Research Intelligence
June 2021

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Economic recovery in the CLMVIP countries: Similar in their differences

As elsewhere in the world, in 2020, the Covid-19 pandemic severely affected the economies of Cambodia, Lao PDR, Myanmar, Vietnam, Indonesia and the Philippines (collectively referred to here as the 'CLMVIP' countries). However, in 2021, most of these economies are expected expand favorably by 4-7%. **A recovery in the CLMVIP region is supported by three principal factors: (i) the implementation of economic stimulus packages that have both fiscal and monetary aspects, with infrastructure spending playing a particularly important role; (ii) the boost given to export industries by cyclical recovery in the global economy; and (iii) the strengthening trend to regionalization**. **Nevertheless, although similar factors are at play across the region in support of recovery, the pace of economic recovery is different between countries**. **Vietnam is the star performer of the group** thanks to its strong economic fundamentals, revenues and inflows from overseas, as well as the benefits that accrue to the country from its free-trade agreements, the latter including the European Union-Vietnam Free Trade Agreement (EVFTA) and the UK-Vietnam free trade agreement (UKVFTA). In addition, the country has been largely successful in controlling the domestic spread of Covid-19. **The other countries in the CLMVIP group will enjoy more sedate levels of growth, though in each case**, **this will be due to a different mix of head- and tailwinds. Indonesia and Cambodia are expected to come joint second in the rankings of regional recovery**. In the case of the former, although Indonesia has seen relatively high and widespread caseloads through the pandemic, an improving outlook for the world economy and a rise in commodity prices will lift the country's export sector, the economy is benefiting from an expansion in government stimulus measures, the country is moving forward with its vaccination program, and it plans to reopen to international tourism. In the case of **Cambodia**, the economy will be boosted by a rise in exports, in particular to China and the US, but the positive effects of this will be offset by the EU's recent withdrawal of preferential trade rights previously granted under the 'Everything But Arms' scheme. **In the Philippines**, the economic stimulus package has been substantial, to 4% of GDP, but disbursements have been made only slowly, and Covid-19 infection rates have been relatively high, with knock-on effects that have undermined labor markets and weakened recovery in domestic consumption. In **Lao PDR**, government stimulus measures have been somewhat thin, though the country is also saddled with longer-term structural weaknesses in its economy and so recovery from the pandemic is likely to be sluggish and drawn out. Finally, **Myanmar** has been riven by political conflict following the seizure of power by the military and the declaration of a state of emergency that will likely last for at least the next two years. Naturally, this has and will continue to seriously undermine confidence among investors and trade partners, and one outcome of this may be severely disrupt economic development within the country for an extended period of time.

Since its first emergence at the start of 2020 and carrying through to the present, the Covid-19 pandemic has weighed heavily on the world economy, pushing many countries' economies to contract and enter a recession. However, the impacts of this have not been distributed evenly around the globe and significant regional differences can be discerned. Thus, **in 2020, a contraction in many ASEAN members' economies was smaller than other parts of the world**[1/], and some countries even managed to maintain positive growth trajectories through the year. Moving through 2021, the CLMVIP[2/] countries, **all of which are members of ASEAN, should be able to achieve rates of growth that will outpace those of many other countries**, and discounting Myanmar, which has a unique set of problems to overcome, the CLMVIP countries will be able to look forward to annual growth of 4-7% this year. However, **in determining exactly how well each country is likely to perform three main factors need to be considered: (i) how rates of infection with Covid-19 compare to other regions**, and how successful countries have been in first controlling rates of domestic transmission and then moving forward with vaccinations; **(ii) the size of government's relief measures and stimulus packages** and the extent to which monetary policy has been kept relaxed; and **(iii) how drivers of national and regional economies** (e.g., investment, exports and regionalization) vary in each of these countries. Each of these is examined in detail below.

1/ Data from the International Monetary Fund (IMF)

2/ This paper discusses the outlook for 6 ASEAN nations: Cambodia, Lao PDR, Myanmar, Vietnam, Indonesia and the Philippines, collectively referred to as the CLMVIP nations.

