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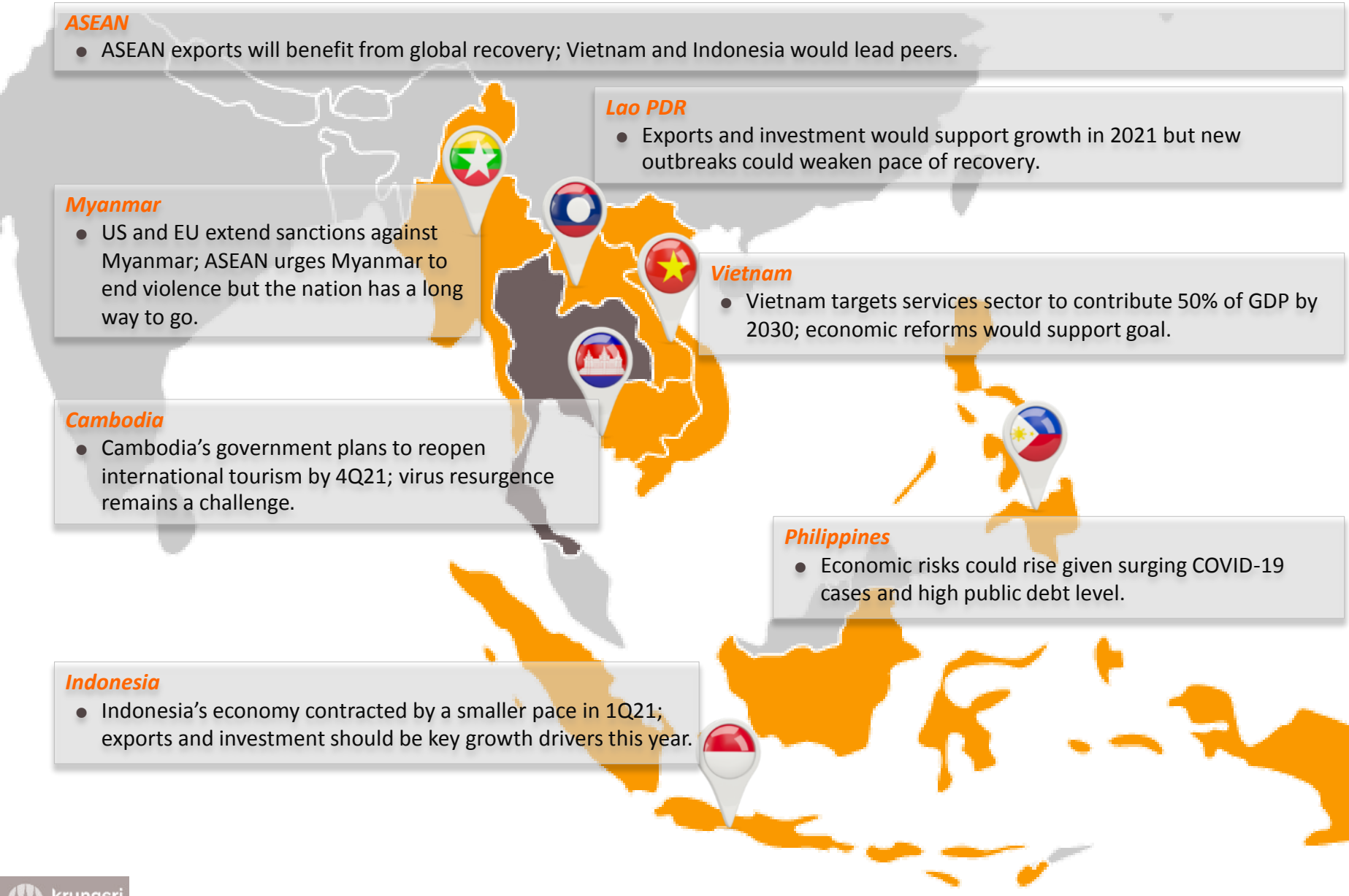
MONTHLY REGIONAL UPDATE

May 2021



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Regional Economic and Policy Developments in May



ASEAN
- ASEAN exports will benefit from global recovery; Vietnam and Indonesia would lead peers.

Lao PDR
- Exports and investment would support growth in 2021 but new outbreaks could weaken pace of recovery.

Myanmar
- US and EU extend sanctions against Myanmar; ASEAN urges Myanmar to end violence but the nation has a long way to go.

Vietnam
- Vietnam targets services sector to contribute 50% of GDP by 2030; economic reforms would support goal.

