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CHINA

"A turn for the worse"

Tougher controls on politics and business, a slowing economy, and heightened geopolitical tension will translate into a host of risks for international companies operating in China.

Domestic uncertainties and perceived external threats are bolstering the government's traditional fear of instability. This sense of vulnerability will prompt stronger controls across the board, including by augmenting involvement in domestic and private business. China's sense of historical grievance may also deepen, with celebrations due for the 100th anniversary of the 1919 May Fourth Movement, and the 70th anniversary of the 1949 foundation of the People's Republic of China.

Growth may slip to 6% in 2019, down from 6.5% in 2018. Any such slowdown might provide some space for economic reform. However, too sheer a drop could also prompt the government to defer, or abandon, such measures, instead hiking spending so as to stave off a jarring halt. Signs of this policy shift are already emerging. The government has cut tax levels; it may soon boost infrastructure spending, and loosen capital reserve requirements for banks. Growth should logically recover later in 2019, but at the expense of efforts to curtail rising levels of debt.

The international arena will prove exacting. The trade dispute with Washington is just a symptom of a much broader parting of the ways – antipathy is here to stay. Accordingly, the US will maintain opposition to the Belt and Road Initiative, and other efforts to build Chinese influence; in response, China will put more heft into its entente with Russia. Tensions over Taiwan or the South China Sea could also flare up. Of course, neither power wants a conflict, but an accident could easily escalate.

The risk situation for business will worsen. Regulatory and investigative actions targeting foreign firms could proliferate, as export controls or intellectual property rules gain strategic significance. International businesses may also find their interests or personnel held "hostage" for geopolitical reasons. Boycotts of foreign businesses, or protests, may become more frequent. At home, regulators will ask searching questions about their companies' activities in China. Of course, established business will go on, but in a starkly different climate.

Tighter controls, a slowing economy, and geopolitical tensions mean risks in China will rise in 2019 – even if efforts to pump up the economy provide some compensations.

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HONG KONG

"Toeing the line"

Hong Kong's politics should remain stable, if at the expense of a diminished rule of law and loss of local autonomy. The economy will weaken as China slows, and as trade frictions take their toll. All told, Hong Kong's loss of its "Asian World City" status is becoming more apparent, given its excessive reliance on integration with mainland China.

Hong Kong's autonomy under "one country, two systems" will wane further in 2019. Chief Executive Carrie Lam Cheng Yuet-ngor will promote Hong Kong's integration into the Greater Bay Area, and cede ever more control of policy to the Central Government Liaison Office. District council elections in November 2019 will provide little solace to democrats, as pro-Beijing groups will probably do well. The independent rule of law will weaken; indeed, the Justice Secretary's recent handling of an enquiry into the former Chief Executive caused a furore.

The economy is slowing. GDP growth may drop to 2.3% in 2019, down from 2.9%, as a frailer China, a declining housing market, and trade tensions weigh on activity. Structurally, mainland Chinese companies will maintain dominance of land sales and stock market listings, further subverting Hong Kong's special status. Social pressures related to limited housing and the ageing of the population will only grow. Trade frictions will loom large; one threat is that the US might seek to strip Hong Kong of its special trading status, if tensions with China escalate further.

The risk of instability or large-scale protests is small, however. The government's relatively harsh, if delayed, action against the Occupy Central protest leaders and pro-democratic politicians should deter people from large scale rallies. In this context, the formal introduction of National Security legislation (a move that prompted widespread protests in 2003) may become unnecessary, as "salami slice" measures take its place – simultaneously strengthening Beijing's control, and depriving the opposition of a cause to rally to.

Hong Kong's politics should stay stable, then, if at the price of the city's autonomy and rule of law. The economy will also weaken in 2019, as China slows. Even so, the city will retain its appeal to foreign business.

MACAU

"A game of chance"

Political changes, a wavering economy and stresses in the Sino-US relationship will all buffet Macau in 2019, presenting investors with challenges.