Figure 1: Economic Growth, by Region

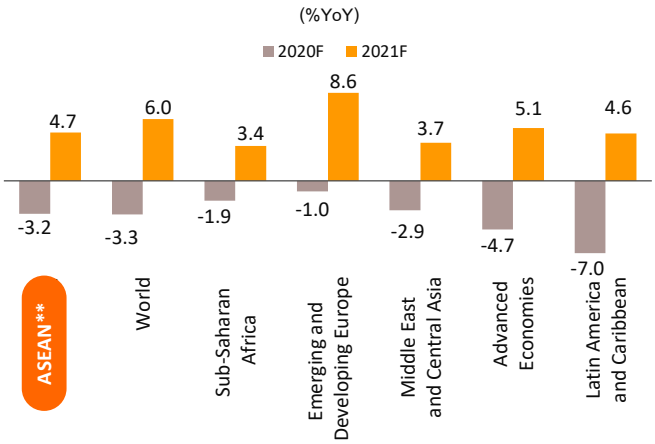
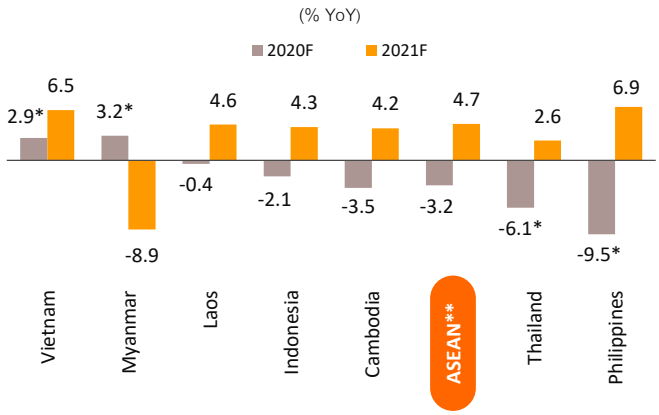


Figure 2: GDP Growth of the CLMVIP Countries



Note: *actual data, **exclude Myanmar
Source: IMF, CEIC, Krungsri Research

The current situation with Covid-19 infections remain elevated, but in some countries, Vietnam has been broadly successful in suppressing domestic transmission of the disease.

- **The CLMVIP countries have had some success controlling Covid-19, though this is with the exception of the Philippines, where infection rates are high.**

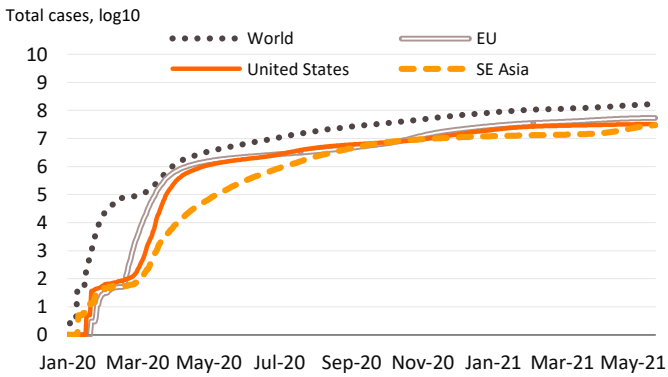
Although the total number of people infected with Covid-19 continues to rise in the CLMVIP countries, the figure remains low when put next to those of comparable regions elsewhere in the world. As of May 2021, daily infection rates in the CLMVIP region came to 5.4 per 1,000 people compared to the global average of 6.8 per 1,000.

Vietnam, Lao PDR and Cambodia have reported the lowest total infections in the ASEAN region. Of these, Vietnam has performed best, and despite being the first of the CLMVIP countries to record a domestic case of Covid-19 and then having to endure three waves of infection, officials there have been successful in suppressing the pandemic within the country's borders. By acting rapidly to enforce strict control measures, the government has been able to bring each outbreak under control within an average of just one month**. In the case of Lao PDR and Cambodia, although recorded total case numbers are fairly low, these two countries are both now struggling against a recent surge in daily caseloads.**

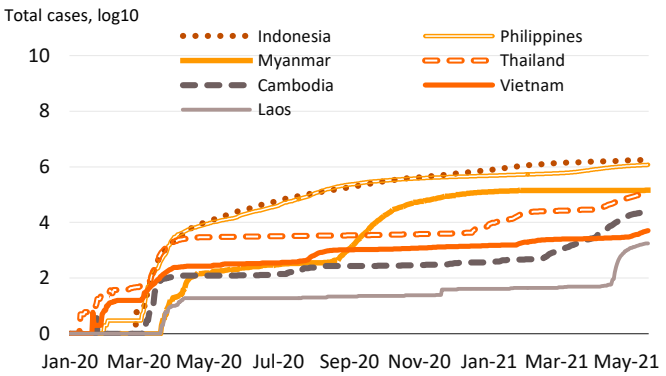
Indonesia, the Philippines and Myanmar are at the opposite end of the spectrum and lead the ASEAN zone for Covid-19 infections. Indeed, **Indonesia and the Philippines** are in respectively first and second places in the region for total Covid-19 cases, and combined, these two account for a full 79% of all ASEAN's Covid-19 infections. At the time of writing, the pandemic continues to spread in these countries, and Indonesia is currently reporting 5,200 new cases daily, while in the Philippines, the caseload is running to 10,000 per day. The country has in fact seen a recent explosion in case numbers, these having jumped ten-fold between the start of 2021 and the beginning of April. At present**, Myanmar** has the fourth highest total in ASEAN, though since February 2021, testing for Covid-19 has been seriously disrupted by strike actions undertaken by medical staff protesting the army's seizure of power, and so the validity of the current data is questionable.

