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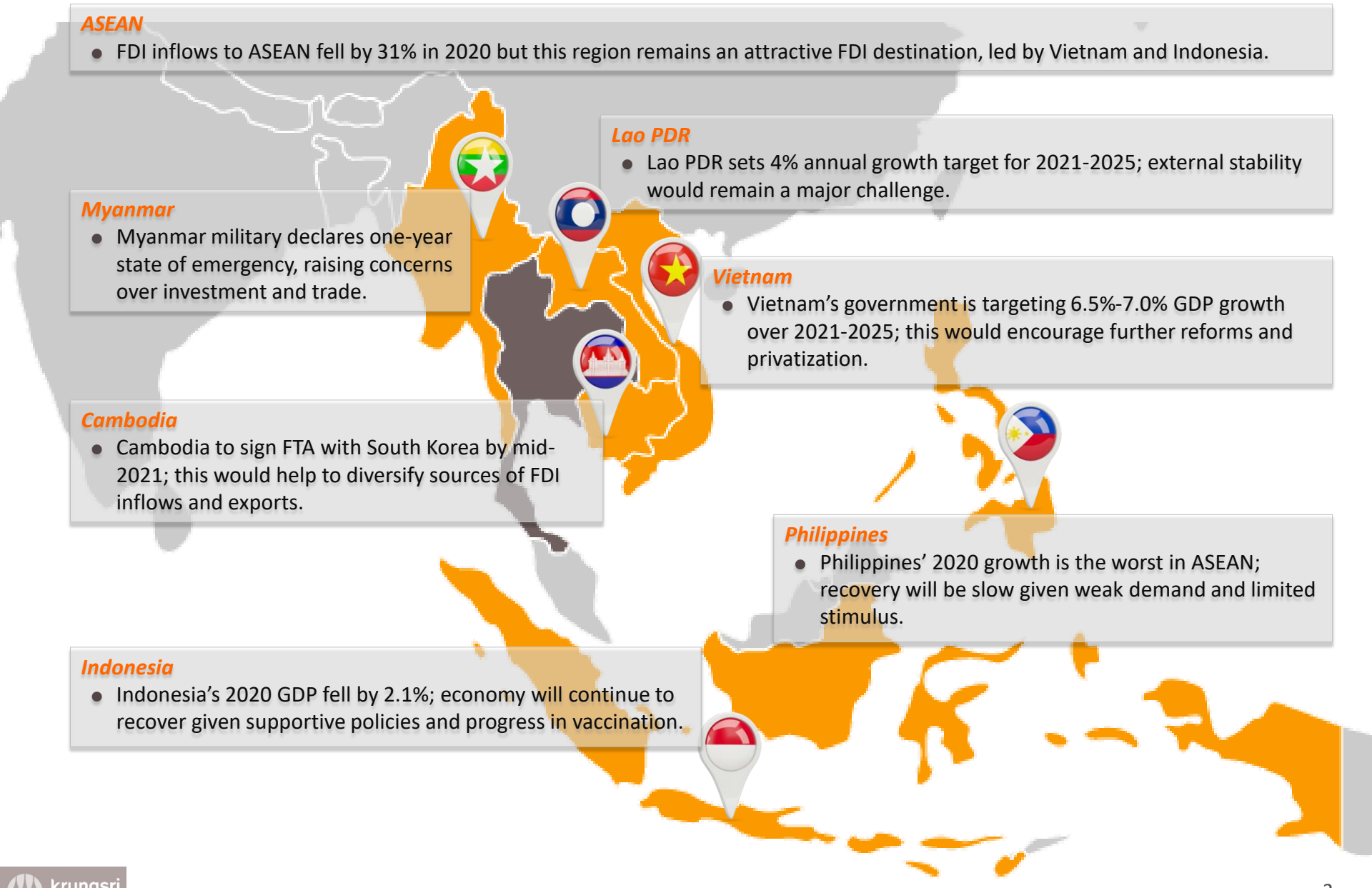
MONTHLY REGIONAL UPDATE

February 2021



Krungsri Research

Regional Economic and Policy Developments in February



ASEAN

- FDI inflows to ASEAN fell by 31% in 2020 but this region remains an attractive FDI destination, led by Vietnam and Indonesia.

Lao PDR

- Lao PDR sets 4% annual growth target for 2021-2025; external stability would remain a major challenge.

Myanmar

- Myanmar military declares one-year state of emergency, raising concerns over investment and trade.

Vietnam

- Vietnam's government is targeting 6.5%-7.0% GDP growth over 2021-2025; this would encourage further reforms and privatization.

Cambodia

- Cambodia to sign FTA with South Korea by mid-2021; this would help to diversify sources of FDI inflows and exports.

