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REGIONAL OUTLOOK 2021

November 2020

Krungsri Research

Regional economy: The way forward through regionalization

Economic Outlook 2021

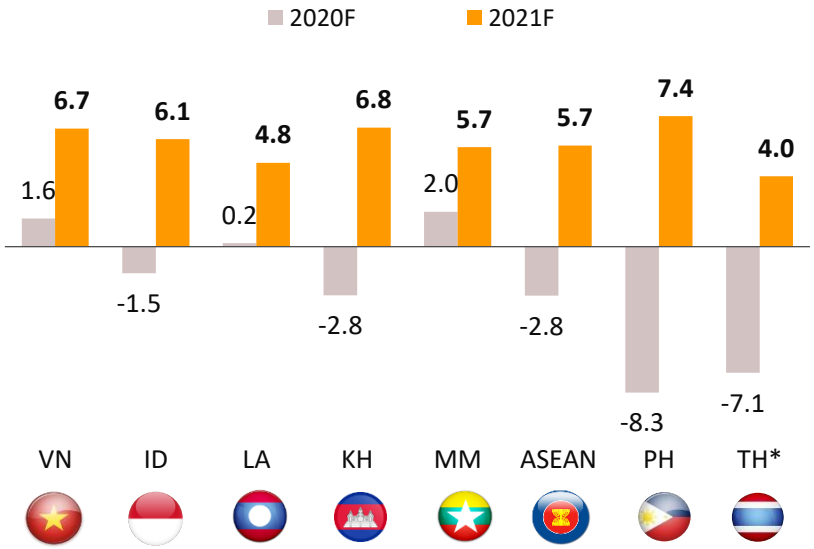
- ASEAN recovery would be relatively stronger than other regions, mainly driven by FDI and public investment.
- International tourism would remain subdued but progress in vaccines could support recovery.
- Exports would improve gradually; Vietnam would outpace peers driven by its competitive products and privileges.
- Investment would start to rise again in 2021, driven by public investment and new regional and bilateral FTAs.
- Private consumption would improve moderately; Vietnam would see the strongest rebound.
- Monetary policy would remain accommodative; Indonesia and Myanmar have room for more easing.

ASEAN recovery would be relatively stronger than other regions, mainly driven by FDI and public investment

- **In 2021, the ASEAN economy is expected to recover and register 5.8% average growth compared to -2.4% in 2020, stronger than global growth and in other regions**. **The outlook for ASEAN region is driven by an expected rise in foreign direct investment (FDI) inflows**. This is backed by major economic reforms in each country to promote more investment-friendly policies and improve competitiveness, along with recent developments in regionalization through several free trade agreements, including the Regional Comprehensive Economic Partnership (RCEP) and the European Union – Vietnam FTA (EVFTA). Rising infrastructure investment in most ASEAN countries would also boost domestic economic activities. In addition, the pace of economic recovery would be supported by a gradual improvement in domestic consumption – a major driver at 56% of ASEAN GDP – especially in several countries which have contained COVID-19 relatively well.
- **Vietnam's economy would see the strongest rebound within CLMVIPT, accelerated by both domestic and external demand – including exports, FDI inflows, and consumption. Philippines would see the highest growth within ASEAN in 2021, following a severe contraction in 2020, but 2021 GDP is likely to remain far below its pre-COVID level.**

IMF's growth projection (2020-2021, %YoY)



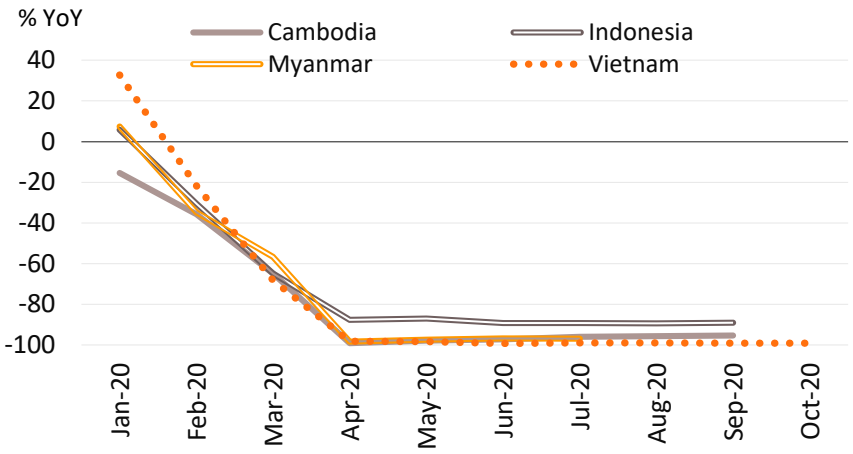


Note: *Krungsri Research expects Thailand's GDP growth at -6.4% in 2020 and 3.3% in 2021.