Figure 3: Total Infections with Covid-19

Global, Europe and the US

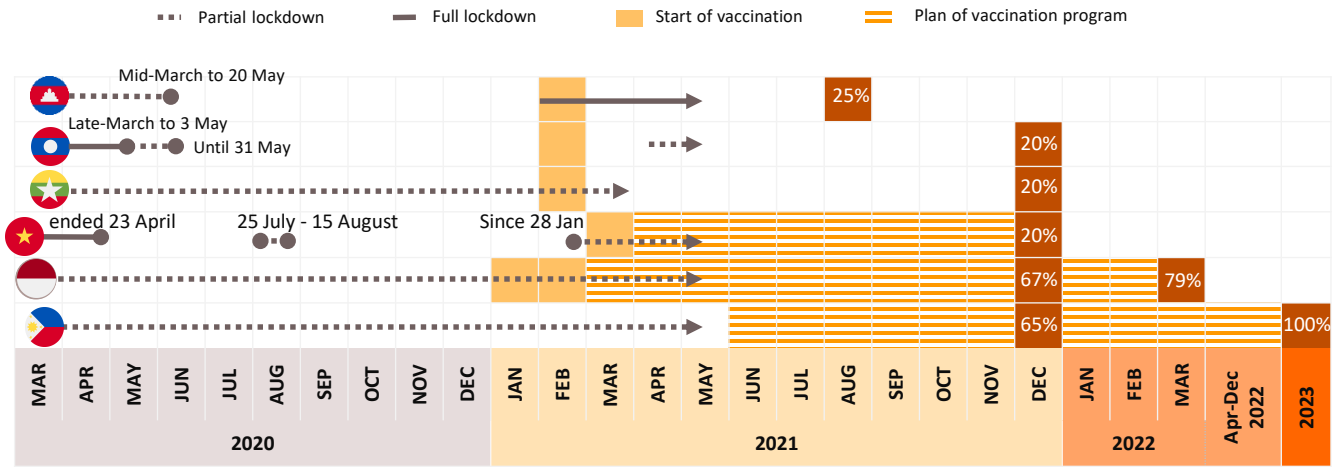


Thailand and CLMVIP Countries



Source: CEIC, news media, Krungsri Research

Figure 4: Time to Control Outbreaks of Covid-19 and Progress on Vaccinations, CLMVIP Countries



Note: Data as of 17 May 2021.
Source: CEIC, news media, Krungsri Research

- **Most countries began vaccinating at the start of 2021, but Indonesia and Vietnam should achieve herd immunity in the first quarter of 2022.**

An economic recovery will be heavily determined by the success of national vaccination programs, and countries that set clear targets that they unfailingly move towards will see quicker, stronger growth than will those that muddle through. Within the CLMVIP group, progress with sourcing and administering vaccinations has been mixed. **Krungsri Research believes that with regard to purchasing, timeframes and targets, Indonesia and Vietnam top the group. Indonesia** was not just the first country in the region to begin vaccinations (which commenced as early as January 13, 2021), but also has a very ambitious schedule of giving 16 million jabs per month, with the goal of inoculating 67% of the population against Covid-19 by the end of this year. The Indonesian government has also boosted the budget for acquiring vaccines by another 20% and is arranging for the public to have access to those through as varied a range of channels as possible (e.g., by allowing private-sector companies to source and administer vaccines to staff themselves) as it looks to achieve full coverage as quickly as it can. **Vietnam** has responded to the crisis by laying out a plan to reach 70% vaccination coverage by the end of 2021, and to this end the country has secured 30 million doses from AstraZeneca (enough for 16% of the population) for delivery during the first half of the year, while at the same time working on the development of a domestic vaccine. The latest update on this, which was correct as of March 17, 2021, is that officials expect to be able to begin administering the Vietnamese-developed Nanocovax vaccine during the last quarter of 2021. Both Indonesia and Vietnam should therefore achieve herd immunity during the first quarter of 2022.