The political environment should stay steady in 2019; a Macau loyal to Beijing does not face the same challenges as Hong Kong. Chief Executive Fernando Chui Sai On will retain control – at least until stepping down at the end of year. The likeliest replacement will be Ho Iat Seng, who chairs the Legislative Assembly.

This looming transition raises the question of the gaming concessions, which expire in 2020 or 2022. Current thinking is that the government will want to extend the concessions until 2022, so as to deal with them all at once; such a move would buy time. Little else is manifest. Fernando Chui promised some insights into policy in mid-2018, but has since kept his own counsel.

Unquestionably, the authorities will not want to destabilise the sector – a veritable cash cow. Gaming rose by 14% in 2018, year on year, reaching a value of USD37.6 billion, and accounting for more than 80% of government revenue. Even so, Macau's GDP growth has diminished of late, to about 6.8% in 2018, owing to softer domestic demand in China. The government is also trying to shift away from casino revenues, so as to meet Beijing's demands for diversification.

The Macau government will thus appraise both the economy and geopolitics when taking any decision. In that context, spiralling tensions with the US could spur Macau to dilute US casinos' sectoral dominance, not least given the links between the gaming tycoons and the Republican Party. After all, the US casinos are sitting on a geopolitical fault line.

The Macau government might call for Chinese companies to buy into, or take over, existing businesses, or might simply refuse to grant a new right to current concessionaires. Ho, should he become Chief Executive, could espouse such a move. After all, he ousted Portuguese jurists from the Legislative Assembly, and may welcome a similar "Sinification" of the gaming sector.

The security situation presents separate, longstanding risks. Of most note is the deep involvement of triad societies in junket promoters, a perennial problem positing serious criminal and reputational threats to investors. The prospect of a terrorist attack on a casino is also a chronic worry, although Macau has recently taken some steps to limit the danger.

Macau's politics should therefore stay stable, even as China's economy slows, but the geopolitical risks facing the gaming concessionaires will climb sharply in 2019. Investors should take note.

TAIWAN

"Sailing into the storm"

A chastened government, the failure to revive the economy, and steeply rising tensions with China mean that Taiwan's prospects in 2019 are darkening.

The Democratic Progressive Party ("DPP") government, led by the President Tsai Ing-wen, lost heavily to the opposition Kuomintang ("KMT") in local elections in November 2019. Mindful of her failure, Tsai resigned as DPP chairman; now, she may come under pressure not to run in presidential polls in early 2020, and will struggle to rein in the DPP's pro-independence wing. The KMT could win back the presidency, perhaps fielding its new Mayor of Kaohsiung, Han Kuo-yu, who has stressed livelihood concerns over national security. Another possible candidate is independent Ko Wen-je, the Mayor of Taipei.

The election results called attention to, once again, Taiwan's structural decline. To her credit, Tsai had sought to revive the economy, with labour and pension reforms, tax incentives for firms, and support for investment in South East Asia; and GDP growth reached 2.7% in 2018. However, Tsai found no solution to the hollowing out of Taiwan's industry, a result of years of investment in production in mainland China, and intense competition from South Korea. Accordingly, growth may slide to 2.2% in 2019. The recent rise in protectionism only adds to the hazards facing Taiwan's companies.

Tsai's biggest test in 2019 may be geopolitical, however. Beijing welcomed the DPP's humbling, seeing the defeat as a vindication of its policy of political, economic and military intimidation; indeed, Chinese President Xi Jinping in early January 2019 again threatened force against Taiwan. In response, Tsai formally rejected the 1992 consensus (a diplomatic artifice that allows for one, undefined China, and that pleases Beijing), departing from a hitherto studied ambiguity. Cross-straits tensions will now rise, and fast. None of the parties want a conflict, of course, but such developments escalate the danger.

A chastened government, ailing economy and rising tensions across the straits point to starkly heightened risks in Taiwan in 2019.

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JAPAN

"Slow but steady"

Japan's politics will stay stable in 2019, but the economy will slow, and tensions between the US and China will present Tokyo with a strategic quandary, particularly if frictions over Taiwan ignite.