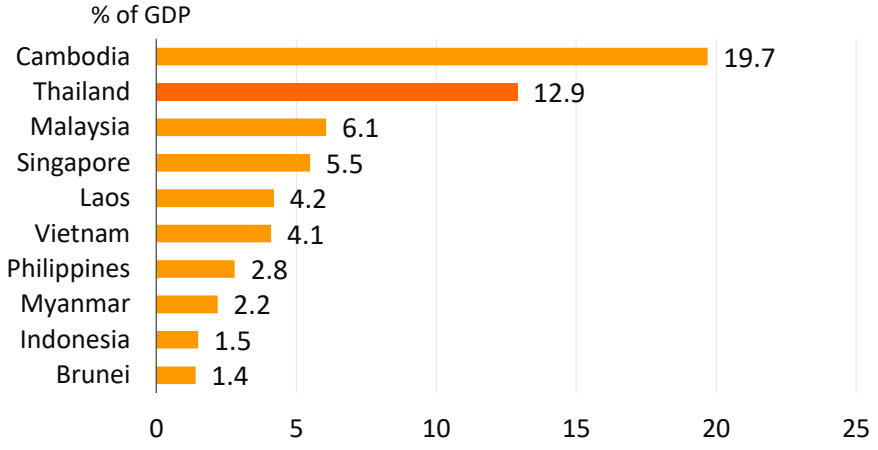
Source: IMF WEO (October 2020), CEIC, Krungsri Research

International tourism would remain subdued but progress in vaccines could support recovery

Tourist arrivals in selected ASEAN countries

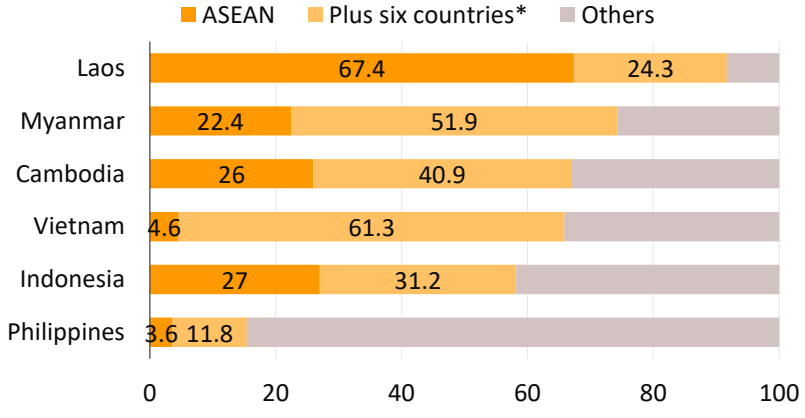


International tourism revenue in ASEAN, 2018



Source of foreign tourists in selected ASEAN countries

(% of each country's total foreign tourists)



Note: *include China, Japan, South Korea, Australia, New Zealand, and India.

Source: Governments' official tourism website, World Tourism Organization, CEIC, Krungsri Research

Krungsri Research's view

- **Prospects for international tourism in ASEAN in 2021 would depend on (i) access to sufficient vaccines, and (ii) effective virus containment measures.** We anticipate international tourism in the region would remain weak as vaccines are only expected to be commercially available from mid-2021. Until then, fears of contracting COVID-19 as well as a second/third wave in several countries could delay decisions on overseas travel.
- **We project a small improvement in tourist arrivals in 2021, at 15-20% of pre-pandemic level**. **Most ASEAN countries are working on reopening for international tourism via travel bubble schemes**. But the scheme would mostly focus on low-risk countries (i.e. virus is well-contained) and short- to medium- haul flights. **This means initial inbound tourism would be driven by intra-Asia countries** – which are major sources of international tourist arrivals for most ASEAN members, except Philippines. **Laos, Cambodia, and Vietnam may benefit from low number of cases in their countries.**
- **However, tourist arrivals would remain low.** Economies that rely on foreign tourists, such as Cambodia and Laos, would be further subdued. However, tourism sector in some countries – such as Vietnam where domestic tourists account for c.45% of total tourist receipts – would recover sooner than peers.

