



Matthews Asia Perspective

Four Key Elections in Asia to Watch



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What investors should expect from upcoming elections in Thailand, Indonesia, India and the Philippines

The 2019 election calendar is a busy one in Southeast and South Asia, with a general election in Thailand, presidential and parliamentary elections in Indonesia, a parliamentary election in India and midterm elections in the Philippines.

Why should investors take notice?

Political stability is important for investor confidence, policy continuity and transparency—the bedrocks of any business-friendly environment. National elections also determine whether or not there will be a stable regime. Another important factor pertains to growth: except for the Philippines, all the economies have been dogged by a lack of inward investment as private investors went into wait-and-see mode ahead of national elections. Stable governments could be rewarded by increased private investment and foreign direct investment (FDI). Against a backdrop of stability, improved growth should set a solid platform for markets.

Thailand

- ✿ The election should support a transition back to a democratic regime that may return the country to a position of greater legitimacy among its global peers.
- ✿ The election is likely to be a complex process given the adoption of a new system that is designed to allocate more seats to medium-size parties relative to large parties.
- ✿ A strong showing by the military would likely buoy the stock market, as this would be a status quo, pro-growth scenario.

Thailand's general election, to be held March 24, 2019, will be its first democratic election since the military coup in May 2014 and the first general election in nine years. The election should support a transition back to a democratic regime that may give Thailand greater legitimacy among its global peers. That said, military oversight will be part of the country's governance for at least the next five years, courtesy of an appointed, military-backed Senate whose approval is required to make changes to the Constitution or to the military's 20-year blueprint for national development.

With results to be declared by May 9, 2019, according to a constitutional timeline, parliament is required to convene within 15 days following that to elect a new prime minister. This suggests Thailand will have a new elected government within the first half of June 2019.

The election is likely to be a complex process given the adoption of a new system that is designed to allocate more seats to medium-size parties relative to large parties. The new electoral system also requires a simple majority of the combined Lower House (500 seats) and Senate (250 seats) for election of a prime minister (PM). A potential complication of the system is that it could take much longer to ascertain election results, as a dispute or a re-election in any one or several districts would also delay the ability to allocate parliament seats for all parties.

Key players in the election are opposition heavyweights Pheu Thai (PT) party, the current vehicle of the Shinawatra family that won the past four consecutive elections in Thailand, and the Democrat Party (DP) that represents the Thai establishment. A new

youth-oriented party, Future Forward, is garnering interest among more than six million first-time voters. In pole position is a newly formed party, Palang Pracharat (PPRP), which represents the interests of the Thai military. Smaller parties abound, with 80 parties contesting the poll in total.

Consensus expectations have been for the Thai military to continue to run the country post-election, via PPRP. How would this be achieved? Although most polls project a Pheu Thai victory in the Lower House election, local analysts see the possibility that PPRP would look to form a government regardless by using its control of the military-appointed Senate to get its candidate for prime minister appointed.

A strong showing by the military would likely buoy the stock market, as this would be a status quo pro-growth scenario, resulting in increased private investment and business and consumer confidence, as well as accelerated implementation of infrastructure projects. Stronger domestic demand growth suggests a narrower current account surplus and potential for tighter central bank (Bank of Thailand) policy. That said, the narrow support base of the PPRP may result in a multiparty coalition or minority government that could lead to less efficient legislative performance and/or policy implementation.

No clear result would likely lead to an extended period of uncertainty. This could trigger weaker consumer and business sentiment and continued investment stasis, resulting in capital outflows and potentially central bank policy easing to support growth.

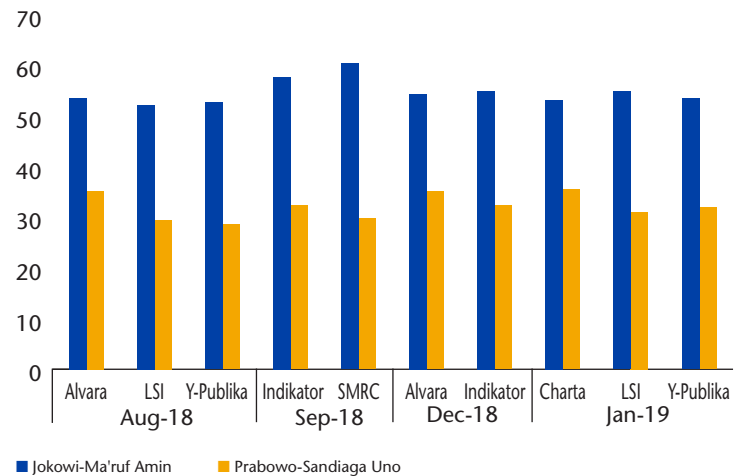
If PT and its coalition allies are able to elect a prime minister and form a government, the policy agenda is likely to be pro-growth. But some of the current military government's infrastructure and development initiatives may be reviewed and focused more on external growth via trade agreements. The political climate could turn volatile, however, as PT and its allies plan to prioritize amending the military-drawn constitution.

