewhat uneven, stronger for Vietnam and Malaysia but weaker for Indonesia and Thailand.

Fig 25: China's Imports from ASEAN Contracted by More than Overall Imports in October 2024

Source: CEIC

Fig 26: China's Imports from ASEAN-6 Firmer for Vietnam and Malaysia, Weaker for Indonesia and Thailand

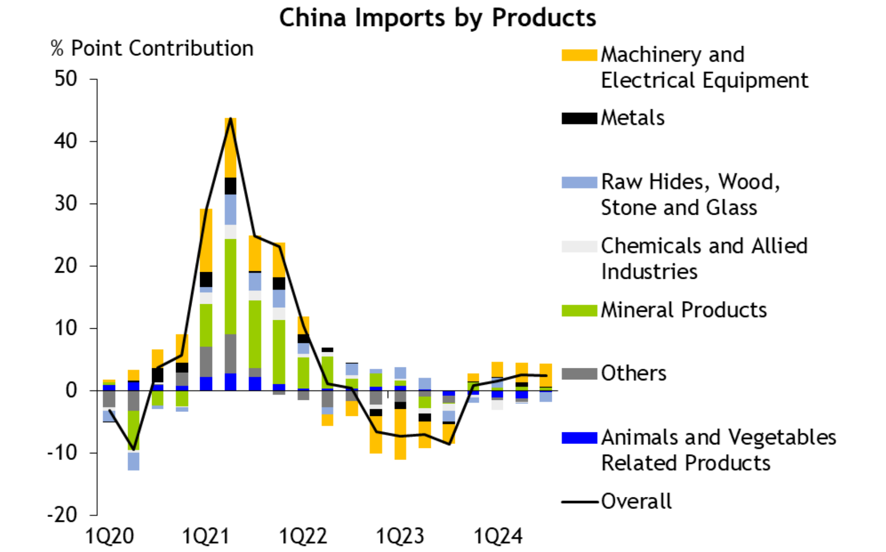


Source: CEIC

We expect China's fiscal stimulus to have a limited impact on commodity import demand. Policymakers have signaled that this round of stimulus would be geared towards consumption. Unlike previous rounds of stimulus which were focused on pump-priming, lack of viable projects will reduce the scope for stimulus through investment. The fiscal measures could take the form of more consumer subsidies, enhancement of social safety nets, and transfers to pad up local government spending.

Indonesia may not see a significant boost to its commodity exports as compared to the 2009 China stimulus. Commodities make up around 64% of Indonesia's exports. China's industrial inventories remain high and are at three times that of 2019 levels, which may dampen any increase in demand to imports.

Fig 27: China's Import Demand Has Been Soft and Largely for Machinery and Electrical Equipment, Weak for Commodities

