Regional Summary: Southeast Asia

- Southeast Asia includes countries spanning the development continuum, from Singapore with a per capita GDP around USD 65,000, to Papua New Guinea, with a per capita GDP of approximately USD 2490, according to the latest IMF figures. The region’s geographic spread includes countries located north of Australia, west of New Guinea, east of India, and south of China.
- Growth in the region has been relatively robust, supported by strong domestic demand, government-led infrastructure spending, and increased foreign direct investment. However, growth is expected to moderate with downside risks including the negative impact of geopolitical tensions on trade, declining export-driven demand, energy price volatility, and potential exchange rate volatility.
- Three of region’s countries—Thailand, Indonesia, and the Philippines—had elections in 2019, the results of which signal policy continuity.
- After moves to normalize monetary policy (following rate increases by the US Federal Reserve), most of the region’s central banks are now expected to ease in light of the US Federal Reserve’s more dovish stance.
Economic Risk: High

- Although textiles account for approximately 70% of Cambodia's exports, the sector is under pressure due to higher wages in Cambodia, compared to countries like Bangladesh and Laos.

- The country has grown consistently and strongly, driven by a robust global economy, sustained FDI inflows, and high levels of government spending in the construction sector.

- Cambodia’s government budget deficit has widened, with the government focusing on infrastructure development and employment. The government is targeting a budget deficit of 3.3% in 2019, up from 2.2% recorded in 2018 but below the 2018 target of 4.8%.

- Cambodia has a young workforce, but a weak public education system has resulted in a shortage of skilled labor. Other pressing challenges include healthcare and sanitation. Cambodia ranks 156 out 189 countries according to the UN’s Human Development Index, with all of its quality of health and quality of standard of living indicators among the bottom third of performers.

Political Risk: High

- Following the forced dissolution of its main opposition party in 2017, the Cambodian People’s Party won almost all seats in the July 2018 election. Despite international criticism, government suppression of the opposition continues and makes challenges to the CPP unlikely. Prime Minister Hun Sen leads the country.

- Concerns about Cambodia’s human and labor rights records have led the EU to consider suspending its Everything But Arms (EBA) trade scheme with the country. Under the EBA, Cambodia receives duty-free access to EU markets; suspension of the EBA would have a significant, negative impact on the country’s textile industry. The EU is expected to decide on whether the EBA should be continued by the end of 2020. Forty percent of Cambodia’s exports go to the EU.

- Corruption is rampant, while the rule of law is weak. Despite reform pledges, vulnerabilities persist and further anti-corruption efforts are critical to the country’s long-term success. Cambodia is ranked 161 out of 180 countries in the Corruption Perception Index.

Financial System Risk: Very High

- The Insurance and Pension Division of the Department of Financial Industry regulates the insurance industry.

- The tax regime is generally friendly to businesses and focused on attracting investment. The government has stated that the new Revenue Mobilization Strategy will place greater emphasis on tax reform.

- Cambodia’s credit-to-GDP ratio has increased substantially over the last decade, raising the risk of financial sector vulnerability. Although non-performing loans are officially estimated at only 2.4%, the IMF has noted that the true level of NPLs may be understated.