Indonesia

- ✿ President Jokowi's first term has been characterized by a push on infrastructure and economic reforms aimed at improving the ease of doing business.
- ✿ Investment activity is likely to ramp up post-election.
- ✿ Consumption is likely to slow in the second half of 2019 as the boost from election-related spending wears off.

In Indonesia, history will be made as presidential and legislative elections will be held for the first time on the same day (April 17, 2019), setting in motion a

Figure 1. Indonesian 2019 Presidential Election Polls



Source: Indonesian polls including Alvara, Charta, LSI, Median, Y-Publika, Indikator and SMRC

complex process that is required to bring the vote to the archipelago's 17,000 far-flung islands. Concurrent elections may increase the likelihood of the winning presidential candidate garnering support in the legislature, facilitating implementation of the policy agenda.

Incumbent President Joko "Jokowi" Widodo together with his vice presidential candidate, Muslim cleric Ma'ruf Amin, will vie for a second five-year term against rival Prabowo Subianto, who is running for the third time (twice unsuccessfully) together with former Deputy Jakarta Governor Sandiaga Uno, a self-made billionaire.

The policy platforms of both camps offer broadly similar prescriptions of social justice and economic prosperity. The key difference between the two is the promise of continuity (Jokowi) versus change (Prabowo). President Jokowi's first term has been characterized by a push on infrastructure and economic reforms aimed at building a strong tax revenue base and improving the ease of doing business.

Given the existence of a two term limit to Indonesia's presidency, it is generally expected that Jokowi would look to cement his legacy and push through his as yet incomplete programs if he wins a second term. Prabowo's challenge is being framed as a crucial battle to address the issues of inequality in the Indonesian economy. Although Prabowo's rhetoric implies significant policy change, actual policy differences between the two platforms are few. Among them, hints at potential tax cuts by the Prabowo team contrast with the Jokowi administration's efforts to broaden the tax base. Prabowo also appears to take a more insular line on investment, particularly from China.

Investment activity is likely to ramp up post-election, despite the fact that the state budget for infrastructure spending in fiscal year 2019 is set to grow just 1.1%. Off-balance sheet spending via state-owned enterprise (SOE) infrastructure contracts issued for 2019 is set to rise significantly and private investment activity is likely to ramp up as uncertainty surrounding the elections is dispelled. On the other hand, consumption is likely to slow in the second half of 2019 as the boost from election-related spending wears off and potential fuel price adjustments crimp disposable income.

So how do the candidates stand currently? While Jokowi began with a lead of over 30% in early polls, the most recent January polls show the spread having narrowed to 21% on average. Inferences from the regional gubernatorial elections held in June 2018 provide an optimistic view of Jokowi's re-election prospects as parties supporting him comfortably secured the majority of provinces.

India

- ✿ India's 2019 general election presents investors with a challenging outlook.
- ✿ Investor concerns are growing over the impact of a hung election or the prospects of policy stasis under an extended and brittle coalition.
- ✿ From a policy perspective, the election is being fought on fiscal largesse.

India will hold its 2019 national elections sometime from early April through mid-May 2019, with the actual dates expected to be announced in early March. Results would thus be announced by the end of May.

India's 2019 general election presents investors with a challenging outlook, in contrast to the 2014 election that the ruling Bharatiya Janata Party (BJP) took by storm along with its National Democratic Alliance (NDA) coalition partners, cementing a majority that allowed Prime Minister Narendra Modi to undertake an aggressive and mostly market-friendly reform agenda. Since the middle of 2018, the BJP/NDA coalition has suffered setbacks in by-elections and state elections, and has witnessed the growing reversal of political party fragmentation that allowed it to dominate in the 2014 election. As such, recent polls indicated that the BJP/NDA alliance, while remaining the front-runner, is losing momentum and is likely to garner less than a simple majority.