Exports would improve gradually; Vietnam would outpace peers driven by its competitive products and privileges

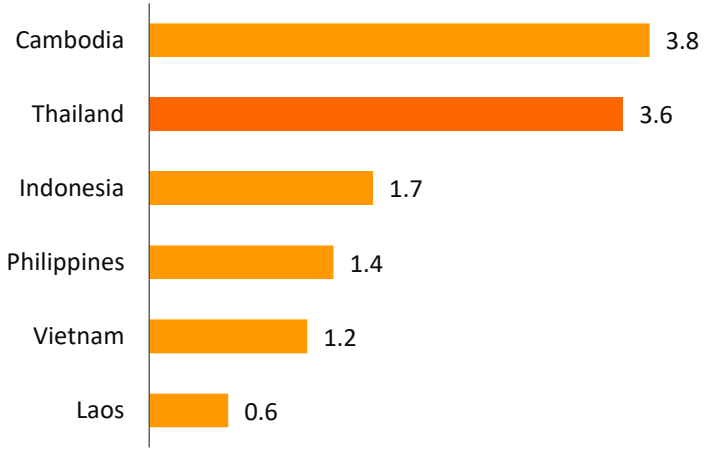
Jan-Jul 2020 export growth of CLMVIP, by major markets

(% YoY)

	Vietnam	Laos	Indonesia	Cambodia	Philippines	Myanmar
Total	1.4	-4.5	-6.7	-7.2	-7.2	-11.3
US	17.2	-46.5	-3.6	22.9	-9.6	10.2
EU	-8.0	16.0	-12.4	-13.5	-13.1	-13.2
China	19.9	-12.9	13.5	3.1	6.1	-30.2
Japan	-4.3	-17.0	-13.1	-2.7	-16.3	-4.4
South Korea	-0.1	9.3	-19.5	-3.2	-6.2	-15.1

Economic impact of the RCEP on exports, 2030*

(cumulative deviation from baseline, %)



Note: *Itakura, K. (2015), 'Assessing the Economic Effects of the Regional Comprehensive Economic Partnership on ASEAN Member States', in Ing, L.Y. (ed.), East Asian Integration.

Source: East Asian Integration, CEIC, news media, Krungsri Research

Key new FTAs in 2020

List of FTA	Member	Status
• European Union-Vietnam FTA (EVFTA)	• 28 countries: Vietnam and EU27	• Effective (August 2020)
• Indonesia-Australia Comprehensive Economic Partnership Agreement (Indonesia-Australia CEPA)	• 2 countries: Indonesia, Australia	• Effective (July 2020)
• Cambodia-China FTA	• 2 countries: Cambodia, China	• Signed but not yet in effect
• Regional Comprehensive Economic Partnership (RCEP)	• 15 countries: ASEAN10, China, Japan, South Korea, Australia, and New Zealand	• Signed but not yet in effect until the ratification by at least 6 ASEAN members and 3 non-ASEAN countries

Krungsri Research's view

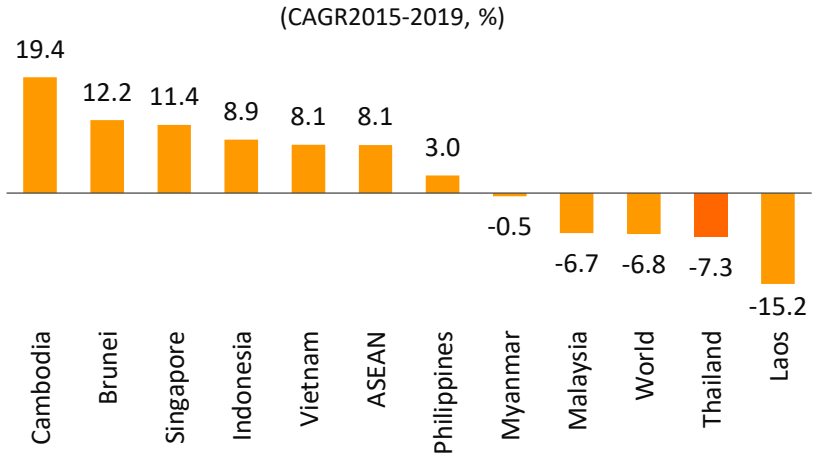
- **We anticipate total exports in the region would rise moderately in 2021, supported by a recovery in the global economy. The region would also benefit from several new FTAs - bilateral and regional. Notably, analysis shows the RCEP would support the member countries' export growth over the long term.**
- **Vietnam will outperform peers significantly. Major reasons include (i) relatively higher competitiveness in several specific products that are also benefiting from the work-from-home trend**. Computer and electronics products, which account for a third of its total exports, are among the top exports with promising growth. Its key competitiveness is backed by lower costs, wider local supply chains, and rising FDI from major importing countries like the US in recent years. **(ii) The country's potential will be driven by new FTAs with major leading economies (covering over 50 countries),** including the EVFTA and RCEP. The latter is expected to take effect in mid-2021.
- **In contrast, exports of countries with narrow market and product concentration – such as Cambodia and Laos – would improve only slightly.** We anticipate a recovery in China and US economies would support export growth for Cambodia and Laos given that these two markets account for a combined one third of their total exports. However, since **Cambodia**'s garment exports are dependent on the EU market (c.40% of total exports), it would also be hurt by the suspension of some privileges under the EU's Everything But Arm (EBA) program. **Laos**' exports would remain weak given a slow economic recovery in Thailand, which is its top export market, accounting for nearly half of its total exports.