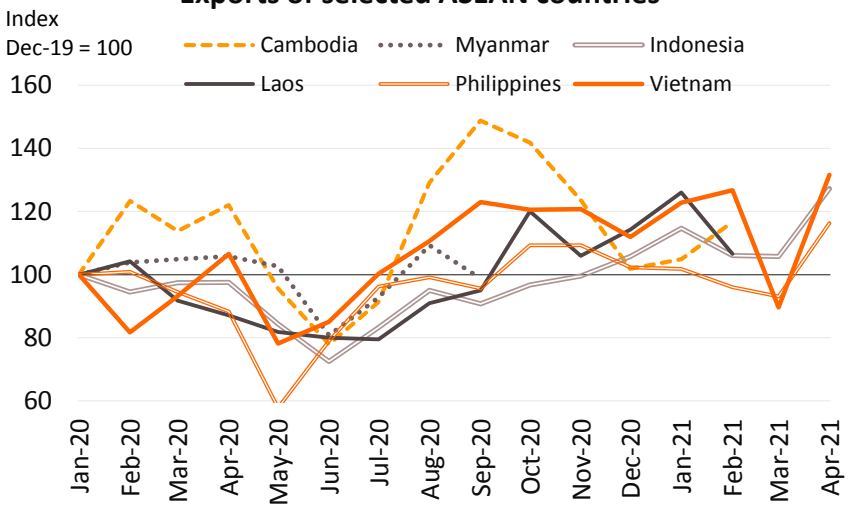
Cambodia
- Cambodia's government plans to reopen international tourism by 4Q21; virus resurgence remains a challenge.

Philippines
- Economic risks could rise given surging COVID-19 cases and high public debt level.

Indonesia
- Indonesia's economy contracted by a smaller pace in 1Q21; exports and investment should be key growth drivers this year.

ASEAN exports will benefit from global recovery; Vietnam and Indonesia would lead peers

Exports of selected ASEAN countries



Share of major economies in each CLMVIP's exports

Country	US	China	EU	Total
Cambodia	36.9	7.8	22.0	66.7
Vietnam	27.8	16.6	13.3	57.7
Myanmar	5.5	26.2	16.2	47.9
Philippines	16.1	15.1	10.2	41.4
Laos	1.6	32.6	5.3	39.5
Indonesia	11.0	18.6	7.9	37.5

CLMVIP's trade preferential benefits from major economies

Country	US	China	EU
Cambodia	GSP*	FTA China-ASEAN FTA China-Cambodia	EBA**
Vietnam	none	FTA China-ASEAN	EVFTA
Myanmar	GSP	FTA China-ASEAN	EBA
Philippines	GSP	FTA China-ASEAN	GSP
Laos	GSP	FTA China-ASEAN	EBA
Indonesia	GSP	FTA China-ASEAN	GSP

Note: *GSP refers to Generalised Scheme of Preferences; **EBA refers to *Everything But Arms
Source: IMF, CEIC, Krungsri Research

Krungsri Research's view

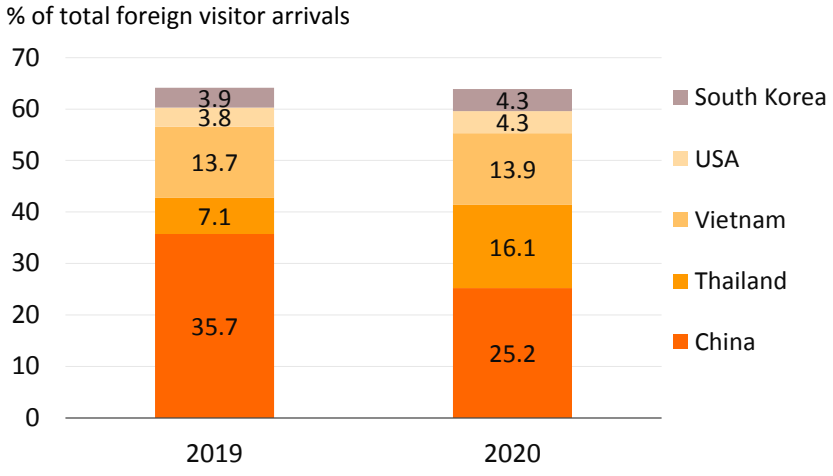
- Since early 2021, several ASEAN economies have been benefiting from a rebound in major economies, especially the US and China. **We expect Vietnam and Indonesia to see strong export growth in 2021.**
- **All ASEAN nations have gained from preferential trade designated by major economies and benefits under free trade agreements (FTAs). However, they have experienced benefits at different level and coverage.**
- All CLMVIP countries' exports rely on the US, China and EU, which combined account for at least 40% of exports, but not all will gain from the rebound in these major economies. **Vietnam** is expected to be the top gainer, supported by two reasons: they have diversified products and markets, and strong competitiveness with several FTAs. These would help to lift export revenues more than peers. **Indonesia** is also likely to see strong export growth given their dependence on commodities (palm and coal) - which prices have surged - and on exports to China.
- Other countries' exports are expected to gain less than Vietnam and Indonesia. Cambodia would see positive export growth given more diversified electronic parts to meet global megatrends. Philippines is likely to see slower export growth than peers due to low competitiveness in terms of cost of doing business. Laos and Myanmar would face country-specific challenges, including high concentration of export products & markets (Laos) and political issues (Myanmar).