Shinzo Abe will continue to pilot Japan, becoming one of the longest serving prime ministers in years. Nonetheless, his star is fading somewhat, meaning that jostling amongst prospective successors will intensify. Abe's focus will be on his legacy. One matter will be amending Article 9 of Japan's pacifist constitution – although winning over his Komeito coalition partner may prove tough. Ceremony will be another task. Abe will oversee the abdication of Emperor Akihiko, the 2019 Rugby World Cup, and the 2020 Olympics.

The government's economic stewardship, known as "Abenomics", has proven quite successful. The economy expanded by about 1.7% in 2018, the labour market is tight, and wages are rising. However, growth may ebb to 1.1% in the 2019 to 2020 fiscal year, and prices rose only 1.4% in 2018 (under the 2% Bank of Japan threshold), meaning deflation is not yet defeated. A hike in September 2019 in the consumption tax, from 8% to 10%, necessary to cover social spending, could yet provoke a downturn. Other plans, to permit limited immigration, and a voluntary increase of the pension age to 70, are welcome, but insufficient to revive growth, particularly if external uncertainties worsen – as seems likely.

Equally testing will be foreign policy. Trade negotiations with Washington may prove bruising, given that Japan accounted for 10% of the US trade deficit in 2017. Rising antipathy between the US and China poses other threats. Strife in the Taiwan Straits is one problem, not least as an autonomous Taiwan is very much in the Japanese national interest; the disputes in the East and South China Seas are another. Tokyo will thus focus on enhancing its defence posture. The North Korea issue is apparently in abeyance, but could worsen later in the year as faith generated in the mid-2018 Singapore meeting dissipates.

All told, Japan's politics should prove stable, with a seasoned pilot able to handle a weaker economy and an unstable international environment. Risks will rise, but should not prove insuperable.

SOUTH KOREA

"Hope triumphs over experience?"

A stable political outlook and tentative rapprochement with North Korea augur well for 2019, although a softening economy, Sino-US frictions and Pyongyang's unreliability threaten these gains.

President Moon Jae-in is in a relatively strong position. The corruption convictions of his predecessors Park Geun-hye and Lee Moon-bak have crippled the opposition; and Moon remains popular, as shown by his victory in June 2018 local elections. No polls are due in 2019, leaving Moon free to focus on his policy priorities, such as women's rights, improving work safety, and bettering the environment.

The economy is losing pace. Growth has slipped from 3.1% in 2017, to 2.9% in 2018, and perhaps to 2.6% in 2019, owing to trade uncertainties, giddy property prices, and a raft of pro-labour rules. Embarrassingly, Moon had sought to be the "jobs president", but has failed to increase employment. The government now hopes that a major fiscal boost will compensate, with the budget up 9.7% year-on-year. That fiscal injection may prove timely, if the world economy slows markedly.

The international environment is mixed. Tensions with North Korea have fallen, but optimism could dissipate when talks reveal the vast distance between Pyongyang and Washington. A more tempestuous relationship between the US and China adds complications, not least as Moon had sought to draw closer to China, and as South Korea's current account surplus of 4.5% of GDP had propelled the US to force renegotiation of a trade accord. A further challenge is the relationship with Japan, which is soured by historical disputes.

The outlook for South Korea is thus mixed. Domestic politics should stay stable, and the North Korea issue has improved – for now. That said, a weakening economy, the US-China dispute, and Pyongyang's unreliability threaten these gains.

SINGAPORE

"Buffeted from outside"

A leadership transition, frailer economic outlook and heightened tensions across Asia mean risks will rise in Singapore in 2019, albeit from a low level.

The leadership transition, from current Prime Minister Lee Hsien Loong to his designated successors, Finance Minister Heng Swee Keat, and Trade and Industry Minister Chan Chun Sing, will advance. Heng, a policeman turned central banker, is now the clear favourite to succeed Lee. Change will be slow, though. The old guard will retain much clout. An election, perhaps towards the end of 2019, will precede Lee's formal departure, although the governing People's Action Party ("PAP") stands scant chance of losing.

