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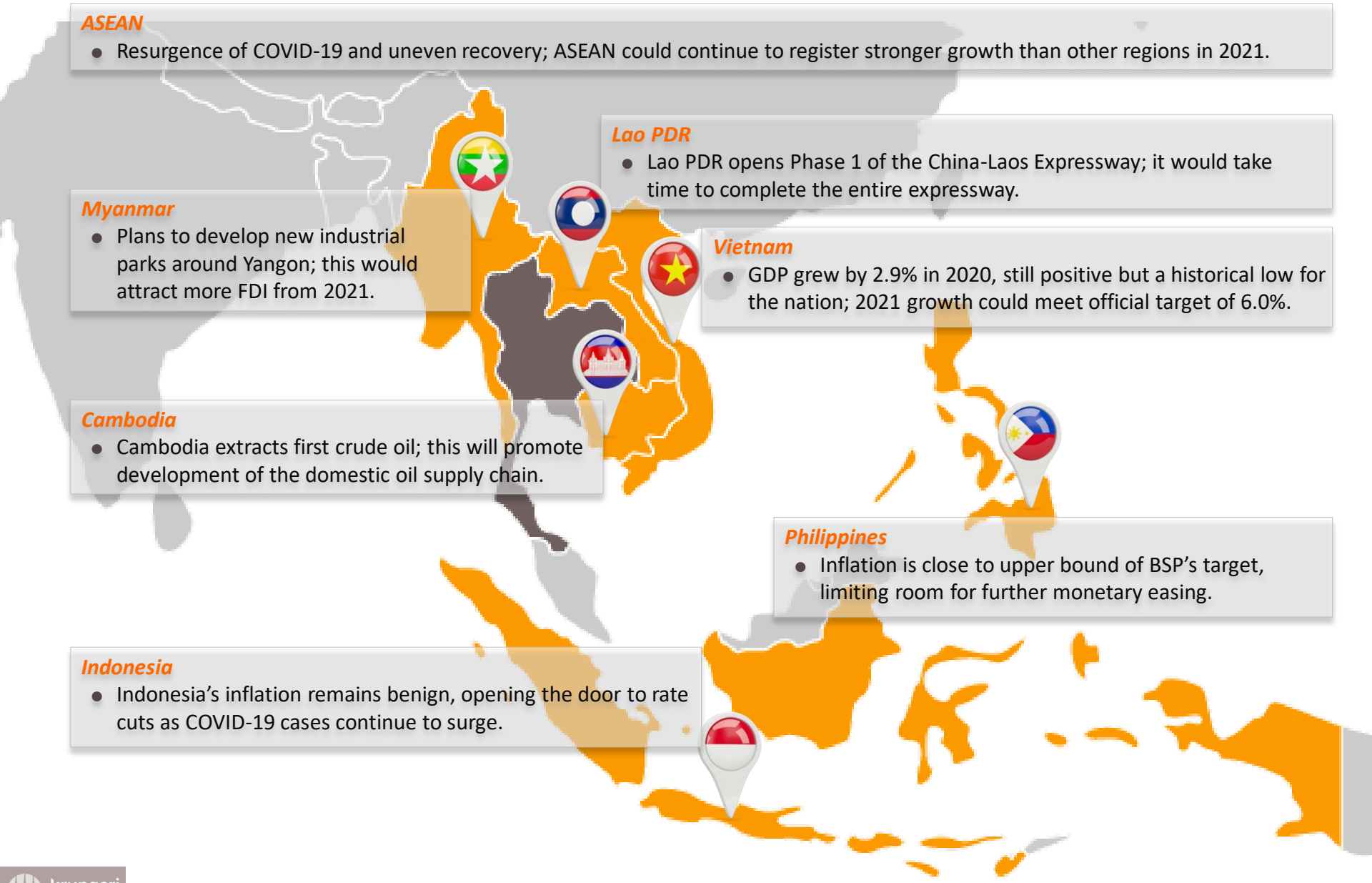
MONTHLY REGIONAL UPDATE

Jan 2021



Krungsri Research

Regional Economic and Policy Developments in January



ASEAN

- Resurgence of COVID-19 and uneven recovery; ASEAN could continue to register stronger growth than other regions in 2021.

Lao PDR

- Lao PDR opens Phase 1 of the China-Laos Expressway; it would take time to complete the entire expressway.

Myanmar

- Plans to develop new industrial parks around Yangon; this would attract more FDI from 2021.

Vietnam

- GDP grew by 2.9% in 2020, still positive but a historical low for the nation; 2021 growth could meet official target of 6.0%.

Cambodia

- Cambodia extracts first crude oil; this will promote development of the domestic oil supply chain.

Philippines

- Inflation is close to upper bound of BSP's target, limiting room for further monetary easing.