Philippines

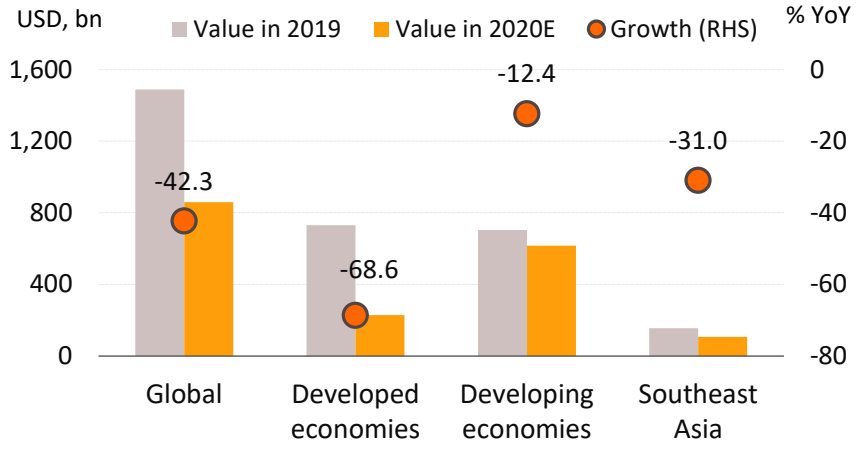
- Philippines' 2020 growth is the worst in ASEAN; recovery will be slow given weak demand and limited stimulus.

Indonesia

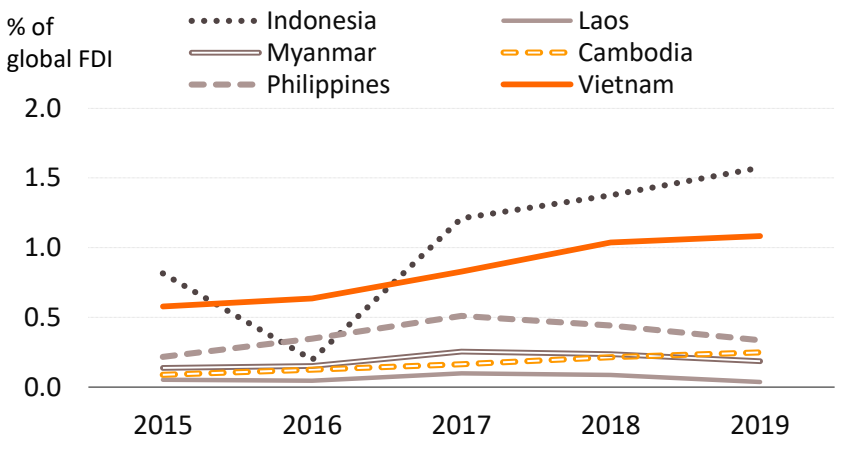
- Indonesia's 2020 GDP fell by 2.1%; economy will continue to recover given supportive policies and progress in vaccination.

ASEAN's FDI inflows fell by 31% in 2020 but the region remains attractive, led by Vietnam and Indonesia

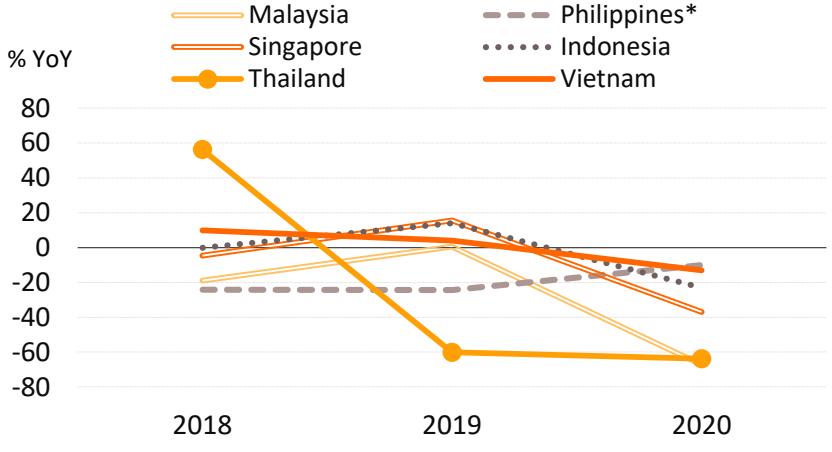
FDI inflows in 2020, by region



Share of Southeast Asian countries' FDI inflows



FDI in Southeast Asian countries



Note: * Data of Philippines is during January-October 2020 from Bangko Sentral ng Pilipinas.
Source: UNCTAD, CEIC, Krungsri Research

Krungsri Research's view

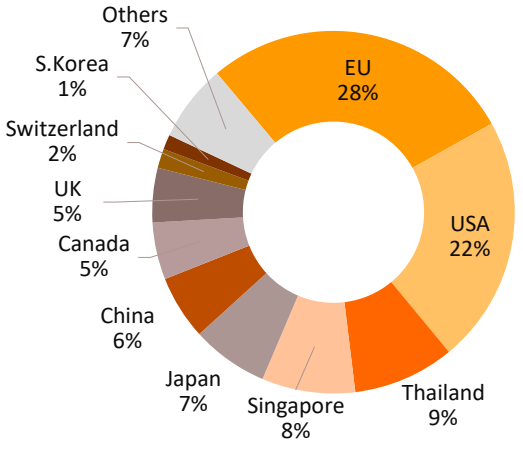
- In 2020, FDI inflows in Southeast Asia dropped by 31% YoY, compared to a 4.1% rise in 2019, according to the UNCTAD. However, the contraction was less severe than for the whole world (-46%).
- **We have more optimistic outlook for FDI in ASEAN than other regions.** This is supported by (i) several high-growth economies that are expected to expand by over 5.0% p.a. over the next 5 years, and (ii) abundant resources coupled with relatively low costs. Furthermore, the region would take advantage of the newly-signed Regional Comprehensive Economic Partnership (RCEP) agreement. This would increase ASEAN's share of global FDI inflows, which has doubled over the past 5 years to 10.5% in 2019 from 5.6% in 2015.
- However, economic growth would be uneven due to country-specific strengths and weaknesses in the region. **We expect Vietnam and Indonesia to be the leading FDI destinations in 2021**. This would be driven by (i) major progress in economic reforms. Indonesia has enacted the omnibus law which significantly relaxes labor laws and investment policies to promote the EV industry; Vietnam is accelerating privatization and promoting investment in high-tech industries; (ii) successful containment of COVID-19 Vietnam and quick progress in Indonesia's vaccination program, which would support quick resumption of investment activity; and (iii) political stability in Vietnam would also boost investor confidence.