The Philippines has announced plans to vaccinate 65% of the population in 2021, but it seems likely that delays in securing the necessary doses and widespread vaccine hesitancy will make it difficult for the country to meet its goals. In **Cambodia, Lao PDR and Myanmar**, progress towards herd immunity is likely to be even slower still and at present, official targets remain somewhat limited and budgets are insufficient so these countries are highly dependent on receiving doses either from China or via the COVAX program[3/].

3/ COVAX is an organization that aims to help poorer countries secure equal access to Covid-19 vaccines. This is a joint effort involving The Coalition for Epidemic Preparedness Innovations (CEPI), Gavi, the Vaccine Alliance, and the World Health Organization (WHO). COVAX has also partnered with other important global organizations to support its efforts, including UNICEF.

Table 1: Plans for Vaccination Rollouts in the CLMVIP Region, as of May 17, 2021

Country	Start date of the vaccination program	Planned government purchases of vaccines	Quotas allocated under the COVAX program (no. of doses; percentage coverage of the population)	Vaccination target (percentage coverage of the population)
Cambodia	February 10, 2021 (Sinopharm)	n.a.	1.29 million doses; 4.0%	25% coverage by August 2021
Lao PDR	27 January, 2021 (Sinopharm)	n.a.	5.64 million doses; 39.6%	20% coverage by the end of 2021
Myanmar	27 January, 2021 (Covishield/ AstraZeneca)	n.a.	13.71 million doses; 12.7%	40% coverage by the end of 2021
Vietnam	8 March, 2021 (AstraZeneca)	150 million doses have been ordered for delivery on 2021 (30 million from AstraZeneca and the remainder from Moderna and Sputnik V). The country is also developing its own vaccine[4/.]	4.89 million doses; 2.6%	70% coverage by the end of 2021
Indonesia	13 January, 2021, with 1.47 million doses administered by the end of February (Bio Farma/Sinovac)	181.5 million doses have been ordered (125.5 million from Sinovac, 50 million from AstraZeneca, 50 million from Novavax, and 57.6 million from Merah Putih (domestic supplies). The country is also currently in negotiations with Pfizer.	108 million doses; 20.4%	67% coverage by the end of 2021 and 79% coverage by the end of 1Q22. From April 2021, 16 million doses have been administered each month.
The Philippines	The start of March 2021 (Sinovac)	Currently negotiating to secure 20 million doses from Moderna, and a further 80 million from AstraZeneca, Novavax and Johnson & Johnson, for delivery during 2021.	5.5 million doses; 2.5%	65% coverage by the end of 2021 and 100% coverage during 2023

Source: News media, Krungsri Research

4/ Vietnam's domestic vaccination development is being caried out by Nanogen Pharmaceutical Biotechnology and the Institute of Vaccines and Medical Biologicals. According to their most recent announcement, Vietnamese officials expect production of their Nanocovax vaccine to begin in the fourth quarter of 2021 and for commercial use to then begin in 2022.

All the CLMVIP nations have used fiscal and monetary tools to stimulate their economies, though Vietnam and Indonesia have performed best

- **Fiscal policy: In addition to stimulus packages that offset some of the impacts of the pandemic, all the CLMVIP countries have increased government spending, especially on infrastructure projects.**

Within the CLMVIP countries, **policies to offset the economic impacts of Covid-19 and to restart economies have converged on three main themes** (Table 2): (i) measures that provide financial assistance to workers and to businesses affected by the pandemic, especially in the areas of tourism, apparel manufacturing, and other labor-intensive industries; (ii) spending on public health, both to control the spread of the disease and to secure supplies of Covid-19 vaccines; and (iii) the injection of additional funds made through public investment projects, especially on infrastructure projects, which since 2020 has become an important driver of economies in all the CLMVIP nations.