Cambodia's government plans to reopen international tourism by 4Q21; virus resurgence remains a challenge

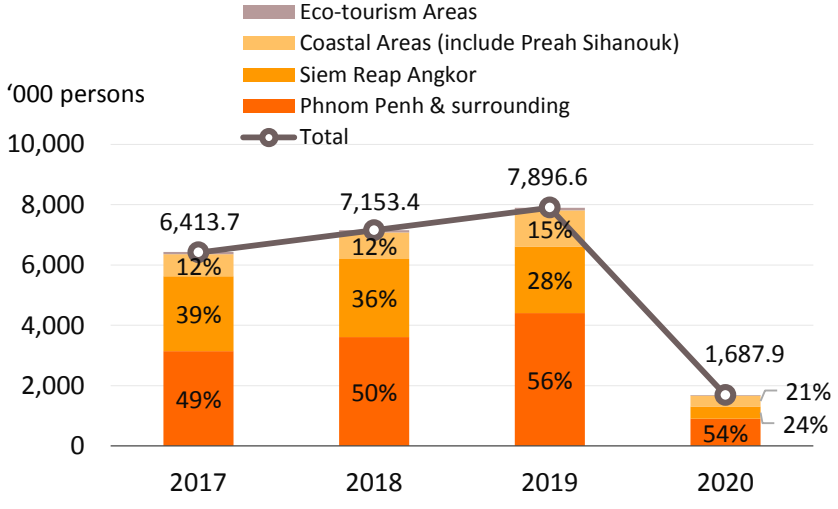
Cambodia's priority areas for vaccination program

Month, 2021	Expected doses	Priority areas
17 April	500,000	• Phnom Penh (Population: 1.7 mn) • Kandal (1.1 mn) • Preah Sihanouk (0.3 mn)
28 April	400,000	
May	1.5 million	
June	3 million	
July	2 million	
August	1 million	
Total	**8.4 million (25.5% of population)**	

Cambodia's top 5 foreign visitor arrivals



Cambodia: Tourist arrivals by province



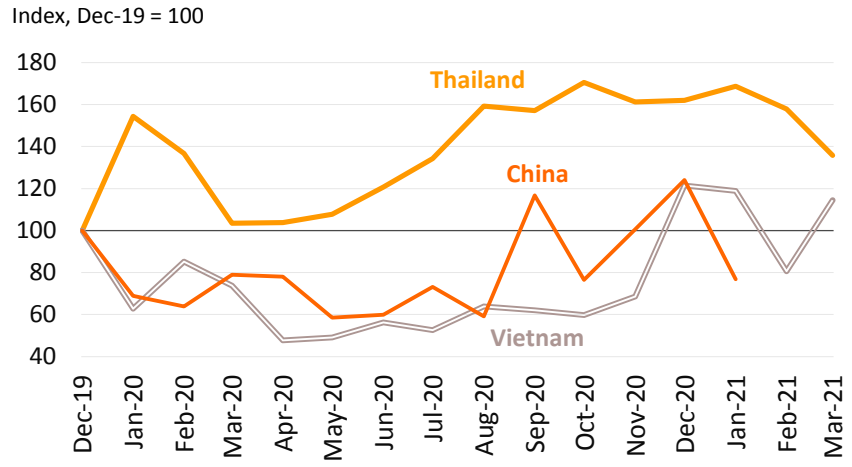
Source: Khmer Times, B2B CAMBODiA, CEIC, Krungsri Research