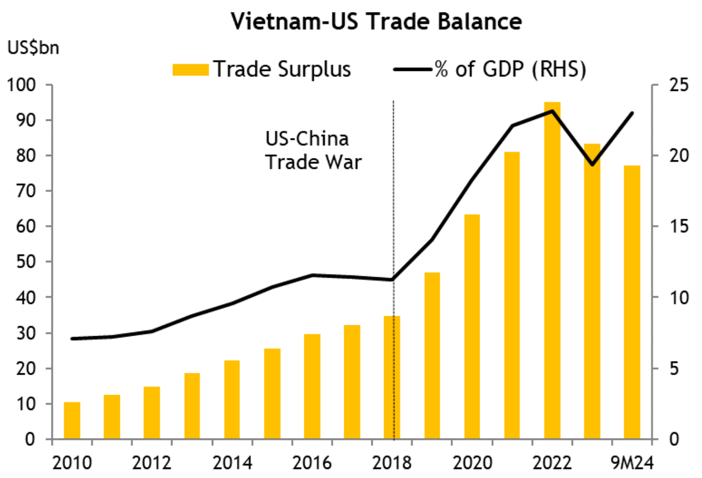


Source: CEIC, Maybank IBG Research

Wildcard: Trump Targets ASEAN, Revoke China PNTR Status

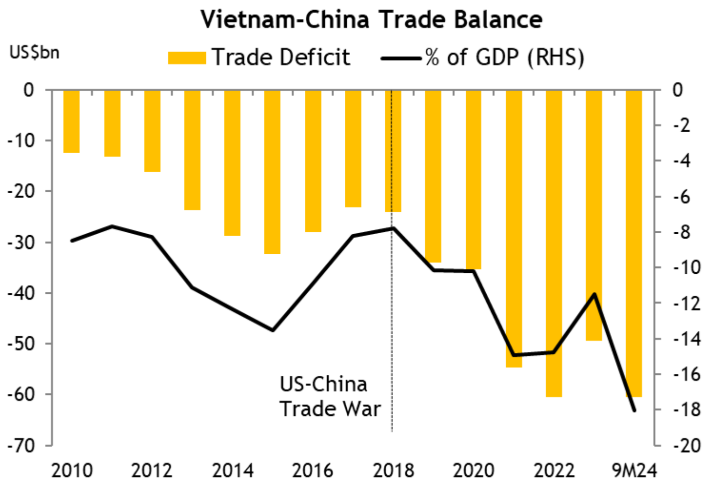
Trump may target a specific ASEAN country because of widening bilateral trade surpluses, currency manipulation, or undermining the dollar's reserve status (eg. BRICs). Vietnam is more vulnerable as a target, given its ballooning bilateral trade surplus with the US and growing intermediate imports and FDI from China (see Figs 28 and 29). Vietnam is on the US Treasury watch list for "currency manipulation".

Fig 28: Vietnam-US Bilateral Trade Surplus Has Ballooned Since the Start of US-China Trade War



Source: CEIC

Fig 29: Vietnam-China Bilateral Trade Deficit Has Widened Since Start of US-China Trade War



Source: CEIC

Trump may ratchet tariffs on China by an additional 60% or revoke its MFN or Permanent Normal Trade Relations (PNTR) status, triggering a sharp yuan devaluation and severe shock to global trade flows (see *ASEAN Macro: Trump 2.0 Trade Policies - Turbulence Ahead*, 5 July 2024). This "nuclear option" could unleash catastrophic damage to the multilateral trading system and significantly reset the economic playing field for all countries. The rest of the world may not tolerate such a large deflationary shock and will likely counter with protectionist measures to shield their domestic firms. Other non-PNTR nations include Russia, Cuba, North Korea and Belarus. US tariff rates on China imports will jump to about 62% on average under the Column 2 tariffs.

Research Offices

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | Global
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

CHUA Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank.com

Erica TAY
China | Thailand
(65) 6231 5844
erica.tay@maybank.com

Brian LEE Shun Rong
Indonesia | Singapore | Vietnam
(65) 6231 5846
brian.lee1@maybank.com

Fatin Nabila MOHD ZAINI
Malaysia | Philippines
(603) 2297 8685
fatinnabila.mohdzaini@maybank-ib.com

Luong Thu Huong
(65) 6231 8467
hana.thuhuong@maybank.com

LEE Jia Yu
(65) 6231 5843
jiayu.lee@maybank.com

FX

Saktiandi SUPAAT
Head of FX Research
(65) 6320 1379
saktiandi@maybank.com

Fiona LIM
(65) 6320 1374
fionalim@maybank.com

Alan LAU, CFA
(65) 6320 1378
alanlau@maybank.com

Shaun LIM
(65) 6320 1371
shaunlim@maybank.com

STRATEGY

Anand PATHMAKANTHAN
ASEAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

FIXED INCOME

Winson PHOON, FCA
Head of Fixed Income
(65) 6231 5831
winsonphoon@maybank.com

SOH Jing Ying
(603) 2074 7606
jingying.soh@maybank.com

PORTFOLIO STRATEGY

ONG Seng Yeow
(65) 6231 5839
ongsengyeow@maybank.com

MIBG SUSTAINABILITY RESEARCH

Jigar SHAH
Head of Sustainability Research
(91) 22 4223 2632
jigars@maybank.com

Neerav DALAL
(91) 22 4223 2606
neerav@maybank.com

REGIONAL EQUITIES

Anand PATHMAKANTHAN
Head of Regional Equity Research
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

WONG Chew Hann, CA
Head of ASEAN Equity Research
(603) 2297 8686
wchewh@maybank-ib.com

MALAYSIA

LIM Sue Lin, *Co-Head of Research*
(603) 2297 8612
suelin.lim@maybank-ib.com
• Equity Strategy