Krungsri Research's analysis shows that in all the countries under consideration, public investment has grown as governments try to stimulate economic expansion, though this has been especially prominent in policy responses in Vietnam, Indonesia and the Philippines. In these countries, governments have been clear that work on approved or existing infrastructure projects would be accelerated since this would not only help to support employment and lift the economy over the short-term, but would also help to develop potential of public infrastructure projects and competitiveness over longer timeframes. Over the next 2-3 years, a number of important infrastructure projects will therefore be undertaken in the region (Table 3 and Table 4). **In Vietnam**, the government is speeding up work on its nationwide road-building and airport construction projects, **in Indonesia**, road- and port-construction is being emphasized and the country is also undertaking an ambitious project to relocate the capital city from Jakarta, while **in the Philippines**, the government is trying to push through spending on more than 100 infrastructure projects under its 'Build, Build, Build' program. **Cambodia and Lao PDR** are also attempting to accelerate public investment projects, especially on transport infrastructure, such as the construction of the Phnom Penh to Sihanoukville expressway and the new Phnom Penh international airport, with these two projects scheduled for completion in 2022 and 2023, respectively, and the China-Lao rail-link (in Lad PDR) is expected to be completed in December 2021. However, the situation is rather different in **Myanmar,** Financial assistance from overseas partners, including the US, Japan and the EU, has been suspended source of financing for infrastructure spending.

Table 2: Major Policy Measures to Relieve the Impacts of Covid-19 and to Re-start Economies

Country	Relief measures	Affected industries	Mechanisms by which support measures work
Cambodia	• Payments to workers who have been laid off or who have been otherwise affected by the pandemic • Reducing the financial burdens faced by individuals and businesses by slashing or suspending taxes and other charges • spending on healthcare to deal with the consequences of and prevent the future spread of Covid-19.	Textiles and apparel, tourism	Spending on infrastructure projects
Lao PDR			
Myanmar		Textiles and apparel, tourism, MSMEs	
Vietnam			
Indonesia		All types of businesses, MSMEs	
The Philippines		Textiles, agriculture, MSMEs	Spending on infrastructure, especially through the 'Build, Build, Build' program

Note: MSMEs refers to Micro, small and medium enterprises
Source: News media, Krungsri Research

Table 3: Government Investment Plans in Indonesia, the Philippines and Vietnam

Country	Extent of spending (billions of USD)	Percentage of GDP
Indonesia	429.7 (2020-2024)	39.1
The Philippines	31.1 (2020-2022)	9.1
Vietnam	119.6 (2021-2025)	48.8

Source: News media, Krungsri Research

Table 4: Major Infrastructure Construction Projects in the CLMVIP Region

Country	Projects	Billion (USD)	Schedule to complete
Cambodia	- The Phnom Penh - Sihanoukville Expressway	2.0	2022
	- The new Phnom Penh International Airport	1.5	2023
	- The new Siem Reap Airport	0.9	2023
Lao PDR	- The China-Laos Railway	6.1	2021 (December)
	- The Champasak Special Economic Zone (SEZ)	10.0	2025
	- The Ha Noi-Vientiane expressway	4.5	n.a.
Myanmar (as of end-2020)	- Dawei SEZ	10.7	n.a.
	- The Hanthawaddy Airport	1.77	2027
	- Kyaukpyu SEZ	30.0	n.a.
Vietnam	- Tan Son Nhat's T3 Terminal	0.476	2023
	- The Long Thanh International Airport	14.0	2025
	- The North-South Expressway (11 sections)	4.4	n.a.
Indonesia	- The new capital project in East Kalimantan	32.5	n.a.
	- The Light Rapid Transit (LRT Jakarta)	25.0	2022 (July)
	- MRT Line in Jakarta (Phase 2)	1.5	2027
The Philippines	- Manila Subway	7.3	2027
	- Bulacan International Airport	13.9	2025
	- The Mindanao Railway (Phase 1)	0.73	2Q 2022

Source: News media, Krungsri Research

In addition to spending on the build out of new infrastructure, the CLMVIP countries have also used a range of other tools and mechanisms to restart their economies, though the details of this have differed from country to country. In the case of **Indonesia**, the country has been more reliant on fiscal policy than other CLMVIP nations for two principal reasons. (i) **The country has continued with its policy of both relaxing and reforming fiscal operations.** Indonesian officials have now raised the scale of their stimulus measures from 2.3% of GDP at the end of 2020 to 4.5%, and they now anticipate that the 2021 fiscal deficit will reach 5.7% of GDP. In addition, officials have made progress with their plans for fiscal reform, in particular with regard to taxation, with business taxes now cut from 30% to 20% for small and medium sized operations and 25% for large corporations. (ii) **The country has a clear policy with regard to attracting foreign direct investment**, and in pursuit of this, it has established a list of priority sectors that are to be promoted by the government. These are varied in nature but encompass high value-added industries and include the development of electric and battery powered vehicles and related high-tech industries. The Indonesian government has also put considerable effort into sourcing vaccines, and has put in place a plan to vaccinate 70% of the population this year.