Krungsri Research's view

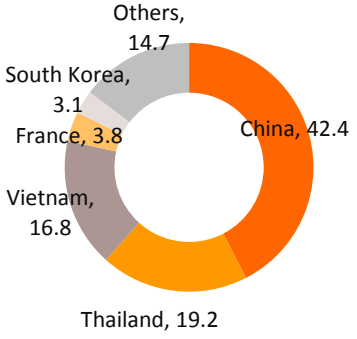
- To revive its hard-hit tourism sector – which accounts for one-fifth of GDP – Cambodia plans to allow vaccinated foreign tourists to visit the nation's major tourist sites by the fourth quarter of 2021.
- **The 4Q reopening timeline is possible, supported by progress in its vaccination program.** The nation has vaccinated 9.4% of its population, which is relatively high in this region. It targets to vaccinate up to 25.5% of the population by this August. **The reopening plan is also in line with its priority vaccination areas.** Currently, the key economic areas prioritized for vaccination include Phnom Penh, Kandal, and Preah Sihanouk. These are also major tourist destinations. Furthermore, the reopening timeline would capture its high season for tourism in 4Q and attract Chinese tourists – its largest group of inbound tourists – during China's Golden Week in early October each year. However, that would all depend on how well Cambodia manages to contain the latest wave of COVID-19 cases in the country.

Lao PDR: Exports and investment would support growth in 2021 but new outbreaks could weaken pace of recovery

Laos' exports



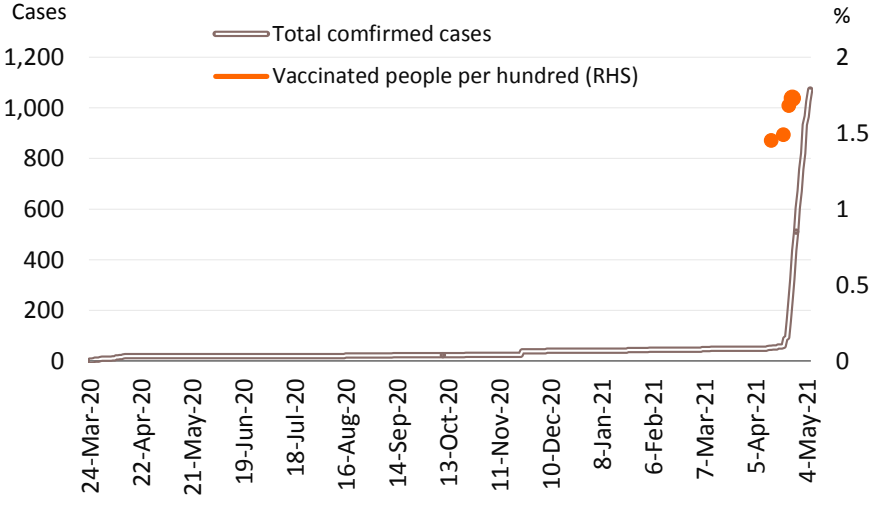
Laos' major sources of cumulative FDI 2000-2019



Key investment projects in Laos 2021

Project	Details
Power grid project	• Laos and China Southern Power Grid Company signed a shareholding agreement to launch Électricité du Laos Transmission Company Ltd. (EDLT) • EDLT will invest USD2bn to build, manage and control the Lao power grid for 25 years under a Build, Operate and Transfer concession.
Land development in Attapeu province	• Value: USD152mn • Land: 5,000 hectares • Plant trees with commercial value, like eucalyptus, durian, and jackfruit trees.

Laos: Total COVID-19 cases and vaccinated population



Source: IMF, WHO, news media, CEIC, Krungsri Research

Krungsri Research's view

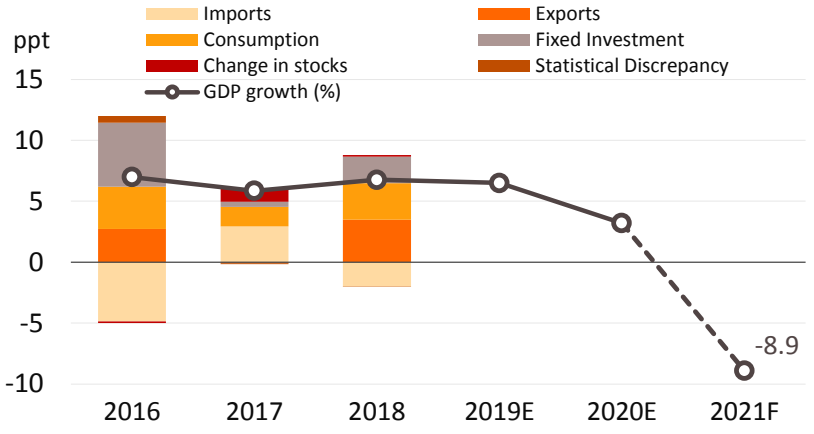
- **Exports and investment would support economic recovery in 2021 but Laos' economic growth could be slower than 4.6%** (IMF forecast) following the latest domestic outbreak amid fragile economic fundamentals.
- **Laos' exports to China and Vietnam – which account for almost 40% of total exports - are expected to grow, supported by recovering demand in both markets.** Exports to Thailand would improve slightly on expectations Thailand's economy would see a gradual recovery in 2H21. In addition, **FDI inflows**, led by China – Laos' largest source of FDI at over 42% of total cumulative FDI - **would remain positive this year given further expansion of Chinese investments in infrastructure and power projects in Laos**.
- **However, the surging domestic COVID-19 cases and extending national lockdown (from late-April to 20 May) would delay the country's reopening timeline for the economy.** Also, Laos is only targeting to vaccinate 20% of its population by end-2021. And, the country has limited policy space to support growth, given high fiscal deficit (6.5% of GDP in 2019), high public debt level (61.6% of GDP in 2019), and very small FX reserves (1.5 months of imports).