Indonesia

- Indonesia's inflation remains benign, opening the door to rate cuts as COVID-19 cases continue to surge.

ASEAN: Resurgence of COVID-19 and uneven recovery; continue to see stronger growth than other regions in 2021

Krungsri Research's view

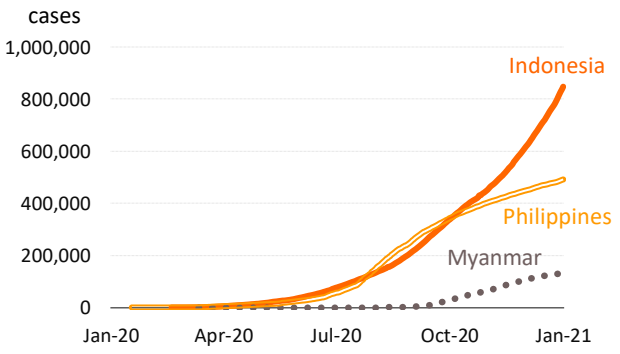
- In 2021, most ASEAN economies are expected to recover from the pandemic crisis with over 6% YoY GDP growth, according to the IMF report in October 2020. However, **the second outbreak that started in 4Q20 in several ASEAN countries, specifically Indonesia, Philippines, and Myanmar, could derail growth forecasts of these economies. Looking ahead, we anticipate an uneven recovery in the CLMVIP economies, though the pace of growth could be stronger than other regions in the world. In addition, even as these countries are starting to distribute vaccines, they would only be able to vaccinate the majority of the population by mid-2022.**
  - **Given relatively fewer COVID-19 cases and effective containment measures, Vietnam is likely to register the strongest recovery among ASEAN nations, supported by quick recovery of cyclical factors and sound structural factors.** Major drivers would be resilient domestic consumption, impressive export growth on the back of several FTAs including the EVFTA, UKVFTA, and RCEP (seeking ratification), and an expected acceleration in public investment.
  - **Next, we expect Indonesia and Cambodia to be on path to recovery, albeit in a more gradual manner. Indonesia** has the most COVID-19 cases in ASEAN region and its economy is hurt by the extended lockdown. The country has started distributing vaccines, but it would take time to cover most of the 260 million population. However, the economy would also be driven by a recovery in exports – especially to China and US (its two largest export markets, accounting for 30% of total exports) – and the extension of large stimulus measures. **Cambodia**'s economic recovery would be supported by relatively resilient exports to specific markets, led by US and China, which could mitigate the impact of partial suspension of its EBA benefits by the EU. We are also optimistic there will be more FDI inflows driven by its ongoing reform of investment policies, the China-Cambodia FTA, and RCEP.
  - **Recovery in Philippines, Myanmar and Laos would be slower than expected, for country-specific reasons**. The **Philippines** has the second highest number of COVID-19 cases in ASEAN region, but it is seeking to acquire vaccines. Domestic consumption – its largest GDP component at 73% of GDP – would continue to be derailed by high unemployment rate of 8.7% and the extended lockdown. Delays in the disbursement of stimulus measure and conservative stimulus stance would also contribute to a slow recovery. **Myanmar** is likely to be hit harder by the second COVID-19 outbreak, which has lasted longer than the first. We expect economic activities, including consumption and manufacturing sector, to remain subdued given rising cases and limited national healthcare resources. However, economic and investment reforms would continue to attract FDI into the country. **Laos** would continue to be pressured by weak structural problems.

Indicators	Cambodia	Laos	Myanmar	Vietnam	Indonesia	Philippines
Cumulative number of COVID-19 cases*	411.0	41	132,260.0	1,521.0	858,043	492,700.0
IHS Markit Manufacturing PMI (Index)	n.a.	n.a.	44.7	51.7	51.3	49.2
Retail sales** (Growth, % YoY)	n.a.	n.a.	n.a.	5.4	-10.5	-15.8
Tourist arrivals** (Growth, % YoY)	-77.4	n.a.	-67.6	-72.2	-70.9	n.a.
Exports** (Growth, % YoY)	-0.9	0.1	-2.9	5.7	-5.4	-13.4
Imports** (Growth, % YoY)	-1.3	-9.2	5.6	0.5	-17.6	-25.6
Current account balance*** (% of GDP)	-25.4	-8.7	-3.5	1.2	-1.3	1.6
International reserves****(months of imports)	9.3	1.4	3.5	3.3	8.6	8.7
Fiscal balance*** (% of GDP)	-2.4	-6.4	-6.0	-6.0	-6.3	-8.1
Public debt*** (% of GDP)	31.5	70.9	42.4	46.6	38.5	48.9
Total external debt**** (% of GDP)	57.0	90.0	22.0	47.1	38.0	24.0
Stimulus package in 2020 (% of GDP)	3.3	0.0	0.6	4.4	4.5	2.3
IMF's projection of real GDP growth in 2020*****	-2.8	0.2	2.0	2.9	-1.5	-8.3
IMF's projection of real GDP growth in 2021	6.8	4.8	5.7	6.7	6.1	7.4