Cambodia to sign FTA with South Korea by mid-2021; this would diversify sources of FDI inflows and exports

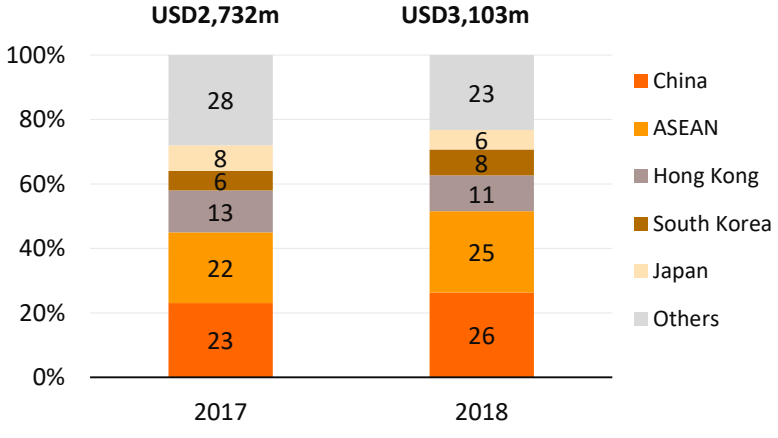
Cambodia: Bilateral FTAs

FTA	Tariff reduction (% of tariff lines)
• Cambodia-China FTA (signed in October 2020)	• Cambodia: eliminate 90.0% • China: eliminate 97.53%
• Cambodia-Korea FTA (to be signed by mid-2021)	• Cambodia: eliminate 93.8% • South Korea: eliminate 95.6%

Cambodia: Major export markets (2019)



Major sources of FDI inflows to Cambodia[1/]



Note: 1/ based on data from ASEAN Investment Report 2019

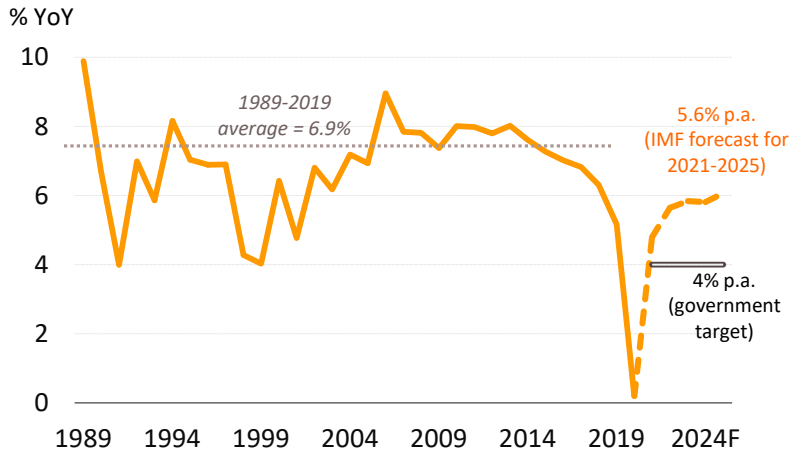
Source: Trademap, CEIC, local news media, Krungsri Research

Krungsri Research's view

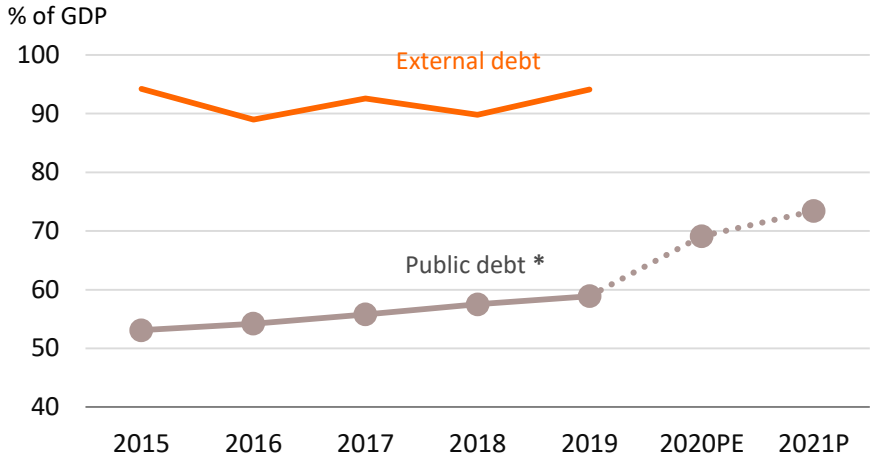
- On 3 February, Cambodia and South Korea concluded talks for the Cambodia-Korea Free Trade Agreement (CKFTA), which is scheduled to be signed in mid-2021. Under the pact, Cambodia will eliminate import tariffs on 93.8% of tariff lines and South Korea will impose zero tariffs on 95.6% of tariff lines.
- Cambodia has generally managed the pandemic well, although the economy is struggling with looming uncertainties and partial suspension under the EBA program. The CKFTA is the second bilateral agreement after the FTA with China (The Cambodia-China Free Trade Agreement: CCFTA) which was signed in October 2020. This pact will provide more benefits than the ASEAN-Korea FTA (AKFTA). For example, Cambodia will see tariffs eliminated for 95.6% of tariff lines under CKFTA vs 90% under AKFTA.
- **These developments will help Cambodia to expand its export markets and improve its export competitiveness. We anticipate the CKFTA would increase export opportunities for several of Cambodia's major products, including garments, electronic products, and tropical fruits. It could also promote Korean investment industries other than garment and footwear, such as electronic products and auto parts because of better competitive advantage under the FTAs. This will also reduce market concentration risks in the longer term.**