Myanmar: US and EU extend sanctions; ASEAN urges Myanmar end violence but it still has a long way to go

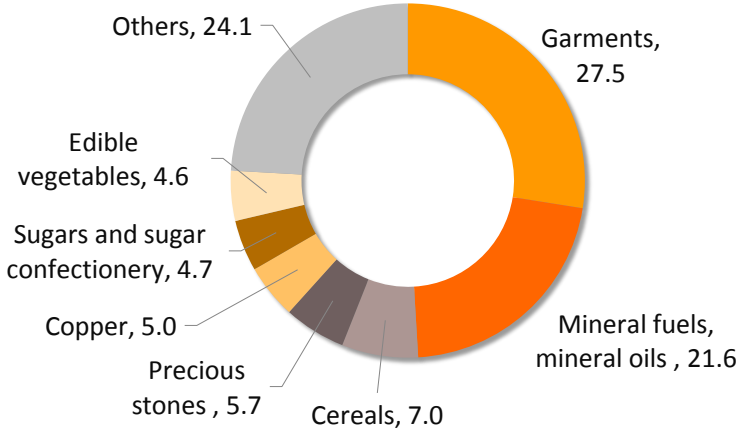
ASEAN's consensus on Myanmar

1) Immediate cessation of violence in Myanmar;
2) Constructive dialogue among all stakeholders to seek a peaceful solution in the interest of the people;
3) Mediation to be facilitated by an envoy of ASEAN's chair, with the assistance of the secretary-general;
4) Humanitarian assistance provided by ASEAN's AHA Centre; and
5) Visit by the special envoy and delegation to Myanmar to meet all parties concerned.

Myanmar: Contribution to real GDP growth



Myanmar's exports by product (% of total exports, 2018)



Source: IMF, news media, CEIC, Krungsri Research

Krungsri Research's view

- **Political crisis in Myanmar has created uncertainty for the next few months.** There are efforts to halt violence and seek a solution to Myanmar's political crisis, such as the recent ASEAN consensus in late-April (see table). Major Kaung Htet San, spokesman for the ruling military council, said "*...Myanmar would 'cooperate regarding that envoy' when a certain level of security and stability had been achieved",* according to Reuters. This implies the peace process would be complicated.
- **Expect large economic losses this year.** Several countries have imposed sanctions on state-own enterprises and military-linked businesses, including the US's latest sanctions on Myanma Pearl Enterprise (MPE) and Myanma Timber Enterprise (MTE) which produce and export Myanmar's major export products. These would lead to a sharp fall in export revenues, and ultimately, hamper domestic production and the labor market. That would, in turn, hurt domestic consumption. The EU has also recently extended sanctions until at least April 2022. These developments suggest Myanmar's economy will register deep contraction for more than a year. Although the government recently approved the USD2.5bn FDI-led LNG project, that would be insufficient to offset the overall negative economic impact.