Investment would start to rise again in 2021, geared by public investment and new regional & bilateral FTAs

Major public investment plans

Country	Details	% of GDP during the period
Indonesia	USD429.7bn during 2020-2024	6.1%
The Philippines	PHP1.5trn (USD31.1bn) during 2020-2022	9.1%
Vietnam	VND2.75qdrn (USD119.6bn) public investment budget for 2021-2025	48.8%

Growth of FDI inflows in ASEAN countries



Key FDI appeal factors

Country	Key factors
ASEAN members	• Signed the Regional Comprehensive Economic Partnership (RCEP) on 15 November 2020
Cambodia	• Signed the China-Cambodia Free Trade Area (FTA) on 12 October 2020 • Currently reviewing Investment Law
Vietnam	• Prioritizing investment in broad-base sectors, led by hi-tech and related sectors • The EU-Vietnam FTA came into effect on 1 August 2020
Myanmar	• Currently reviewing Investment Law • Establish new Special Economic Zone in Mon State, close to Thailand's border
Indonesia	• Launch omnibus Law on Job Creation to promote more investor-friendly policies • The Indonesia-Australia Comprehensive Economic Partnership Agreement (CEPA) came into effect in July 2020

Source: UNCTAD, local news media, CEIC, Krungsri Research

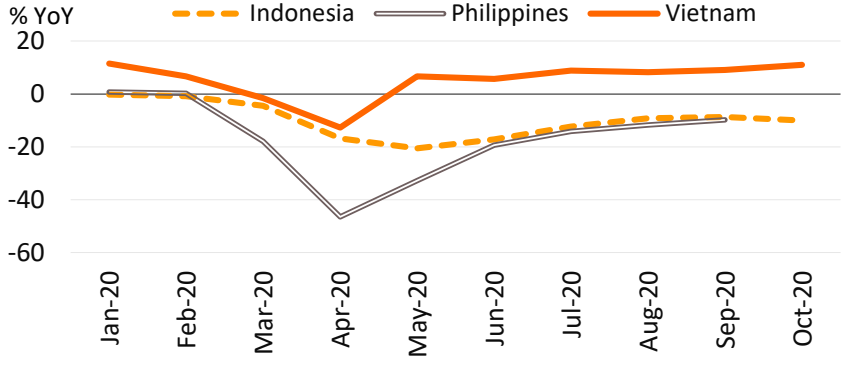
Krungsri Research's view

- **We anticipate investment would recover in the region in 2021. This would be supported by (i) ongoing public investment plans** – most ASEAN countries, led by Vietnam, Philippines, and Indonesia, focus on infrastructure projects; **(ii) the individual country's economic reforms; and (iii) positive impact from several newly-signed FTAs** – led by the RCEP – which promote opportunities to be involved in the global value chain through greater regional participation.
- **Governments would remain a major source of domestic investment**. Most are focusing on public infrastructure projects to boost economic activities in 2021, and to improve the country's competitiveness in the medium term (see table).
- **ASEAN has been one of the world's most attractive FDI destinations in recent years. Looking ahead, among CLMVIP, Vietnam would attract the most FDI**, supported by (i) key economic reforms; (ii) promising economic growth of around 7.0% p.a. over the next five years – leading peers in ASEAN; and (iii) new opportunities triggered by important FTAs – including the RCEP, CPTPP and EVFTA. **Myanmar and Cambodia would also appeal to foreign investors** given their ongoing economic reforms, a revision to investment laws, and newly-signed FTAs.