Lao PDR sets 4% annual growth target for 2021-2025; external stability will remain a major challenge

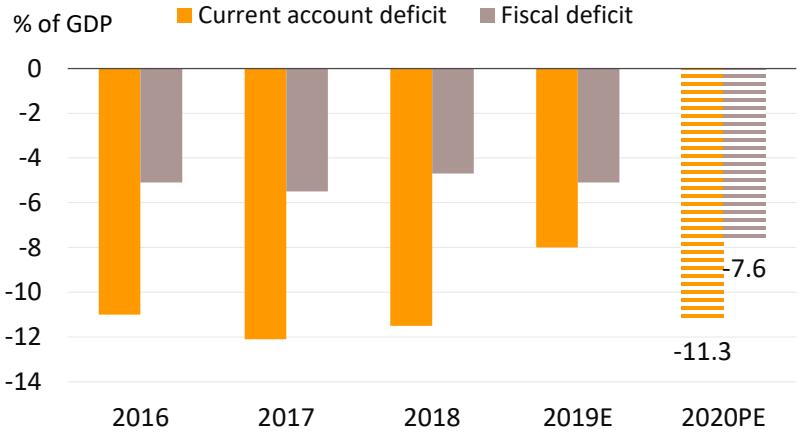
Laos' GDP growth



Laos' public debt and external debt



Laos' twin deficits



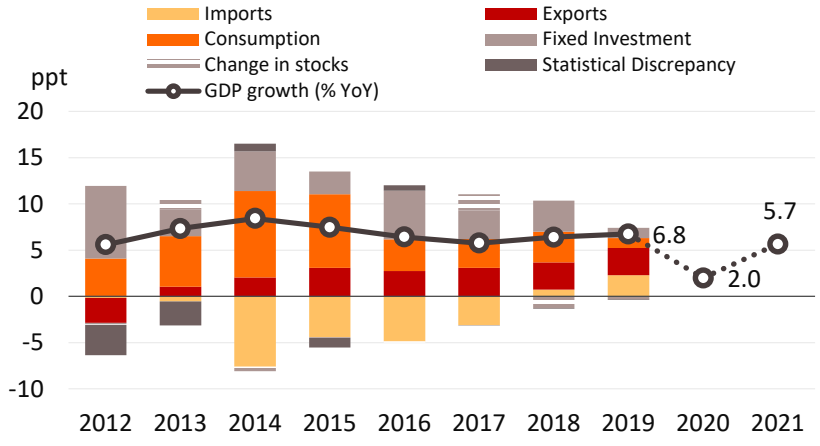
Note: * Data from World Bank; PE: primary estimated by World Bank; P: projection
Source: IMF, World Bank, CEIC, Krungsri Research

