

## Matthews Asia Perspective

### Spotlight on Malaysia & Singapore



**Sriyan Pietersz**  
Investment Strategist  
Matthews Asia

#### What changes in Malaysia are emerging now that its new government has been in place since May?

So far, changes include a shift in growth focus from the public sector to the private sector by boosting consumption through fiscal transfers ranging from fuel subsidies to increased payments to lower-income groups and the abolition of the Goods and Services Tax (GST). As well, the new government is revamping the political economy left behind by the old government, as seen in the departures of government-linked company (GLC) leaders, and investigations into deals and projects made by the previous administration.

Another change is a potential return to Prime Minister Mahathir Mohamad's former "Look East" policy that focused on building closer ties with Japan. This could help to secure potential Japanese soft loans to reduce public interest expenses and rebalance the debt mix, while tilting away from the previous government's close embrace of China.

#### In what direction will Malaysia's relations with Singapore develop under the new government of Prime Minister Mahathir?

The past relationship between Prime Minister Mahathir and Singapore was somewhat contentious and this is likely to continue. Indeed, Mahathir's recent comments regarding review of a water supply agreement with Singapore (Malaysia supplies a significant proportion of Singapore's water requirements) and the planned cancellation of the Kuala Lumpur–Singapore high speed rail project may be indicative of this. Despite intermittent threats, however, the water supply to Singapore historically has never been cut off.

One possible interpretation of the recent rhetoric is that Malaysia is looking to build a bargaining position prior to initiating further negotiations with Singapore on a wide range of issues.

#### Singapore took center stage at the summit meeting between North Korean leader Kim Jong Un and U.S. President Donald Trump. What did this indicate about Singapore's importance?

While the summit burnished Singapore's diplomatic credentials on the global stage, Singapore enjoys a special relationship as a close U.S. ally in Asia and, as such, was a likely candidate to host the summit. Further, Singapore holds the chair of the Association of Southeast Asian Nations (ASEAN) in 2018, and thus also acted as the bloc's representative in providing a neutral venue for the summit.

#### The relationship between ASEAN states is considered by some to be difficult. Can this loose alliance form an economic counterweight to China?

I would disagree that the relationship among the ASEAN states is difficult. Unlike the European Union, ASEAN is a loose alliance by design, as the diversity of ethnicities, religions, languages, and cultures has made maintenance of individual sovereignty extremely important. This emphasis on individual sovereignty often leads to disagreements among member states, and is why the ethos of ASEAN is based on consensus decision-making.

---

*Investments involve risk. Past performance is no guarantee of future results. Investing in international and emerging markets may involve additional risks, such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation.*

Given that the region collectively comprises 630 million people compared to China's 1.3 billion, it is difficult to view the region as an economic counterweight to China. Rather, ASEAN aims to take advantage of its geographic proximity to China to build opportunities stemming from its dynamic demographics, growing workforce, rising productivity and urbanization. These are enhanced by increasing regional integration.

### Will Malaysia be affected by the Trump tariffs on China?

As a key Southeast Asian member of China's manufacturing supply chain, I believe Malaysia will likely face some impact on its export volumes. Potential opportunities may arise, however, as products that compete directly with Chinese products affected by U.S. tariffs could gain market share. One example is the shift that has been occurring since 2011 in solar panel manufacturing capacity by large Chinese manufacturers

to countries like Malaysia and Vietnam in efforts to avoid U.S. tariffs and EU quotas. This led to a pickup in market share for Malaysia, making it the largest source of solar panel imports into the U.S. in 2017.

### How attractive are Singapore and Malaysia from an investor's perspective?

As highly open but relatively small economies, Singapore and Malaysia tend to fare well when global demand conditions are expansive. Singapore's status as a regional financial center and its high level of connectivity positions it to benefit from the growth of its less developed and more populous neighbors (such as Indonesia). Malaysia, as a significant commodity exporter (palm oil and crude oil), also benefits from cyclical upswings that drive energy demand. From a more structural perspective, Malaysia's youthful demographics and high education levels position it for sustained growth over the next decade.

---

### Important Information

Matthews Asia is the brand for Matthews International Capital Management, LLC and its direct and indirect subsidiaries.

The information contained herein has been derived from sources believed to be reliable and accurate at the time of compilation, but no representation or warranty (express or implied) is made as to the accuracy or completeness of any of this information. Matthews Asia and its affiliates do not accept any liability for losses either direct or consequential caused by the use of this information. The views and information discussed herein are as of the date of publication, are subject to change and may not reflect current views. The views expressed represent an assessment of market conditions at a specific point in time, are opinions only and should not be relied upon as investment advice regarding a particular investment or markets in general. Such information does not constitute a recommendation to buy or sell specific securities or investment vehicles. This document does not constitute investment advice or an offer to provide investment advisory or investment management services, or the solicitation of an offer to provide investment advisory or investment management services, in any jurisdiction in which an offer or solicitation would be unlawful under the securities law of that jurisdiction. This document may not be reproduced in any form or transmitted to any person without authorization from the issuer.

**In the United States**, this document is issued by Matthews International Capital Management, LLC. **In Singapore**, this document is available to, and intended for Institutional Investors under Section 304 of the Securities and Futures Act ("SFA"), and to Relevant Persons pursuant to section 305 of the SFA, as those terms are used under the relevant law. It should not be circulated or distributed to the retail public in Singapore. **In Hong Kong**, this document is issued by Matthews Global Investors (Hong Kong) Limited and has not been reviewed by the Securities and Futures Commission in Hong Kong (SFC). **In the UK**, this document is issued by Matthews Global Investors (UK) Limited, which is authorised and regulated by the Financial Conduct Authority ("FCA"), FRN 667893. In the UK, this document is only made available to professional clients and eligible counterparties as defined by the FCA. Under no circumstances should this document be forwarded to anyone in the UK who is not a professional client or eligible counterparty as defined by the FCA. This document has not been reviewed by any regulatory authorities.