Contraction or negative number or below international standards

Expansion or positive number or above international standards

COVID-19 cases in Indonesia, Philippines and Myanmar

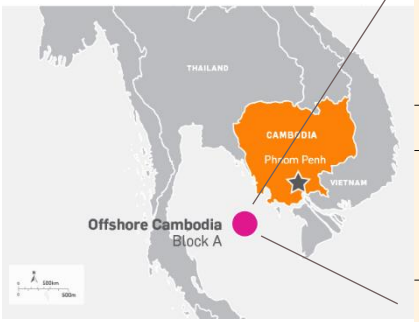


Note: * as of 14 January 2021; ** Average Jan-Sep 2020; *** IMF's projection for 2020; **** Data in 2019; ***** Data for Vietnam is actual.

Source: IMF, CEIC, Krungsri Research

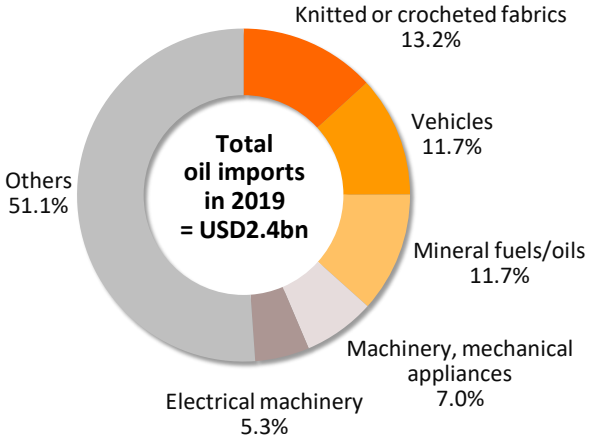
Cambodia extracts first crude; this will promote development of the domestic oil supply chain

Map of Cambodia's first crude oil field "Block A"

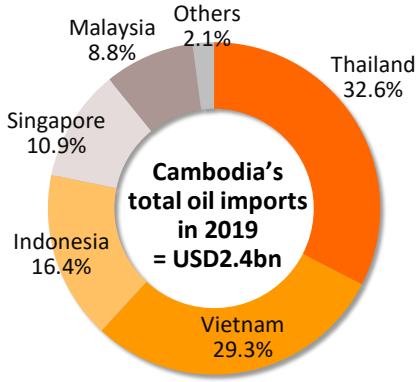


List	Detail
Location	The Apsara area in the Khmer Basin in the Gulf of Thailand, in water depths of 50 meters to 80 meters
Area	3,083 sq. km
Production	The first platform "A" to commence at gross production rate of c.8,000 barrels of oil per day
Output	Crude oil

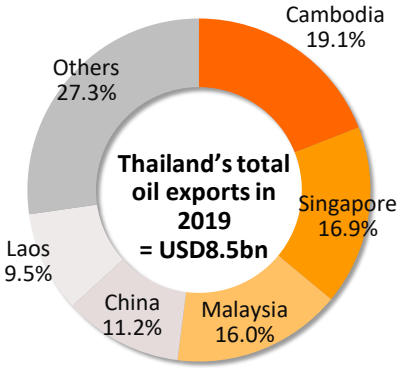
Cambodia: Top 5 major import products in 2019



Cambodia's top 5 sources of oil imports in 2019



Thailand's top 5 oil export markets in 2019



Source: KrisEnergy, Trademap, CEIC, Krungsri Research

Krungsri Research's view

- **On 29 December 2020, Cambodia started its first crude oil extraction** in an offshore field called "*Block A*", in the Gulf of Thailand. It is about 150 kilometers off the southwestern coast of Sihanoukville. It is a joint-venture between the Cambodian government (5% stake) and Singapore-based KrisEnergy Ltd. (95% stake). (Further details in Table 1)
- **The country does not currently have an oil refinery. One is under construction and was originally scheduled to be completed by 2022**, but it has been temporarily suspended because of financial issues. It is expected to produce 5 million tonnes of oil per year. This project is in Preah Sihanouk province, adjacent to Kampot province. This project is a joint-venture between locally-owned Cambodian Petrochemical Company (CPC) and China's Sinomach China Perfect Machinery Industry Corp.
- **These are significant projects that will pave the way for Cambodia to develop a domestic supply chain for the oil industry.** Looking ahead, this would help the country to (i) reduce dependence on imported oil; currently, it imports all its oil requirement; (ii) gain taxes & royalty revenues from those resource-based projects, (iii) receive revenues from crude oil exports later, and (iv) secure domestic energy requirements. Given that these projects would take time to complete, they would also offer minimal support to recover from the pandemic crisis.
- In addition, the development of Cambodia's oil industry could reduce Thailand's revenue from oil exports. This is because Cambodia is currently Thailand's largest oil export market at up to one-fifth of national oil exports, and Thailand is Cambodia's largest source of oil imports at up to a third of Cambodia's total oil imports. However, **the impact would be limited in the short- to medium-term because the 'Block A' project would equate only 17% of its annual total oil imports from Thailand.**