Krungsri Research's view

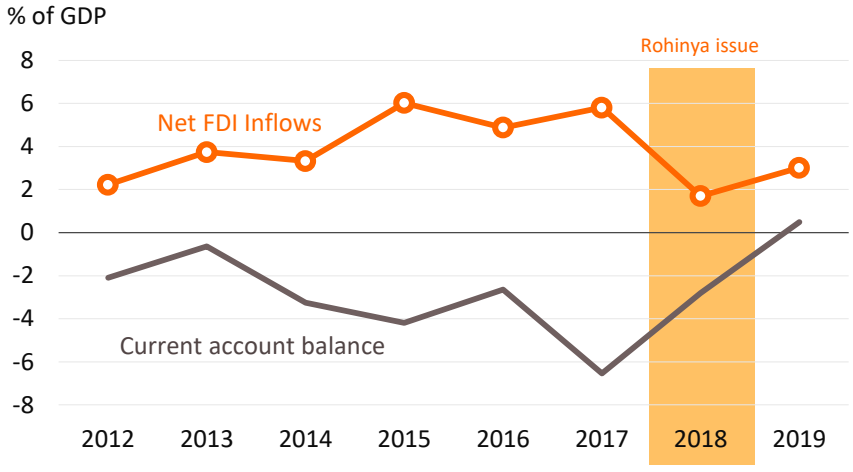
- Laos has set its annual growth target at 4% under the five-year socio-economic plan (2021–2025), according to Prime Minister Thongloun Sisoulith at the 11th Party Congress held on 14 January 2021. The country also targets to increase its foreign exchange reserves 3 months of imports, to meet international standards.
- **The 4% p.a. growth target is achievable but far below its long-term average growth of 6.9%, reflecting slower growth prospects.** Though Laos has reported only 50 COVID-19 cases – the fewest in ASEAN – the economy has been severely hit by the pandemic because it relies heavily on external demand. This include exports (34% of GDP), FDI (7.4% of GDP) and tourism receipts (5% of GDP). Industry and tourism sectors account for up to 40% of total employment.
- **In 2021, we expect economic growth to turn positive but weaker than IMF's forecast of +5.6%. This is premised on the weak outlook for the tourism industry and still-weak domestic demand in Thailand** – its largest export market. However, Laos would continue to attract investment from China – its largest source of FDI at a third of total FDI inflows – especially in infrastructure projects, which Laos' government aims to accelerate to improve the country competitiveness by 2025.
- In addition, **external stability remains a major concern for Laos.** Low export and tourism revenues would further dampen the country's large twin deficits – current account deficit and budget deficit. Foreign reserves are likely to remain low. We expect the Lao kip to weaken further, which would increase its vulnerability to debt stability as public and external debts remain high.

Myanmar military declares one-year state of emergency, creating concerns over investments and trade

Myanmar: Contribution to real GDP growth (%)

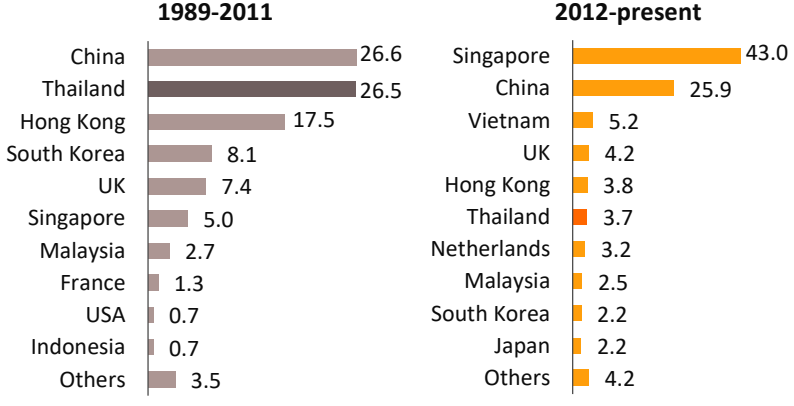


Myanmar: Net FDI inflows and current account balance



Major sources of FDI in Myanmar (1989-2011 vs. 2012 to present)