The economy presents other dangers. GDP growth of about 3.5% in 2018 may sag, perhaps towards 2.5% in 2019. Longstanding socio-economic issues, such as a degree of income inequality, a need to fund an ageing population, and a struggle to retain Singapore's lead in the neighbourhood, will test policymakers. All the same, the city state's history of sound management, hoarding of reserves, and championing of industry should mitigate against these hazards.

The biggest peril, then, stems from the US stance on trade. Singapore's mercantilist tradition means the city state ran a current account surplus of about 19.1% of GDP in 2018 – far above that of China, South Korea or Japan, all of which have already faced Washington's ire. More broadly, any rise in protectionism, or slowdown in China, may harm Singapore.

Maintaining good relations with both the US and China will also prove exacting, as the big powers increasingly wish the Association of South East Asian Nations ("ASEAN") members to choose sides. Of course, Singapore will seek to avoid any such choice, but these strains will nonetheless lead to turbulence. Relations with Kuala Lumpur have been damaged, owing to the suspension of plans to build a fast train line, territorial disputes, and the vexed question of water supply. The threat of external terrorism also endures.

All told, the risk outlook for Singapore is rising, albeit from a low level. A political transition will prompt some uncertainties, but bigger threats, such as protectionism and regional tensions, emanate from outside the city state.

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MALAYSIA

"Potential for a miscalculation"

Malaysia's new government must implement reforms, manage internal differences, suppress ethnic divisions, and retain confidence in its economic stewardship, even as the international environment deteriorates. Managing all that will prove strenuous.

The Pakatan Harapan ("PH") coalition government, led by the 93-year-old Mahathir Mohamed, must maintain momentum after defeating the incumbent United Malays National Organisation ("UMNO") in May 2018. The government faces little opposition, but UMNO retains a formidable network that may yet revive. Attention will thus focus on corruption related to the 1 Malaysia Development Fund ("1MDB") and former Prime Minister Najib Razak, who faces trial in February. Mahathir must also manage Anwar Ibrahim, who seeks to become Prime Minister, but faces internal opposition. Whether Mahathir will cede power is, as yet, unsettled, and could generate discord.

The economy faces other dangers. Growth is faltering, and may slip to 4% or so in 2019, down from about 4.7% in 2018, and 5.7% in 2017. The fiscal challenge is intensifying. Malaysia's debt now amounts to 80% of GDP, if off-book liabilities are taken into account, and the fiscal deficit may reach 3.4% of GDP. More nebulously, the 1MDB scandal has harmed confidence in the Malaysia's economic prospects, notwithstanding the current account surplus of 2.5% of GDP. Moreover, a limp external outlook will pare down exports.

Regional tensions are also rising. Managing relations with China could prove hard; Mahathir has cancelled two major projects, and warned against Chinese "colonialism". Even so, he is sceptical of the US – if not of Japan. Relations with Singapore have also proven rocky.

Most worrying is the nasty tone of Malaysian politics. Indeed, disturbances in November 2018 outside Kuala Lumpur drew attention to the country's combustible ethnic mix, particularly given perceptions that the government favours minorities over native Malays. The longstanding challenge of Islamism only aggravates this danger. Indeed, Mahathir refused to deport an extremist preacher, but arrests in October 2018 made clear that the threat of terrorist attacks is real.

Malaysia faces immense challenges in 2019. The new government must clean house and retain cogency, win over rural Malays, and re-instil confidence in the economy, even as the international environment deteriorates. Managing all of these goals will certainly prove strenuous.

THAILAND

"A tricky transition"

Political uneasiness will rise in Thailand in 2019, as the military government seeks a transition to a guided democracy, the economy slows, and regional tensions intensify.