Lao PDR opens Phase 1 of the China-Laos Expressway, but it will take time to complete entire expressway

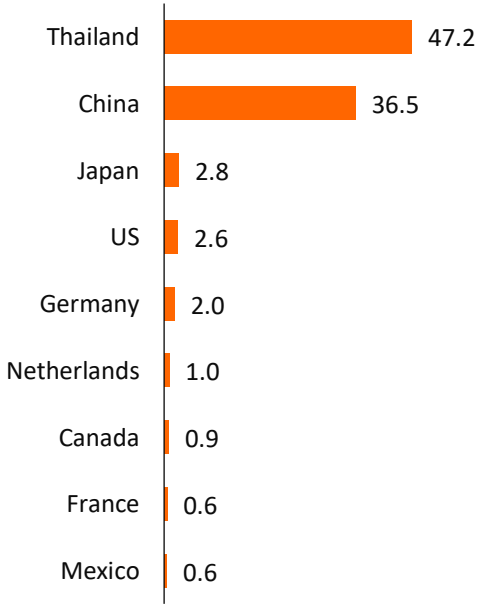
- On 20 December 2020, Laos opened the Vientiane-Vang Vieng Expressway, linking Vientiane – the country's capital – and Vang Vieng – one of its most famous tourist destination. The project would reduce land travel time from 3.5 hours to about 1 hour. This is part of the China-Laos Expressway that will start from Vientiane and end at the Laos-China border town of Boten, a 440 km journey that would take about 5 hours. The expressway will operate under the Build-Operate-Transfer (BOT) contract with a 50-year concession.
- **We estimate this would help Laos to transition from a land-locked to land-linked country.** The expressway would not only expand its road network but also shorten travel time. It will further improve efficiency and competitiveness in the country's transportation infrastructure. Specifically, it would promote its bilateral trade with China – its second largest export market – through the northern region. Target items include agriculture products, wood & wooden products, and other resources. **However, it would be at least 3 years before Laos can enjoy the full benefits, because other sections of the expressway have yet to be constructed.**

Map of major connecting point of Laos – China Expressway



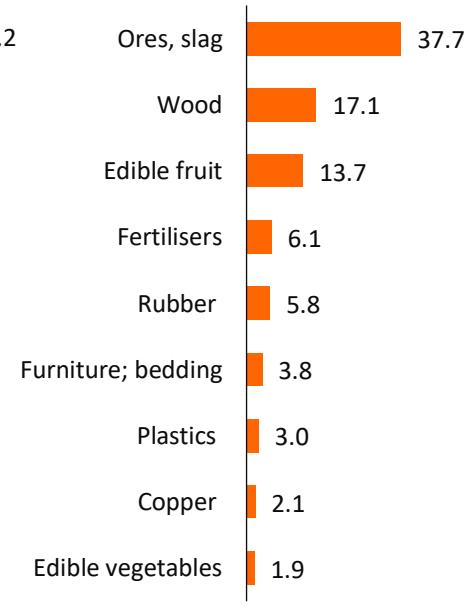
Laos: Top 10 export markets (2019)

Unit: % of total exports



Laos: Top 10 export products (2019)