Unit: % of total FDI



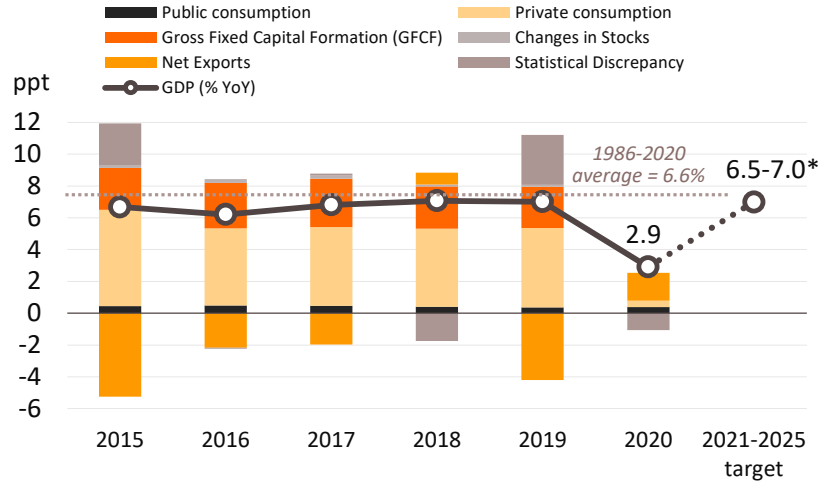
Source: CEIC, Krungsri Research

Krungsri Research's view

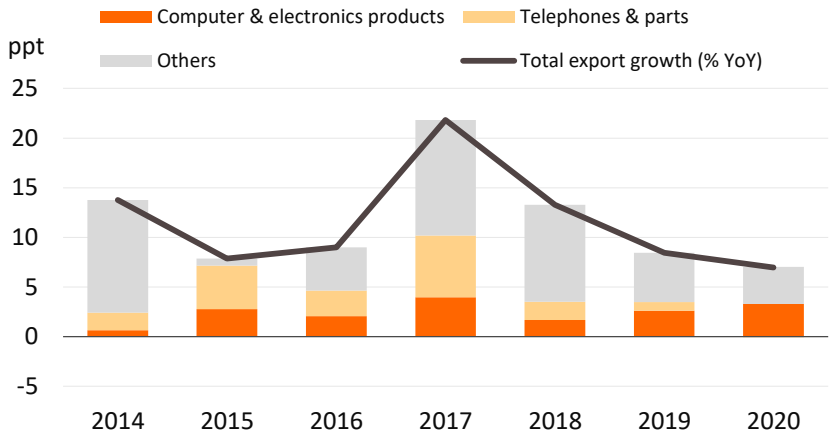
- On Monday, 1 Feb, the Myanmar Army (or Tatmadaw) declared a one-year state of emergency after seizing power from the civilian government led by the National League for Democracy (NLD) Party that is headed by Daw Aung San Suu Kyi, the country's de facto leader. There will be a transition of power to Senior General Min Aung Hlaing, the Army's commander-in-chief.
- Since Myanmar opened its economy in 2012, the external sector has been contribution more to its GDP. **Our analysis suggests the coup would immediately hurt Myanmar's economy in several ways: (i) weakening confidence and a pause in foreign direct investment (FDI) inflows** given fears of political turmoil. During the heavily-politicized Rohingya issue in 2018, FDI net inflows to Myanmar tumbled to 1.7% of GDP from 5.8% in the previous year; **(ii) risk of the West and international development partners suspending both financial and non-financial aid.** Myanmar could face political and economic sanctions from the West, especially the US (it recently imposed sanctions on leaders of Myanmar's military) and the European Union (EU); **(iii) dampen fragile domestic consumption and drag economic recovery; and (iv) temporarily derail, or halt, economic and institutional reforms in the near-term,** despite assurance from the commander-in-chief that they would proceed with projects initiated under the previous government.
- However, **unlike other countries, China's role in Myanmar is likely to remain unchanged. It is worth noting that China continued to account for a quarter of total FDI inflows to Myanmar before and after it opened its economy.** This reflects stable relations between the countries. Furthermore, given several existing mega-projects and the recent visit by China's Foreign Minister Wang Yi, China is in a position to support Myanmar should it face economic and political sanctions from the West.

Vietnam targets 6.5%-7.0% annual GDP growth over 2021-25; this would encourage further reforms and privatization

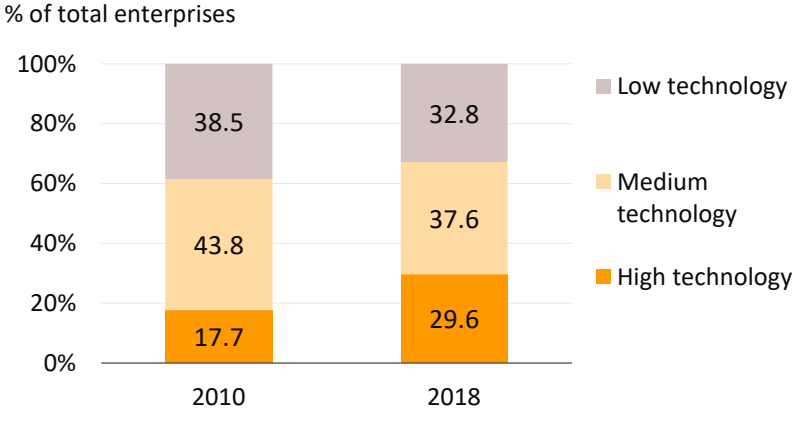
Vietnam: Contribution to GDP: Expenditure side



Vietnam: Contribution to exports growth



Vietnam: Number of manufacturing enterprises, classified by level of technology employed



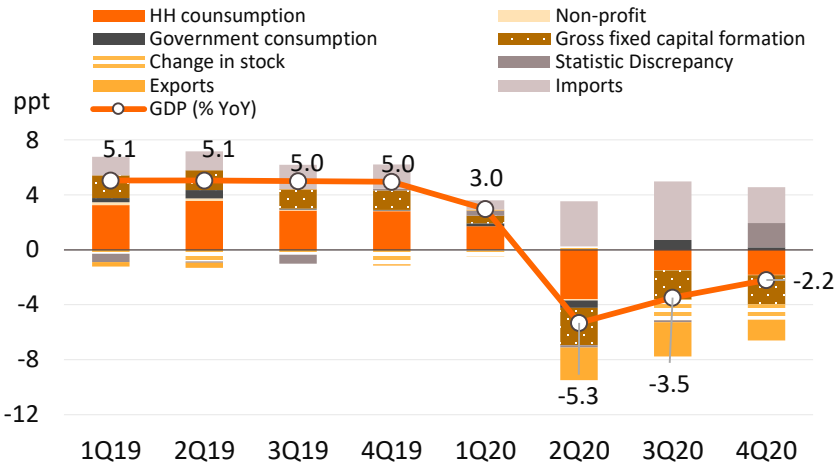
Note: * Vietnam's official target.
Source: IMF, General Statistics Office, CEIC, Krungsri Research