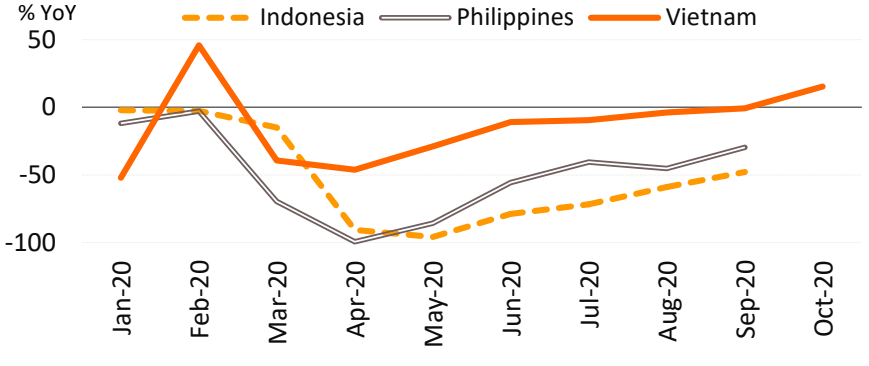
Private consumption would improve moderately; Vietnam would see strongest rebound

- We project a rebound in private consumption – a key economic driver in all ASEAN countries (56% of GDP on average) – but at different pace within CLMVIP. **We anticipate a recovery in exports and FDI would encourage economic activities and lift employment and purchasing power.**
- **Countries which have successfully contained COVID-19 – such as Vietnam – would bounce back faster than peers.** This is reflected in the strong improvement of retail sales and motor vehicle sales in Vietnam, along with relatively low unemployment rate compared to other ASEAN countries. Consumption would be further driven by promising exports and investment.
- **Consumption growth would be limited in countries with high COVID-19 cases or that are at-risk of seeing another outbreak**, including Philippines, Indonesia, and Myanmar. Specifically, **Philippines' consumption is expected to see slow improvement** because of the extended lockdown to contain the outbreak and the economic impact of a series of natural disasters.

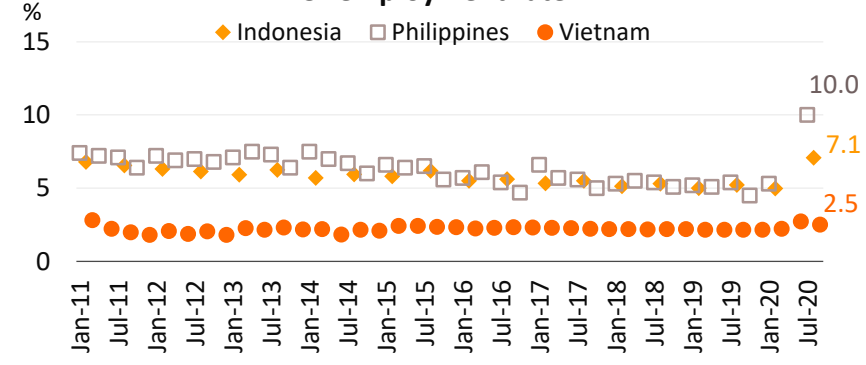
Retail sales in selected ASEAN countries



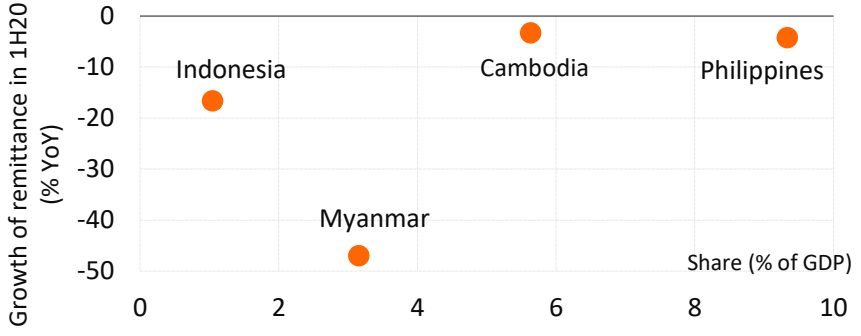
Motor vehicle sales in selected ASEAN countries