Vietnam targets services sector to contribute 50% of GDP by 2030; economic reforms would support goal

Vietnam: Share of GDP

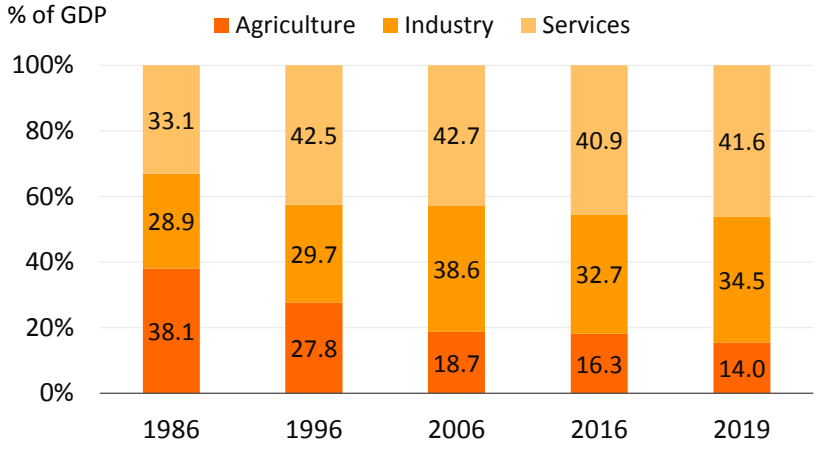


Table 1: Vietnam's strategy for the services sector over 2021-2030

Key targets	• 7-8% annual growth over 2021-2030 • Contribute up to 50% of GDP over 2021-30 • Prioritize state budget allocations for modernization and upgrading of key infrastructure - transportation, airports, seaports, telecommunications, tourism, finance, and banking. • Mobilize domestic and foreign economic components • Target sectors: - Delta region: manufacturing, business, healthcare, and social welfare - Hanoi, Hai Phong, Da Nang, Ho Chi Minh City, and Can Tho: trade, tourism, finance, and logistics - Mountainous regions: ecological and cultural tourism - Coastal and island areas: tourism, sea transportation, logistics, and services

Table 2: Vietnam has committed to open key services sectors under EVFTA and CPTPP

- Finance,
- Telecommunications,
- Transportation,
- Distributions,
- Container handling services,
- Customs Clearance/Customs Brokerage Services,
- Architectural Services,
- Higher Education Services

Note: EVFTA refers to The EU-Vietnam Free Trade Agreement; CPTPP refers to The Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

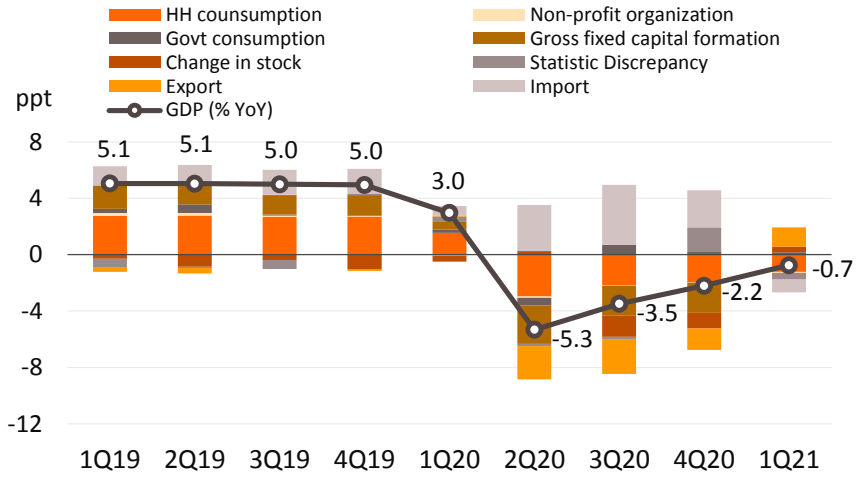
Source: World Bank, General Statistics Office, CEIC, Krungsri Research

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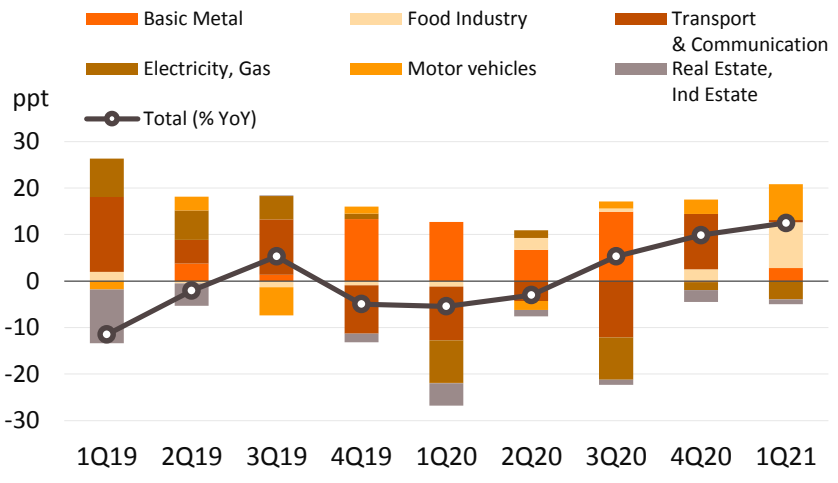
- Vietnam's government plans to increase services sector contribution to 50% of GDP under the strategy to develop the services sector over 2021-2030, with a vision up to 2050. This will be led by the tech sector.
- **We anticipate Vietnam's services sector would see a significant shift towards more technology-intense businesses**. Share of investment in science & technology and information & communication had increased from 1.9% of total FDI in 2013 to 3.3% in 2019, reflecting the rising role of the high-tech services sector.
- Vietnam also plans to increase its integration in the global economy. That means the services sector would need to be reformed, to become more efficient and competitive through greater use of technology. **We expect Vietnam's strategy to be in line with its commitments under the new-generation free-trade agreements (FTAs), which will allow more foreign investment in several specific services sectors, including finance, banking, insurance, healthcare, education, transport, logistics, trade and tourism.**