To increase its future attractiveness as a target for foreign investment, **Vietnam** is moving forward with reforms of state enterprises that have been in the pipeline since 2016. In addition, the country is also promoting investment in a wide range of high-tech industries.

In the Philippines, the government has passed the Corporate Recovery and Tax Incentives for Enterprise Act (CREATE), the main provisions of which are to cut corporate tax rates from 30% to 25% of taxable income for both Filipino and international corporations operating or trading in the country, if they have a registered office in the Philippines. Enforcement of the law has been backdated and so it has been in effect since July 1, 2020. The CREATE Act also contains provisions that aim to make the country a more attractive target for FDI inflows. In the case of **Cambodia and Lao PDR**, budgetary constraints mean that fiscal policy responses to the epidemic have been limited, and these countries are much more dependent on recovery coming from foreign investors participating in large-scale state-backed projects. Meanwhile, the outbreak of severe political uncertainty in **Myanmar** has meant that government measures to alleviate the impacts of Covid-19 have become increasingly limited.

- **Monetary policy: Indonesia, the Philippines and Vietnam have cut interest rates, but with the exception of Indonesia, fear of inflation has limited the room for action.**

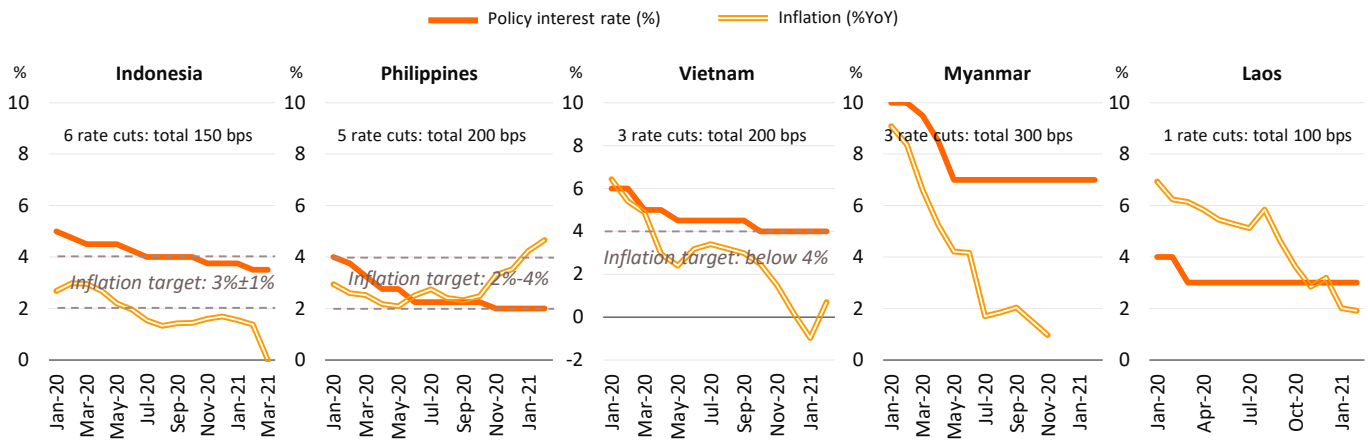
In addition to injecting historically unprecedented levels of liquidity into domestic economies and fiscal policy supports, central banks in all the CLMVIP countries have relaxed monetary policy to cut business costs and support an economic recovery, particularly policy interest rate cuts and targeted monetary policy to boost consumption and investment.

Of all the CLMVIP nations, Indonesian monetary policy has been the most eye-catching. The country has been somewhat aggressive in loosening its monetary policy, cutting interest rates 6 times with the result that policy rates dropped from 5% at the start of 2020 to 3.5% per year (as of June 2021). Indonesian officials have also run targeted measures that have included easing the terms and conditions for real estate and auto loans[5/], **and in the coming period, the Indonesian central bank will likely maintain this stance, with policy rates expected to remain low through to the middle of 2022**. This will be because: (i) the recovery remains weak in Indonesia and the economy is not expected to return to its pre-pandemic level of activity until mid-2022; and (ii) given the continuing weakness in domestic demand, inflationary pressures are not at present a major concern, and this is providing the central bank with the policy space it needs to cut policy rates further, should the need arise.

The Philippines has also been employed proactive monetary policy since it uncovered its first Covid-19 infections, and between the start of 2020 and March 2021, policy rates have been cut 5 times, halving base rates from 4.0% to just 2.0% per year (as of June 2021). **The Central Bank of the Philippines (BSP) is expected to maintain loose monetary policy through the rest of 2021 and into the second half of 2022,** with this taking the form of: (i) policy rates that are likely to remain at historically low levels; and (ii) a possible cut in the reserve requirement ratio (RRR) for commercial banks from its current rate of 12.0%.