Thailand's military dominated National Council for Peace and Order ("NCPO") plans elections for February or March 2019, after repeated deferrals – the last time owing to the old king's death. The government hopes for a transition towards an oligarchic "guided democracy", under the 2016 constitution, which provides for: the prime minister's appointment from outside parliament; hobbled political parties; and the installation (not election) of 200 senators. Prime minister, and former army chief, Prayuth Chan-o-cha may thus seek re-appointment, regardless of the results.

Any such transition will require dexterity – and the precedents are not good. An attempt in 1992 by a military leader to don civilian garb resulted in bloodshed. Moreover, supporters of exiled tycoon Thaksin Shinawatra, in the Pheu Thai Party or the United Front for Democracy against Dictatorship ("UDD" or "Redshirts"), may yet win the election, as they have on every occasion since 2006. If so, Prayuth's government would lack legitimacy, and could face protests.

In the interim, the economy is decelerating. GDP may slip to 3.5% in 2019, down from 4.1% in 2018, thanks to reduced spending and pressures on exports, which amount to 60% of GDP. Even so, rates of unemployment are low, and inflation is under control (at 1.5%). Thailand boasts a current account surplus of 7.8% of GDP, and has reserves worth about USD235 billion. Tourism thrives, despite a July 2018 boat accident, and efforts to reinvigorate industry by drawing in foreign investment are showing some promise. The risk, then, is that political instability saps the vim from the economy.

Regional tensions, worrying as they appear, are of secondary concern. Thailand's sound relations with both China and the US may prove harder to balance in 2019, but relations with its neighbours are amicable; indeed, Bangkok's chairmanship of the Association of South East Asian Nations ("ASEAN") will dominate foreign affairs. Terrorism, emanating from Thailand's restive south, is a menace, but is contained.

The main risks facing Thailand are political, then. The elections may result in a government without legitimacy, raising the risks of protests and instability – to the detriment of the economy.

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INDONESIA

"Heading in the right direction"

Political contest and noxious rhetoric will intensify as general elections close in, perhaps stoking intolerance. However, sensible government policies and a determination to contest extremism mean risks should remain manageable.

Divisions will loom large ahead of polls in April 2019, for the presidency, vice presidency, and parliament. The battle will be between incumbent Joko Widodo, and head of the religious group Nahdlatul Ulama, Ma'ruf Amin, on one side, and former special forces general Prabowo Subianto, supported by Vice Governor of Jakarta Sandiaga Uno, on the other.

Investors should expect a nasty fight. Prabowo Subianto is buoyed by his success in ousting (and jailing) the ethnically Chinese governor of Jakarta, Basuki Tjahaja Purnama ("Ahok"), in 2016, with a noisome campaign drawing on blasphemy charges. Now, efforts to depict Widodo as somehow "not Muslim" are intensifying. Widodo has responded by allying with the conservative Ma'ruf Amin, to the chagrin of liberal supporters. All the same, Widodo's common man persona and pledges to stop corruption should ensure his victory.

The economy faces some uncertainty. GDP growth may fall below 5% in 2019, for the first time in five years. Private consumption is weakening and commodity prices are falling, offsetting government support for health care, infrastructure spending, and foreign direct investment. Furthermore, Indonesia runs a current account deficit of 2.6% of GDP. A repeat of the "taper tantrum" currency scare of 2013 seems unlikely, given foreign exchange reserves of about USD118 billion and a debt to GDP ratio of 34%, but the frailties are real.

The regional environment poses tolerable risks. Relations with China have become a political matter. Prabowo Subianto claims that ties to Beijing are too close, despite Widodo's rebuffing of Beijing's claims to Indonesian territorial waters. Links with the US are promising, if shallow, but those with Australia are nettlesome, despite goodwill on both sides. Ties through the Association of South East Asian Nations ("ASEAN") are sound, although Jakarta's desire to lead can irk other members.

Intolerance and terrorism are different hazards. A real danger is that rhetoric during the election encourages intemperance, perhaps even inciting protests or riots. Terrorism is a related worry. A spate of church bombings in Surabaya in May 2018 heightened fears of a new wave of attacks. However, the government quickly adopted anti-terrorist legislation, and rounded up suspects, so maintaining its strong stance on Islamist terrorism.