Indonesia's economy contracts by slower pace in 1Q21; exports and investment should be key growth drivers

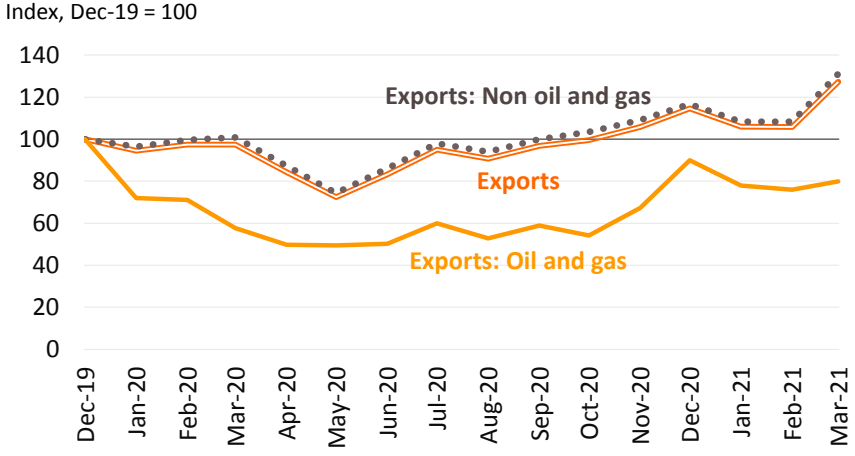
Indonesia: Contribution to GDP - Expenditure side



Indonesia: Realized FDI by major sector



Indonesia's exports



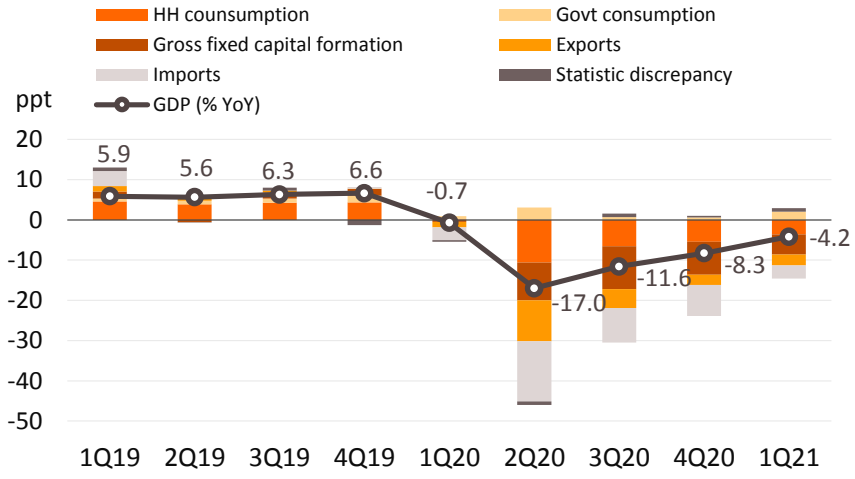
Source: Central Bureau of Statistics, news media, CEIC, Krungsri Research