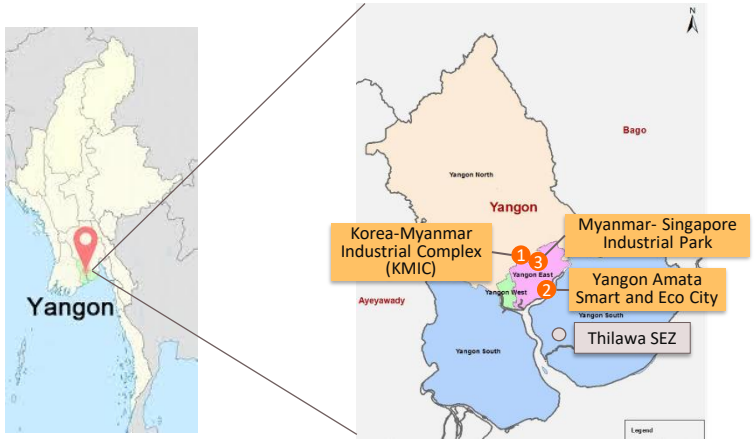
Unit: % of total exports



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

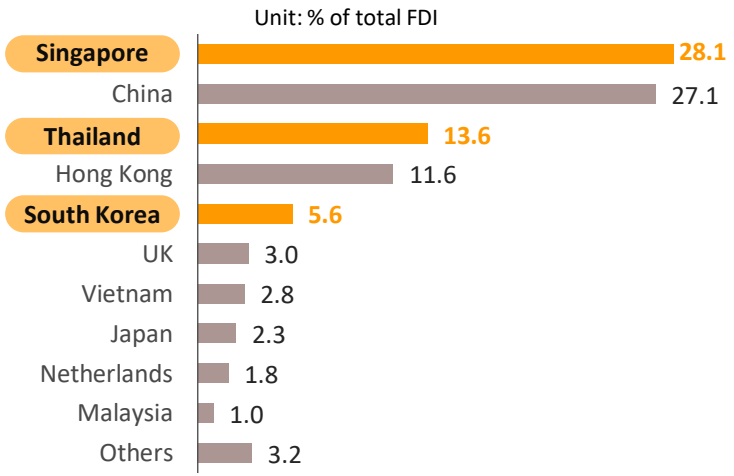
Myanmar plans to develop new industrial parks around Yangon; this would attract more FDI from 2021

Plans to develop more industrial parks around Yangon



Name	Investment (USD m)	Share holders	Details
1) Korea-Myanmar Industrial Complex (KMIC)	110	• South Korea's Land and Housing Corp.: 40% • South Korea's Global SAE-A: 20% • Myanmar's Ministry of Construction: 40%	• 122 hectares In Hlegu, north of the city • To open around half of the zone in the first phase in 2023
2) Yangon Amata Smart and Eco City	1,000	• Thailand's Amata Corp: 80% • Myanmar's Ministry of Construction: 20%	• 2,000 hectare in Dagon Township • To open the first phase of 80 hectares in 2021
3) Myanmar-Singapore Industrial Park	230	• Singapore's Sembcorp: 67% • Myanmar's Pahtama Group: 18% • Myanmar Agribusiness: 15%	• 436 hectares • Not yet to set launch date

Myanmar: Cumulative FDI (2004-11M20)



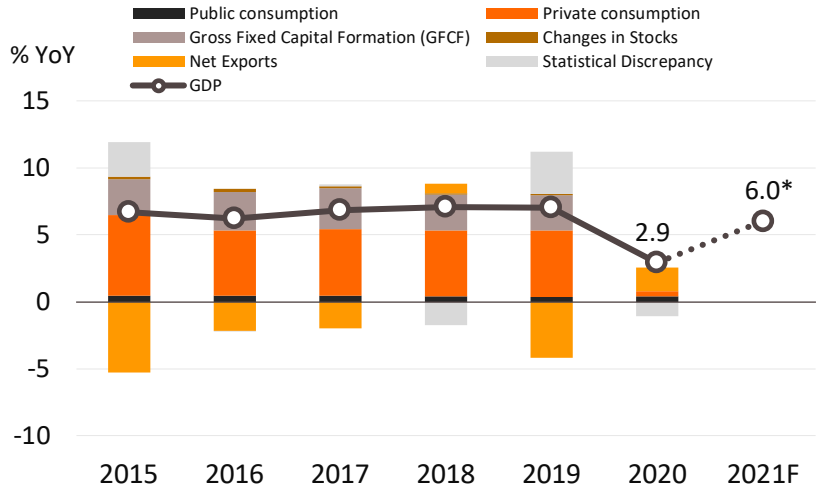
Source: Local news media, Nikkei Asia Review, CEIC, Krungsri Research