Krungsri Research's view

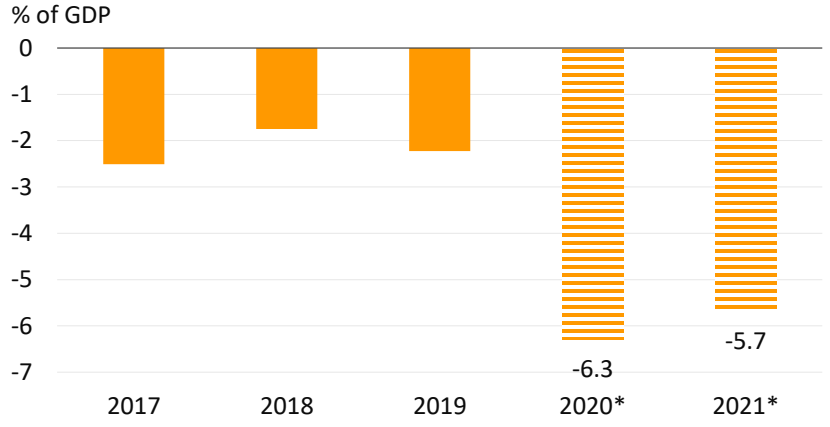
- Vietnam's National Party Congress recently approved its five-year socio-economic plan for 2021-2025. The government is targeting 6.5%-7.0% annual growth, giving priority to "quality" FDI into high-tech industries instead of "quantity" in labor-intensive sectors. This is not a new policy but **it is worth noting that the country continues to pursue its economic strategy to move towards "*Industry 4.0*" and "*Make in Vietnam*" policies which were first launched in 2019**.
- Indeed, the number of high-tech manufacturing enterprises in Vietnam has risen from 17.7% of total enterprises in 2010 to 29.6% in 2018. The high-tech industries – e.g. computer, electronics, and telephones – are also major contributors to national exports. Vietnam has also accelerated its economic reforms, investment reforms, and privatization of state-owned enterprises, from agro-processing to high-tech sectors, to attract FDI. This will improve productivity in the future.
- Hence, **we are optimistic Vietnam would be able to attract more FDI into high-tech industries**, which would in-turn, promote export growth. This would be **driven by (i) strengthening its domestic supply chain, and (ii) greater comparative advantage with several new FTAs** – led by CPTPP, EVFTA, and RCEP. This would support the country's 6.5%-7.0% annual GDP growth target over the next five years, and align with the 6.6% p.a. average growth registered since it opened its economy in 1986.

Indonesia's 2020 GDP falls 2.1%; recovery will continue given supportive policies and progress in vaccination

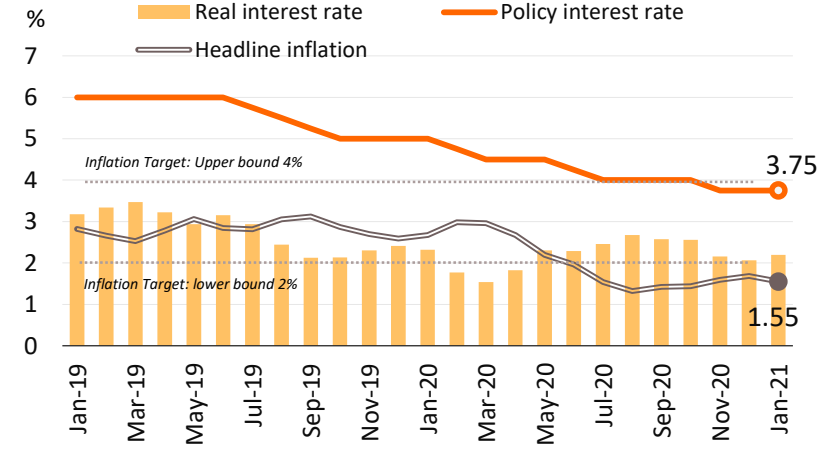
Indonesia: Contribution to GDP: Expenditure side



Indonesia: Budget deficit



Indonesia's policy interest rate and inflation



Note: * 2020 and 2021 is based on government estimates.

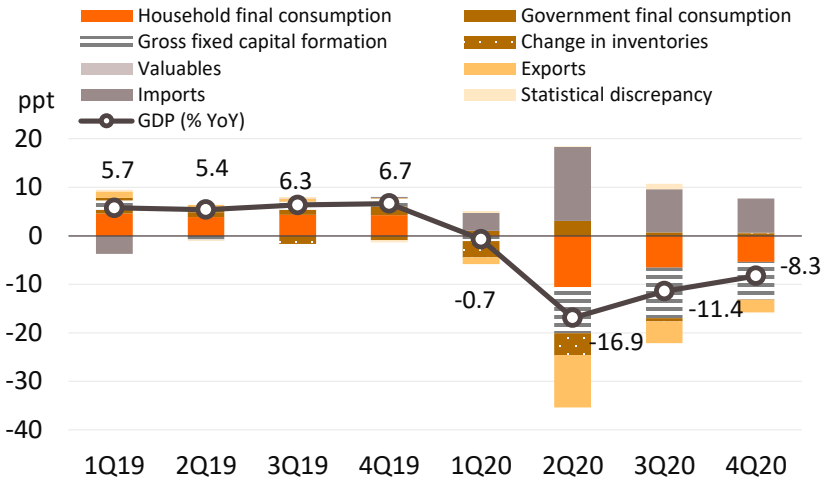
Source: Central Bureau of Statistics, Bank Indonesia, CEIC, Krungsri Research