WONG Chew Hann, CA *Co-Head of Research*
(603) 2297 8686
wchewh@maybank-ib.com
• Equity Strategy
• Non-Bank Financials (stock exchange)
• Construction & Infrastructure

Desmond CH'NG, BFP, FCA
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

ONG Chee Ting, CA
(603) 2297 8678
ct.ong@maybank-ib.com
• Plantations - Regional

YIN Shao Yang, CPA
(603) 2297 8916
samuel.y@maybank-ib.com
• Gaming – Regional
• Media • Aviation • Non-Bank Financials

TAN Chi Wei, CFA
(603) 2297 8690
chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679
weisum@maybank-ib.com
• Property • Glove

Jade TAM
(603) 2297 8687
jade.tam@maybank-ib.com
• Consumer Staples & Discretionary

Nur Farah SYIFAA
(603) 2297 8675
nurfarahsyifaa.mohamadfuad@maybank-ib.com
• Renewable Energy • REITs

LOH Yan Jin
(603) 2297 8687
lohyanjin.loh@maybank-ib.com
• Ports • Automotive • Technology (EMS)

Jeremie YAP
(603) 2297 8688
jeremie.yap@maybank-ib.com
• Oil & Gas • Petrochemicals

Nur Natasha ARIZA
(603) 2297 8691
natashaariza.aizarizal@maybank-ib.com
• Healthcare

Arvind JAYARATNAM
(603) 2297 8692
arvind.jayaratnam@maybank.com
• Technology (Semicon & Software)

TEE Sze Chiah *Head of Retail Research*
(603) 2082 6858
szechiah.t@maybank-ib.com
• Retail Research

Amirah AZMI
(603) 2082 8769
amirah.azmi@maybank-ib.com
• Retail Research

Amirul RUSYDY, CMT
(603) 2297 8694
rusydy.azizi@maybank-ib.com
• Chartist

SINGAPORE

Thilan WICKRAMASINGHE *Head of Research*
(65) 6231 5840
thilanw@maybank.com
• Strategy • Consumer
• Banking & Finance - Regional

Eric ONG
(65) 6231 5849
ericong@maybank.com
• Healthcare • Transport • SMIDs

Jarick SEET
(65) 6231 5848
jarick.seet@maybank.com
• Technology • SMIDs

Krishna GUHA
(65) 6231 5842
krishna.guha@maybank.com
• REITs • Industrials

Hussaini SAIFEE
(65) 6231 5837
hussaini.saifee@maybank.com
• Telcos • Internet

PHILIPPINES

Kervin Laurence SISAYAN *Head of Research*
(63) 2 5322 5005
kervin.sisayan@maybank.com
• Strategy • Banking & Finance • Telcos

Daphne SZE
(63) 2 5322 5008
daphne.sze@maybank.com
• Consumer

Raffy MENDOZA
(63) 2 5322 5010
joserafael.mendoza@maybank.com
• Property • REITs • Gaming

Michel ALONSO
(63) 2 5322 5007
michelxavier.alonso@maybank.com
• Conglomerates

Germaine GUINTO
(63) 2 5322 5006
germaine.guinto@maybank.com
• Utilities

Ronalyn Joyce LALIMO
(63) 2 5322 5009
rona.lalimo@maybank.com
• SMIDs

VIETNAM

Quan Trong Thanh *Head of Research*
(84 28) 44 555 888 ext 8184
thanh.quan@maybank.com
• Strategy • Banks

Hoang Huy, CFA
(84 28) 44 555 888 ext 8181
hoanghuy@maybank.com
• Strategy • Technology

Le Nguyen Nhat Chuyen
(84 28) 44 555 888 ext 8082
chuyen.le@maybank.com
• Oil & Gas • Logistics

Nguyen Thi Sony Tra Mi
(84 28) 44 555 888 ext 8084
trami.nguyen@maybank.com
• Consumer Discretionary

Tran Thi Thanh Nhan
(84 28) 44 555 888 ext 8088
nhan.tran@maybank.com
• Consumer Staples

Nguyen Le Tuan Loi
(84 28) 44 555 888 ext 8182
loi.nguyen@maybank.com
• Property

Nguyen Thanh Hai
(84 28) 44 555 888 ext 8081
thanhhai.nguyen@maybank.com
• Industrials