Krungsri Research's view

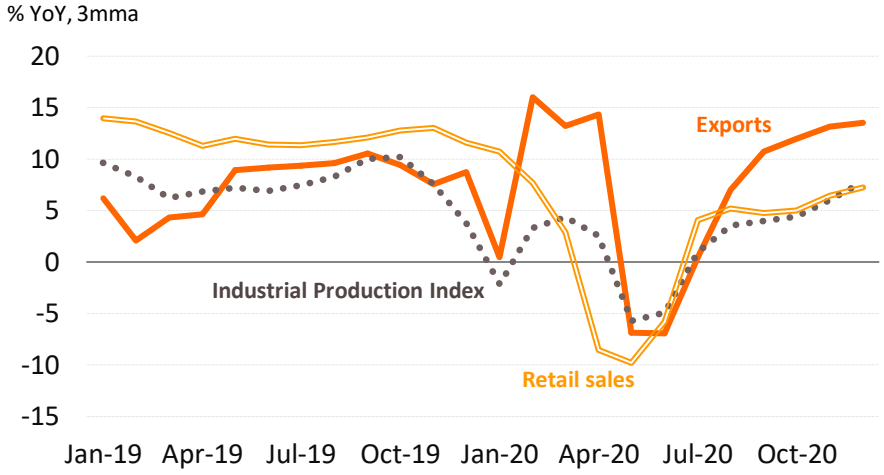
- **In late 2020, three industrial park projects are set to develop around Yangon. These are (i) Korea-Myanmar Industrial Complex (KMIC)**, Phase 1 to open in 2023; **(ii) Yangon Amata Smart and Eco City** (Phase 1 to open in 2021); **and (iii) Myanmar- Singapore Industrial Park** (no launch date)**.** Details are listed above.
- We expect these industrial estates to **promote Myanmar as a promising FDI destination** in the post-COVID era. Currently, Myanmar has only one modern industrial facility - the Thilawa SEZ - in south-east Yangon. Additional modern industrial facilities would attract more investment, especially FDIs to **the food- and agro-processing and other export manufacturing industries, the major FDI targets.** Their strategic location - in Yangon, Myanmar's key economic area and transportation hub - would also make them competitive to draw investment to meet rising domestic demand from a growing middle-income class and abundant labor force.
- We also expect each estate to play an important role as an **industrial hub for foreign investors – especially from their home country –** to conduct more businesses in Myanmar. Currently, Singapore, Thailand, and South Korea are among Myanmar's top 5 sources of FDI.

Vietnam's GDP grew 2.9% in 2020, still positive but a new low; 2021 growth could reach official target of 6.0%

Vietnam: Contribution to GDP: Expenditure side



Vietnam: Retail sales, exports, and Industrial Production Index



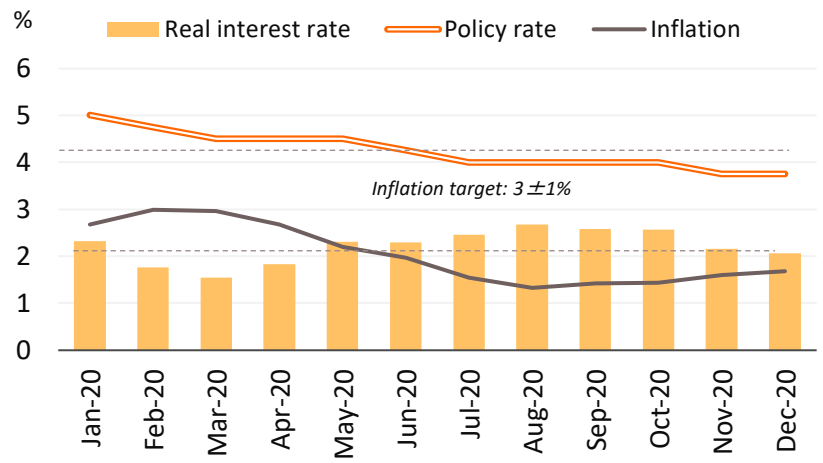
Krungsri Research's view

- **In 2020, Vietnam's economy grew 2.9%**, slower than the +7.0% registered in 2019 and the slowest since 1986. However, it was still positive growth despite the pandemic impact, and Vietnam is expected to register the strongest growth in ASEAN and among the strongest in the world. **We expect the country to meet its 6.0% growth target for 2021, driven by exports, private consumption, and investment.**
- **Vietnam's exports – largest GDP component at 102% of GDP – grew 6.5% in 2020, it is the lowest since 2008. However, that is still stronger than overall global growth.** In Jan-Sep 2020, its exports grew 4.0% YoY while exports from Emerging & Developing economies and global exports contracted by 10.2% and 10.6% YoY, respectively. **We see promising prospects for the country's exports in 2021,** supported by (i) major export items - computer and electronic products – benefit from work-from-home trend; (ii) relatively lower production costs, especially labor costs; and (iii) privileges under several FTAs, including the EVFTA, UKVFTA, and CPTPP, which make their product prices more competitiveness than other imports.
- **Private consumption – accounting for 68% of GDP – is expected to accelerate in 2021**, supported by less restrictive lockdown measures, a recovery of the labor market, and its vaccination program in 2021. National retail sales have been rising since late 3Q20. Unemployment rate has dropped from its 9-year high of 2.7% in 2Q20 to 2.3% in 4Q20, and is expected to improve further on the back of growing industrial production and exports.
- **Investment – accounting for 26% of GDP – would rebound after the suspension of new/expansion investment projects in 2020.** Optimism over Vietnam's exports and consumption would lead to higher private investment. Several new FTAs would also attract foreign investment to Vietnam, which would in-turn boost domestic investment through opportunities for joint ventures or mergers with foreign enterprises. In addition, authorities have recently announced they would accelerate public investment in infrastructure in 2021 – led by transport infrastructure - to support growth and enhance the country's competitiveness.