Krungsri Research's view

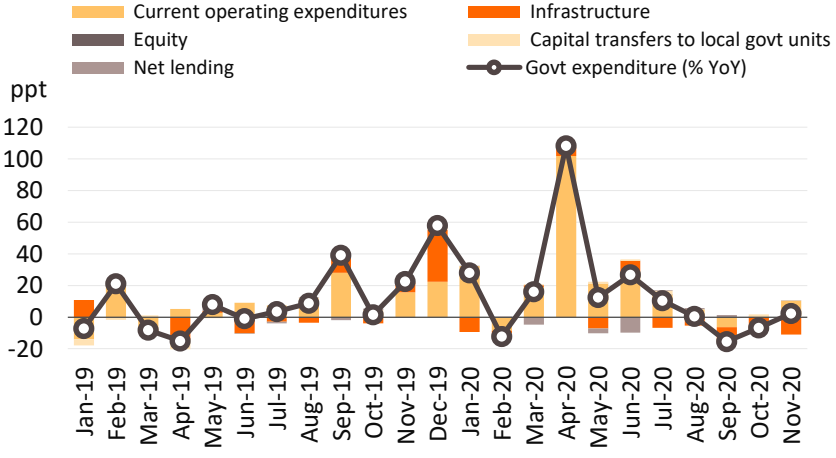
- Indonesia's GDP contracted by 2.2% YoY in 4Q20 (vs -3.5% in 3Q20), as exports and investment improved slightly (-7.2% and -6.2% YoY in 4Q20 vs -11.7% and -6.5% in 3Q20, respectively). For full-year 2020, GDP fell by 2.1%, near the low-end of government forecast of -1.7% to -2.2%.
- In 2021, we expect **household consumption – the country's largest economic driver at 57% of GDP – to improve but remain weak** as the number of COVID-19 cases there has surged to over 1.2 million. However, **2021 economic growth would meet the government's target of 4.5%-5.5%, encouraged by further supportive fiscal and accommodative monetary policies. The government plans to scale up stimulus by 66%, to IDR619trn (USD44.2bn, 4.4% of GDP) in 2021 from IDR372.3trn approved in late-2020.** That will include tax breaks, cash subsidies, and free vaccination. Also, Bank Indonesia (BI) could directly buy up to 25% of government debt under the "burden-sharing" program through 2022. **We maintain that BI still has room to cut policy interest rate by 50bps in 1H21 to support growth** given benign inflation and an improved current account balance – the latter expected to be a surplus in 2020, the first surplus in a decade. In addition, Indonesia has started its vaccination program in mid-January to vaccinate up to 800,000 residents; this would boost herd immunity as well as improve consumer and investor confidence as economic activities should return to normal soon.

Philippines 2020 growth is the worst in ASEAN; recovery will be slow given weak demand and limited stimulus

Philippines: Contribution to GDP: Expenditure side

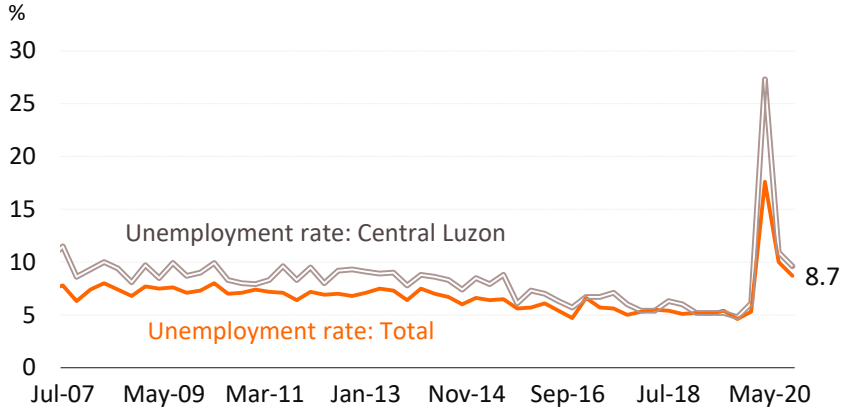


Philippines: Contribution to government expenditure growth



Source: Bangko Sentral ng Pilipinas, Philippine Statistics Authority, Department of Budget and Management, CEIC, Krungsri Research

Philippines: Unemployment rate



Krungsri Research's view

- Philippines' GDP fell by 8.3% YoY in 4Q20 and 9.5% for full-year 2020, the steepest contraction among ASEAN countries. The economy was dragged by both domestic and external demand amid slow disbursement of government spending.
- **We expect household consumption to improve but remain weak.** Despite supportive factors, including easing lockdown restrictions, improving remittances, and the proposed stimulus package (Bayanihan 3 PHP420bn or 2.4% of GDP), consumption growth would be limited by high unemployment rate of 8.7% - higher than during the 2008 global financial crisis – and a conservative fiscal stance.
- **The business sector would see a moderate recovery** given slow disbursement of funds for infrastructure projects and small government supports at only 0.2% of GDP under the CREATE bill. That includes reducing corporate tax from 30% to 20% for small businesses, and to 25% for large companies.
- Meanwhile, inflation has risen to its highest since February 2019, at 4.2% in January 2021, breaching the Bangko Sentral ng Pilipinas (BSP) target of 3±1%. This limits room for more easing. However, given still-weak domestic demand and a temporary rise in inflation, **the BSP might cut policy rates by 25bps in 1H21 to support economic recovery.**
- Premised on weak domestic demand and limited fiscal and monetary policy supports, we expect **Philippines' economy to grow slower than its official target of 6.5%-7.5% in 2021.**

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