The State Bank of **Vietnam** has cut interest rates 3 times since the beginning of the Covid-19 crisis, and policy rates thus fell from 6.0% in January 2020 to 4.0% in October 2020. Looking ahead, the central bank is forecast to keep rates at these historically low levels for the rest of 2021 to support economic recovery. In **Lao PDR,** the central bank has reduced rates just once, from 4.0% to 3.0%. In the foreseeable future, its central bank is likely to maintain its accommodative monetary policy as a tool to support domestic investment and consumption by keeping policy interest rates at the lowest levels since the country began to use policy rates in 1992. However, the weakness of the kip may feed inflationary pressures. The **Myanmar** central bank has reduced its policy rates 3 times, these falling from 10.0% in January 2020 to 7.0% per year (as of June 2021). Krungsri Research believes that given the sharp rise in political uncertainty and predictions by the IMF and World Bank that this year, Myanmar will experience an economic contraction of respectively 8.9% and 10.0%, respectively. Officials will be aiming to keep monetary policy relaxed for an extended period. However, the kyat has been weakening in value since the military coup and because Myanmar is an importer of many consumer goods, this will increase inflationary pressures, possibly then forcing the central bank to raise policy rates in response.

Figure 7: Policy Rates and inflation



Source: CEIC, Krungsri Research

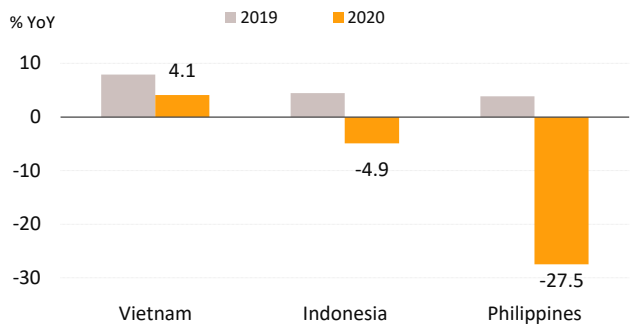
5/ Indonesia's targeted monetary policy has included waiving the need to make any down payments for home and auto loans (the latter including loans for both cars and motorcycles) and raising loan-to-value ratios for home loans from 85-95% (depending on the type of property being bought) to 100%.

Other factors: In addition to direct government intervention, important regional factors driving growth include investment, exports and regionalization.

- **Levels of investment contracted in 2020 but these are rebounding on government's projects, reform of investment policy that has led to greater inflows of FDI, growing trends to regionalization, and increased opportunities to participate in regional supply chains.**

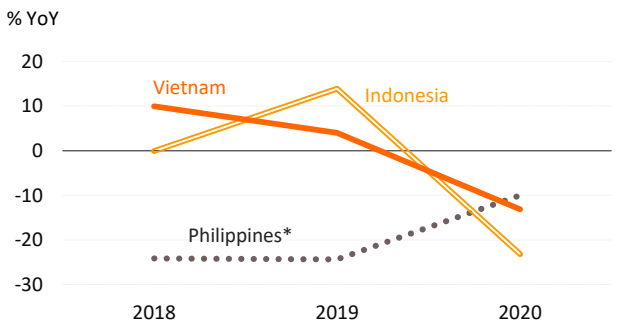
In most CLMVIP countries, public- and private-sector investment contracted sharply in 2020. Government-backed measures to stop the spread of Covid-19, including lockdowns, curfews and business closures, caused a widespread slowing or even halt of a range of economic activities in the region. Unfortunately, government stimulus packages were also delayed in many countries, adding to the financial disruption. Public- and private-sector investment suffered the biggest fall in the Philippines. In Vietnam continued to grow, although at a slower rate than a year earlier (Figure 8). Inflows of foreign direct investment to the CLMVIP countries also slowed markedly in many cases (Figure 9). Analysis by the United Nations Conference on Trade and Development (UNCTAD) shows that across the ASEAN region, FDI inflows fell by an average of 31% in 2020 relative to 2019. By comparison, global FDI inflows fell by 42%, though not including India and China, this dropped to 22% for developing economies (Figure 10).