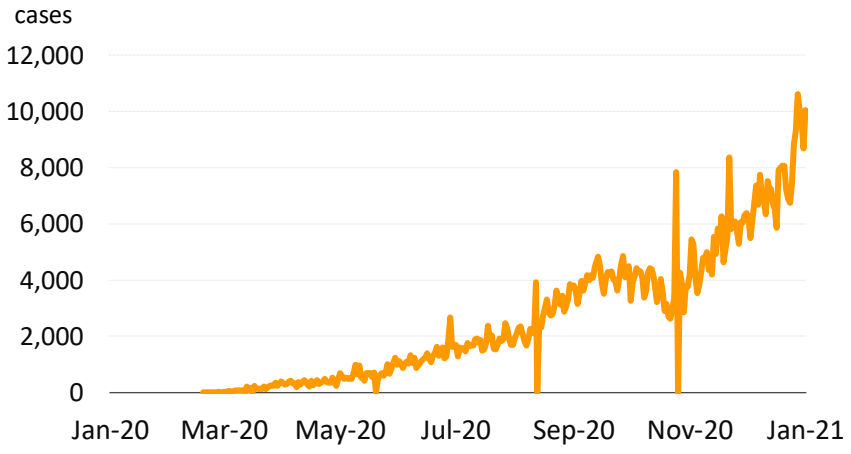
Note: * Vietnam's official target.
Source: IMF, General Statistics Office, CEIC, Krungsri Research

Indonesia's inflation remains benign, opening the door to rate cuts amid surging COVID-19 cases

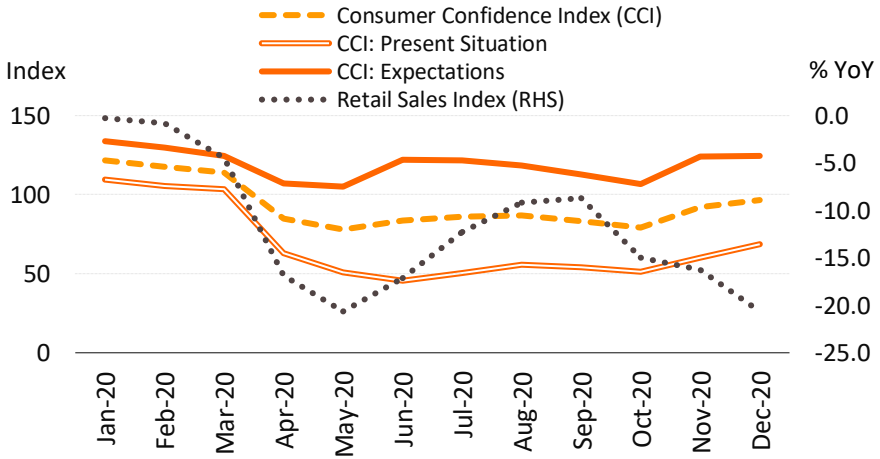
Indonesia: inflation and interest rate



Indonesia: New daily COVID-19 cases



Indonesia: Consumer Confidence Index* and Retail Sales Index



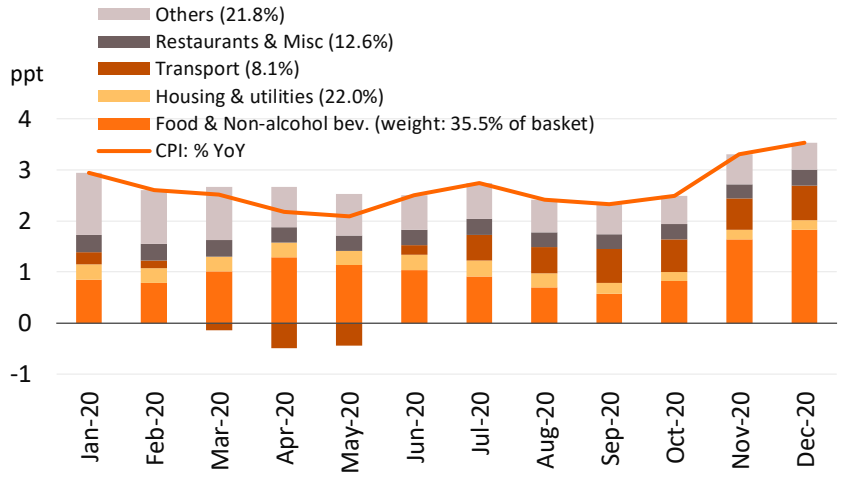
Note: * +100 = net balance, above 100 indicates an optimism (positive response), and vice versa.
Source: Bank Indonesia, Association of Indonesian Automotive Industries, CEIC, Krungsri Research