Indonesia's prospects in 2019 are thus mixed. The Widodo government should win polls, but the campaign may engender intolerance. The economy shows frailties, and terrorism is a danger. Even so, Indonesia is moving in the right direction.

THE PHILIPPINES

"Mixed blessings"

Political stability and a strong economy should compensate for poor governance and security shortfalls in the Philippines in 2019.

President Duterte will retain predominance, if with diminishing scope for manoeuvre. Polls in May 2019 for senate seats, the entire House of Representatives, and local positions should not dislodge his grip – but neither will they strengthen it. As such, Duterte will not be able to pursue constitutional reforms to weaken "imperial Manila", which some see as disguising authoritarian intentions. In the interim, speculation about Duterte's health will continue – particularly, as his death could cause strife.

For now, the economic outlook is good. GDP growth may reach 6.7% in 2019, up from 6.4% in 2018, thanks to the government's "Build, Build, Build" infrastructure plan. Many projects will start in 2019 (including those delayed from 2018), such as the Metro Manila subway. One risk is that this investment will hit government finances, meaning a fiscal deficit of about 3.2% of GDP. Worse, a current account deficit of close to 1.5% of GDP, a falling peso, and a rise in inflation to over 4%, leave the Philippines vulnerable to external shocks.

The international scene presents fewer threats. The Philippines has improved links with Beijing, and the dispute in the South China Sea should not flare up too much. Even so, the cost of Chinese lending has meant that Duterte has turned elsewhere, including to Japan, to finance much infrastructure. Maintaining a balance between Washington and Beijing may prove hard, though, owing to the Philippines' longstanding security relationship with the US.

Lack of security is a perennial problem. Over 10,000 people have died in the government's war on drugs, raising acute human rights concerns – but the policy is popular domestically. The creation of a Bangsamoro Autonomous Region in May should ease the threat from the Moro Islamic Liberation Front ("MILF"), but other groups, such as the Abu Sayyaf, the Bangsamoro Islamic Freedom Fighters, and successors to the Maute Group will carry out further attacks in Mindanao. Indeed, the siege of Marawi from May to October 2017 highlighted how quickly the government can lose control of a whole city.

All told, a stable government and strong economy, albeit one exposed to external vagaries, should compensate for poor governance and security shortfalls in the Philippines in 2019.

VIETNAM

"The good with the bad"

Vietnam's stable government and speedy economy should not distract from the country's exposure to protectionism and regional tensions.

General Secretary and State President Nguyen Phu Trong retains huge influence over the Communist Party of Vietnam ("CPV"). Indeed, Trong's assumption of the presidency (while acting as General Secretary) and anti-corruption campaign have prompted comparisons with Xi Jinping in China. Certainly, Trong has unsettled the balance within the CPV. Yet, he still has many opponents on the Central Committee, and must step down in 2021. His ascendancy is thus not absolute.

The economy shows promise. GDP has grown quickly, at 6.7% in 2018, with hopes for 6.8% in 2019. USD30.8 billion of foreign direct investment flooded into Vietnam in 2018, attracted by a young population and low costs. However, the country has real frailties. The government deficit has risen to 5.8% of GDP, public debt is equivalent to 60% of GDP, and Vietnam's reliance on trade (amounting to more than 200% of GDP) means protectionism is a severe threat. Moreover, the Sino-US trade war is not purely a boon; Chinese companies' shipments through Haiphong have already prompted Washington to curtail steel imports from Vietnam.

Living with China is another challenge. On the one hand, China is a major economic partner. On the other hand, the two states dispute much of the South China Sea, and anti-Chinese feeling is pungent; efforts to establish special economic zones provoked riots in September 2018 targeting Chinese businesses. Moreover, Manila's willingness to treat with Beijing has left Hanoi with little option but to strengthen military capacity. Frictions between the US and China only add to the stakes involved.