Nguyen Thanh Lam
(84 28) 44 555 888 ext 8086
thanhlam.nguyen@maybank.com
• Retail Research

INDONESIA

Jeffrosenberg CHENLIM *Head of Research*
(62) 21 8066 8680
jeffrosenberg.lim@maybank.com
• Strategy • Banking & Finance • Property

Willy GOUTAMA
(62) 21 8066 8688
willy.goutama@maybank.com
• Consumer

Etta Rusdiana PUTRA
(62) 21 8066 8683
etta.putra@maybank.com
• Telcos • Internet • Construction

Paulina MARGARETA
(62) 21 8066 8690
paulina.tjoa@maybank.com
• Autos • Healthcare

Jocelyn SANTOSO
(62) 21 8066 8689
jocelyn.santoso@maybank.com
• Consumer

Hasan BARAKWAN
(62) 21 8066 2694
hasan.barakwan@maybank.com
• Metals & Mining • Oil & Gas

Faiq ASAD
(62) 21 8066 8692
faiq.asad@maybank.com
• Banking & Finance

Satriawan HARYONO, CEWA, CTA
(62) 21 8066 8682
satriawan@maybank.com
• Chartist

THAILAND

Chak REUNGSINPINYA *Head of Research*
(66) 2658 5000 ext 1399
chak.reungsinpinya@maybank.com
• Strategy • Energy

Jesada TECHAHUSDIN, CFA
(66) 2658 5000 ext 1395
jesada.t@maybank.com
• Banking & Finance

Wasu MATTANAPOTCHANART
(66) 2658 5000 ext 1392
wasu.m@maybank.com
• Telcos • Technology (Software) • REITs
• Property • Consumer Discretionary

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
surachai.p@maybank.com
• Auto • Conmat • Contractor

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank.com
• Food & Beverage • Commerce

Natchaphon RODJANAROWAN
(66) 2658 5000 ext 1393
natchaphon.rodjanarowan@maybank.com
• Utilities • Property

Boonyakorn AMORNSANK
(66) 2658 5000 ext 1394
boonyakorn.amornsank@maybank.com
• Services (Hotels, Transport)

Nontapat SAHAKITPINYO
(66) 2658 5000 ext 2352
nontapat.sahakitpinyo@maybank.com
• Healthcare

Yugi TAKESHIMA
(66) 2658 5000 ext 1530
yugi.takeshima@maybank.com
• Technology (EMS & Semicon)

Tanida JIRAPORNKASEMSUK
(66) 2658 5000 ext 1396
tanida.jirapornkasemsuk@maybank.com
• Food & Beverage

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Malaysia

Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

Singapore

Maybank Securities Pte Ltd
Maybank Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

London

Maybank Securities (London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302

Hong Kong

MIB Securities (Hong Kong) Limited
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104

Indonesia

PT Maybank Sekuritas Indonesia
Sentral Senayan III, 22nd Floor
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189

India

MIB Securities India Pte Ltd
1101, 11th floor, A Wing, Kanakia
Wall Street, Chakala, Andheri -
Kurla Road, Andheri East,
Mumbai City - 400 093, India

Tel: (91) 22 6623 2600
Fax: (91) 22 6623 2604

Philippines

Maybank Securities Inc
17/F, Tower One & Exchange
Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 8849 8888
Fax: (63) 2 8848 5738

Thailand

Maybank Securities (Thailand) PCL
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)
Tel: (66) 2 658 6801 (research)

Vietnam

Maybank Securities Limited
Floor 10, Pearl 5 Tower,
5 Le Quy Don Street,
Vo Thi Sau Ward, District 3
Ho Chi Minh City, Vietnam

Tel : (84) 28 44 555 888
Fax : (84) 28 38 271 030

Sales Trading

Indonesia
Helen Widjaja
helen.widjaja@maybank.com
Tel: (62) 21 2557 1188

London
Greg Smith
gsmith@maybank.com
Tel: (44) 207 332 0221

Philippines
Keith Roy
keith_roy@maybank.com
Tel: (63) 2 5322 3184

India
Sanjay Makhija
sanjaymakhija@maybank.com
Tel: (91) 22 6623 2629

www.maybank.com/investment-banking
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