Krungsri Research's view

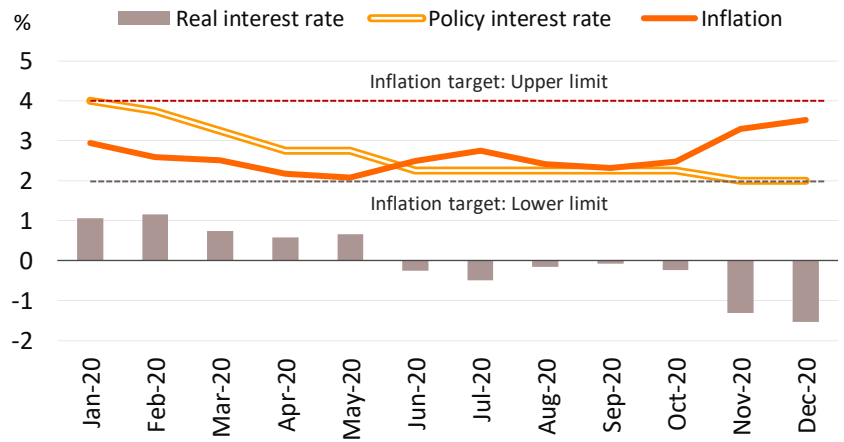
- Indonesia's inflation rose 1.7% YoY in December following a 1.6% rise in November. It marked the highest annual inflation since June, but remains below the BI's target range of 3±1%. Full-year inflation registered 2.0%.
- The benign inflation in 2020 was supported by weak domestic demand as a result of extended restrictions to contain the pandemic. **In 2021, we expect inflation to remain at the lower bound of its target** given still-weak domestic demand. Domestic consumption would contract further in 1H21 but is expected to improve gradually when they start to distribute the vaccines to the majority of population, possibly by 2H21.
- **Given benign price pressures as well as subdued economic growth - derailed by a resurgence of COVID-19 - we maintain that Indonesia can ease monetary policy further, with room for up to another 50 bps rate cut in 1H21. This is also supported by less outflows and a more stable currency.**

Philippines' inflation is close to upper bound of BSP's target, limiting room for more monetary easing

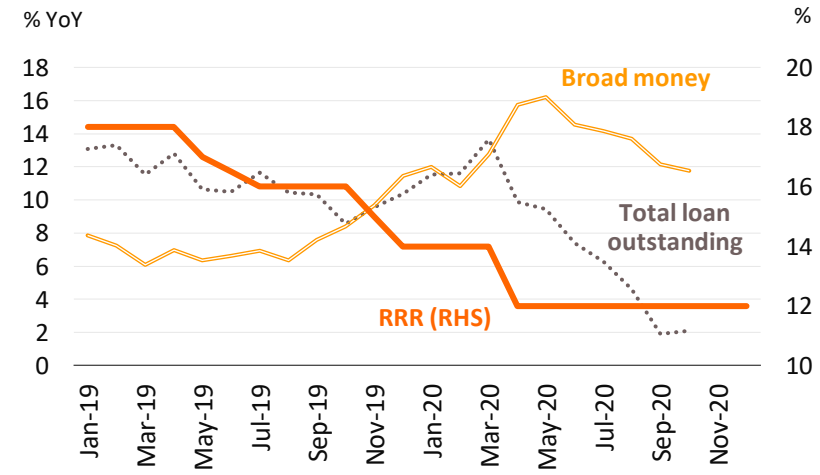
Philippines: Headline inflation



Philippines: Inflation and policy interest rate



Liquidity in Philippines' banking system



Source: Bangko Sentral ng Pilipinas, Philippine Statistics Authority, CEIC, Krungsri Research

Krungsri Research's view

- **Philippines' inflation surged to 3.5% in December,** rising for the second straight month to close to the upper bounds of its inflation target. This was **driven by food prices which rose temporarily** after several storms destroyed some agricultural areas. 2020 full-year inflation settled at 2.6%, around the mid-point of its target. At its latest meeting, the Bangko Sentral ng Pilipinas (BSP) kept 2021 and 2022 inflation targets at 3±1%.
- Given higher inflation, negative interest rate has continued to widen. However, **risks to the inflation outlook will remain on the downside given (i) weak demand, and (ii) softer food prices after a temporary rise last year.** We expect inflation to remain around the mid-point of target for 2021.
- In addition, **we maintain that there is room, albeit limited, for authorities to cut interest rates by another 25 bps in 1H21**. This is supported by a fragile economic recovery and surging COVID-19 cases in the country. In addition, the BSP would further ease monetary policy by **cutting RRR** as liquidity has been dropping in recent months. In the meantime, it needs more measures, especially more direct and quickly-implemented fiscal measures to accelerate lending, which would help to cushion the economy from sluggish demand.

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