Vietnam's political stability and strong economy thus bode well for 2019, but should not distract from the country's economic frailties and exposure to regional tensions.

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MYANMAR

"Far below expectations"

The government's impotence, stalled economic reforms, and reigniting conflicts all presage a rise in risk in Myanmar in 2019.

The overweening influence of the military has limited the freedom of action of the National League for Democracy ("NLD") government. Even so, State Counsellor Aung San Suu Kyi's centralising of power, failure to implement reforms, and acceptance of the jailing of Reuters journalists have squandered goodwill. More damaging is a failure to prevent, or even criticise, human rights abuses in Rakhine state. Attention is now turning towards presidential elections in 2020; an NLD victory still seems likely, if less so than before.

The economy may grow 6.5% in 2019. However, inflation is high, at about 6%, and the current account deficit is widening, from about 3% of GDP in 2018, to perhaps 4% in 2019. The government has adopted improved laws on investments and companies, but a range of important reforms, such as measures to liberalise the banking or insurance sectors, to clarify land holding, and to liberalise aviation languish, hobbled by vested interests. The slowing of the global economy will thus augment a burgeoning malaise.

Myanmar's foreign policy is also shifting. Japan and India wish to maintain strong relations, but other states are drawing back, with some talk of the reimposition of certain sanctions. Even Association of South East Asian Nations ("ASEAN") peers, such as Malaysia and Indonesia, have criticised Aung San Suu Kyi. Consequently, the NLD government is turning back towards China – notwithstanding military scepticism about Beijing's intentions. A hitherto stalled deep-water port planned for Kyaukpyu, and associated railway to China's Yunnan province, are making headway, complimenting an energy pipeline that opened in 2017 – all part of China's Belt and Road Initiative.

In the meantime, the security situation is regressing. An (admittedly partial) National Ceasefire Agreement brokered in 2015 is fraying. Fighting has restarted with the Karen Independence Army in Myanmar's north and the United Wa State Army in Shan state, raising new fears of mass displacement, akin to that in Rakhine state. The danger is that violence may escalate in 2019.

The government's weakness, a lack of progress on economic reforms, and reigniting regional conflicts all pose hefty hazards to Myanmar in 2019. Investors should rein in expectations accordingly.

INDIA

"Everything to play for"

Elections in May promise uncertainty, but a sturdy economy and manageable security environment should mean risk levels do not rise unduly in 2019.

The governing Bharatiya Janata Party ("BJP") lost three states in "semi-final" local polls in December 2018. A failure to win over the rural poor, thanks to a botched demonetisation scheme, and the (unexpected) revival of the opposition Indian Congress Party under Rahul Gandhi, mean everything is now in play for the May national elections. The risk, then, is that the BJP's Narendra Modi seeks to win back support by spurring ethnic and religious animosity – threatening protests or riots.

The elections will take their toll on the economy. Economic reforms must halt under rules banning policy announcements ahead of polls. Fast growth in 2018 to 2019 of about 7.4% may thus slip, to 7.1% in 2019 to 2020. Moreover, India is vulnerable to the changing mood of the global economy. The country runs a current account deficit of 2.4% of GDP, inflation has risen to 4.6%, and the rupee lost value over 2018. All the same, growth should not fall too far, thanks in part to the BJP's reforms and India's reliance on domestic demand.

The security outlook is demanding, but manageable. Efforts to improve relations with Pakistan have stuttered out, but frictions are not intense. That said, new terrorist attacks could easily result in military deployments – particularly if the government wishes to burnish national security credentials ahead of polls. Relations with China have improved after a border standoff in mid-2017, but India's drawing closer to the US, Japan and Australia will peeve Beijing. Indeed, competition with China around South Asia is intensifying, although India did well in this "great game" in 2018, regaining influence in the Maldives, and containing Chinese influence in Sri Lanka.

Elections in May promise a degree of political uncertainty, then, but a robust economy and a manageable, if demanding, security environment, should mean risks do not spiral out of hand in 2019.

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