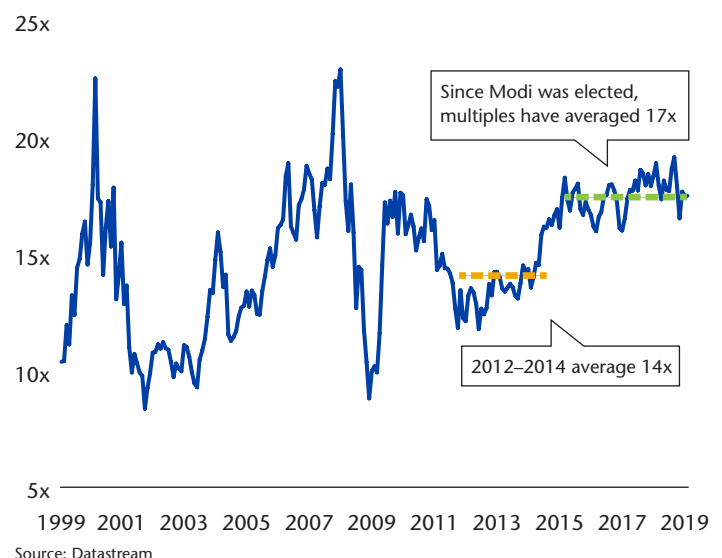
The primary drivers of the BJP/NDA's loss of luster appear to be low job creation and rural distress, which have allowed its primary rival, the Indian National Congress

(INC) and its United Progressive Alliance (UPA) partners to gain ground. Besides this, state-centric political parties have regained relevance with voters and in recent state elections have shown a propensity for forming alliances against the BJP. If these seat-sharing alliances are replicated in the national elections, they could reverse the fragmentation that allowed the BJP to secure a commanding majority in India's electoral system.

Why is this important to investors? While popular perceptions of the BJP/NDA coalition's positioning have already shifted to reflect the potential lack of a majority, this does not yet appear to be reflected in a de-rating of the market premium that set in after the 2014 election. Growing investor concerns over the impact of a hung election or the prospects of policy stasis under an extended and brittle coalition headed by either BJP/NDA or INC/UPA could erode the stock market's rating.

What should we expect on the economic front? From a policy perspective, the election is being fought on fiscal largesse. The BJP's weak performance in last year's state elections was partly attributable to agriculture sector distress stemming from low crop prices. With that in mind, the interim fiscal year 2020 budget that was rolled out on February 1, 2019, incorporated significant transfers to the rural sector in the form of cash payments worth around 0.1% of GDP for the remainder of fiscal year 2019 and around 0.36% for fiscal year 2020. The increase in disposable income of lower income segments (with high marginal propensity to consume) should drive consumption spending, particularly in staples and fast-moving consumer goods, as well as in select low-ticket consumer durables.

Figure 2. Indian Valuation: Next 12 Months Price-to-Earnings Ratio



Philippines

- ✿ The overall impact of the midterm elections is likely to be limited compared to a presidential election.
- ✿ The composition of the Senate is viewed as the most important outcome of the midterm elections.
- ✿ The impact of the elections on the economy and stock market should be positive, albeit limited.

In the Philippines, midterm elections will be held in May for 12 (out of 24 total) senators, the entire House of Representatives and all provincial and city-level officials. Elections are scheduled for May 13, 2019, with winners taking office at the end of June.

The overall impact is likely to be limited compared to a presidential election. The Lower House is typically an administration-friendly bloc as those elected tend to align themselves with the president, given the latter's control over the allocation of the legislators' discretionary fund. The Senate, on the other hand, is more independent and tends to focus on big-picture issues as senators are elected at the national level. Consequently, the composition of the Senate is viewed as the most important outcome of a midterm election.

The administration of President Rodrigo Duterte is widely expected to maintain its control of the Lower House of Congress. The Senate could be more fragmented compared to the Lower House, however, suggesting increased checks and balances on Duterte's legislative agenda. This

implies that pending landmark legislation, such as the push for a switch to federalism (changes to the Philippine Constitution that could shift the country to a federal form of government) and implementation of additional tax measures, may face increased headwinds.

The election's impact on the economy and stock market should be positive, albeit limited. The primary effect is likely to be on consumption due to election-related spending and additional liquidity in the financial system. A counterbalancing drag on growth could come from a likely 45-day construction ban ahead of the polls, which along with the delayed passage of the 2019 budget, could lead to slower government spending in the first half of 2019. In addition, Congress will be in recess from February 8 to May 20 (for campaigning), so major changes to laws (e.g., tax reform) will be on hold.

Generally, we expect the status quo on economic policies after the election. Even if the balance of power in the Senate shifts away from the Duterte administration, it is unlikely to affect the priority given to infrastructure across the political spectrum. As such, we expect a stronger fiscal impulse and continued pressure on imports and the current account. Increased government spending and borrowing could crowd out private investment, given a tighter liquidity environment. The recent deceleration in inflation following 175 basis points of policy rate hikes, however, is likely to allow the central bank to resume required reserve reductions, helping to inject additional liquidity.

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