Unemployment rate



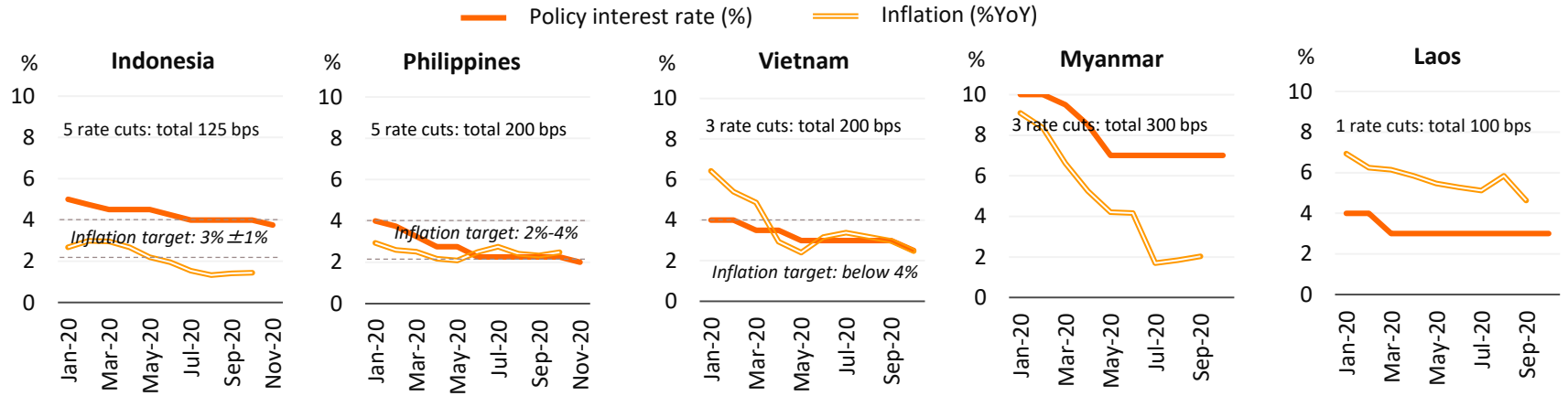
Growth in remittance by country



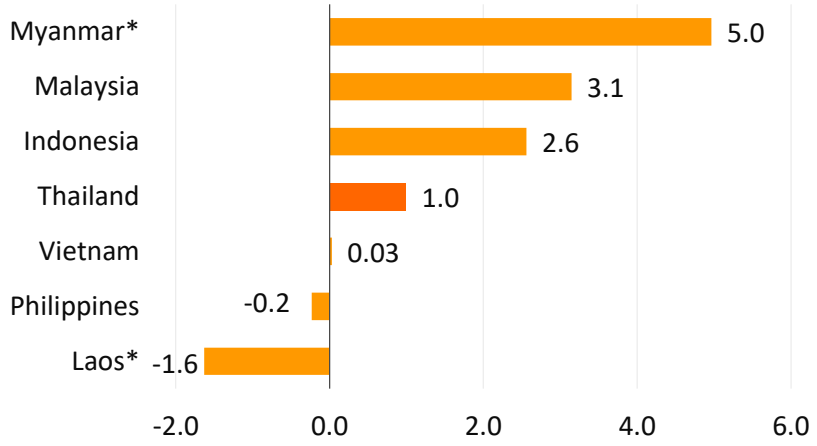
Source: UNCTAD, ASEAN countries' central bank and statistics office, CEIC, Krungsri Research

Monetary policy would remain accommodative; Indonesia and Myanmar have room for more easing

Policy interest rate and inflation



Real interest rate (as of Oct 2020)



Note: * as of September 2020.
Source: ASEAN countries' central bank, CEIC, Krungsri Research

Krungsri Research's view

- **We anticipate monetary policies across the region would remain accommodative given still-weak economic recovery**. Central banks in the region have cut policy interest rates and reserve requirement ratios (RRR) to increase liquidity, but several countries – including Indonesia and Philippines – would also extend unconventional measures including quantitative easing, debt purchasing, as well as debt-sharing with their respective government.
- **Some central banks still have room for additional rate cuts given still-positive real interest rates along with benign inflation. Indonesia may be able to cut rates by another 50 bps next year while keeping the currency stable.** It had cut rates by 125 bps so far this year (up to November). In addition, Bank Indonesia has committed to provide more liquidity by continuing to support the government through the debt-sharing mechanism and purchasing bonds. **Myanmar** also has large policy space to cut rates to stimulate growth.
- Some countries with negative real interest rate, such as Philippines, may have limited room for another rate cut after aggressively cutting rates by 200 bps in 2020 (up to November). **However, we anticipate the Philippines would ease monetary policy further in 2021, possibly cutting RRR and policy interest rate by up to 25 bps**, given expectations of a delayed recovery. The rate cut could also ease pressure from the strong peso.

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