Krungsri Research's view

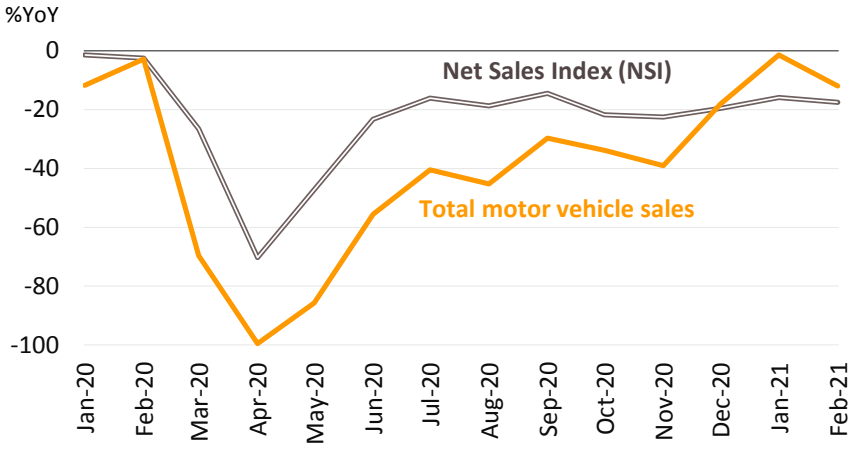
- Indonesia's GDP contracted by 0.7% YoY in 1Q21 -- less severe than the -2.2% YoY registered in 4Q20. Though it remained in negative territory, there were improvements in several components led by household consumption (-2.2% YoY in 1Q21 vs -3.6% YoY in 4Q20), exports (+6.7% YoY vs -7.2% YoY), and investment (-0.2% YoY vs -6.2% YoY).
- **Household consumption, which accounts for 54% of GDP, is likely to improve gradually supported by easing restrictions and IDR699trn government stimulus package (4.1% of GDP).** However, that would depend on how well the nation contains the looming pandemic risks given the high number of domestic cases and new virus variants.
- **Looking ahead, we anticipate Indonesia's economy would be driven by growing exports and more resilient investment.** Exports are expected to gain from both surging demand for commodity products and stronger growth in advanced economies - especially the US and China - their major export markets. In addition, FDI has risen for the third consecutive quarter in 1Q21, supported by the government's recent investment promotion policies to support the electric vehicle industry and value-added agri-businesses, including the food industry.

Philippines: Higher economic risks given surging COVID-19 cases and high public debt level

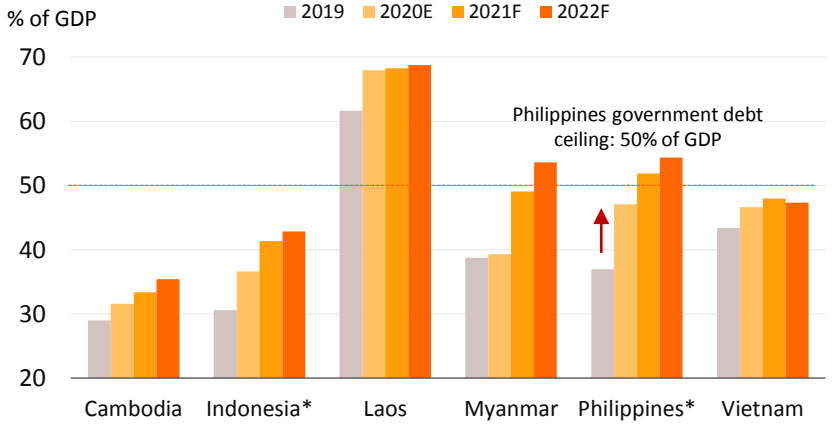
Philippines: Contribution to GDP - Expenditure side



Philippines: Net Sales Index and motor vehicle sales



Government debt in selected ASEAN countries



Note: * Data in 2020 is actual.

Source: Bureau of the Treasury, Philippine Statistics Authority, Chamber of Automotive Manufacturers of the Philippines, IMF, CEIC, Krungsri Research

Krungsri Research's view

- Philippines' GDP contracted by 4.2% YoY in 1Q21, worse than expected, extending the recession to five consecutive quarters. All GDP components continued to contract. Looking ahead, w**e expect the economy to register positive growth in 2021 but it would be close to the lower end of the 6.5-7.5% government target.**
- **Exports growth would improve only gradually.** Though rising external demand would support recovery, export growth will remain weak as the Philippines is less-integrated in the region's supply chains than peers, and stricter lockdown would disrupt manufacturing activities. Manufacturing production had tumbled by 74.2% YoY in March.
- **Household consumption will remain sluggish.** *Net Sale Index (NSI)* and motor vehicle sales would remain in negative territory in 2Q21, dragged by reimposition of strict lockdown measures from April to mid-May.
- **In addition, Philippines' public debt had surged from 37.0% of GDP in 2019 to 47.1% in 2020, the biggest jump in the region. That is expected to breach the official ceiling of 50% of GDP in 2021.**

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