Figure 8: Gross Capital Formation in Indonesia, the Philippines and Vietnam



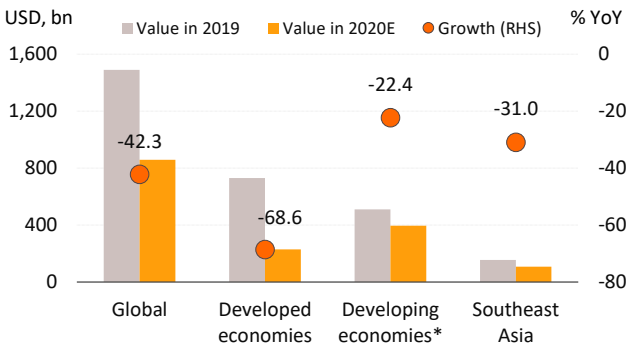
Source: UNCTAD, CEIC, Krungsri Research

Figure 9: Growth in Foreign Direct Investment in ASEAN Member States



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

Figure 10: Inflows of Foreign Direct Investment, 2020



Note: *exclude China (+4% YoY) and India (+13% YoY)
Source: UNCTAD, CEIC, Krungsri Research

Krungsri Research believes that **investment will pick up again across most of the CLMVIP countries** and that this will be driven by two main factors. **The first of these is domestic support for the economy, including the extent of government spending on investment projects, which in many countries has been accompanied by significant budget allocations (Table 3 and Table 4).** Thus, eye-catching projects underway in Vietnam, the Philippines and Indonesia include the Long Thanh International Airport (Vietnam), which carries a price tag of USD 14 billion, Bulacan International Airport (the Philippines), also costing USD 14 billion, and Indonesia's USD 25 billion Light Rapid Transit system. **Economic reforms and domestic investment** will also help to underpin progress on government-backed projects and to encourage additional private-sector investment, and through this, a step up in the level of economic activity. Regional examples of recent economic reforms include **Indonesia's** passing of its Omnibus Law on Job Creation, which liberalizes labor markets and encourages additional investment, the cut in **the Philippines** of business tax from 30% to 25% for large corporations and to 20% for small and

medium-sized enterprises, and **Vietnam**'s progress with reform of its many state enterprises. **The second factor is the greater regionalization, helped by the conclusion of a large number of free trade agreements** that affect CLMVIP countries, most notably the Regional Comprehensive Economic Partnership (RCEP) and the likely effects of this on strengthening regional supply chains. Beyond this, the region's growth potential over the next 5 years is relatively high, and at an average of around 5%, this is above that of many other regions of the world. The region is also blessed with a broad range of advantages, including its access to labor, land and natural resources, and its generally low business costs. Given these factors, the region, and especially the CLMVIP countries, forms an attractive investment target compared to many of the alternatives (Table 5). But of the six countries, **Vietnam has the most comprehensive set of advantages working in its favor. The country gains considerable benefits from the fact that it has signed free-trade agreements that cover over 50 countries, which collectively help to guarantee more efficient resource allocation, while also allowing Vietnamese businesses to extract benefits from the tax advantages that they grant. With the passing of the above-mentioned Omnibus Law and broader reform of the business environment, Indonesia will also now become more attractive to potential investors. In Cambodia, reforms that aim to make investment easier and more attractive should be enforced by the end of 2021.**

Table 5: Factors Supporting Growth in Investment

Country	Factor
ASEAN as a whole	• The signing of the Regional Comprehensive Economic Partnership (RCEP) on 15 November, 2020
Vietnam	• The Vietnamese government has stated its support for greater public investment, and it is officially encouraging investment in high-tech industries. • The government is speeding up reform of state enterprises. • The EU-Vietnam Free Trade Area (EVFTA) came into effect on 1 August, 2020
Cambodia	• The country is in the process of reforming investment law. This should be completed by mid-2021. • The Cambodia-China Free Trade Area (CCFTA) was signed in October 2020. • The Cambodia-Korea Free Trade Area (CKFTA) should be finalized and agreed in mid-2021.
Indonesia	• The country has passed the Omnibus Law on Job Creation. This liberalizes the rules and regulations governing labor markets and will help to encourage greater investment. • The Indonesia-Australia Comprehensive Economic Partnership Agreement (IACEPA) has been in effect since July 2020.
The Philippines	• Corporate Income tax has been reduced from 30% to 25% for large corporations and to 20% for small and medium sized enterprises.
Lao PDR	• State services are being overhauled (for example, postal services). • The government plans to invest in new infrastructure projects and in the creation of a special economic zone.
Myanmar (under a two-year state of emergency)	• A new investment law is currently being drafted. • Many new special economic zones are being established, especially near Yangon and in Mon State, an important economic area that borders Thailand.

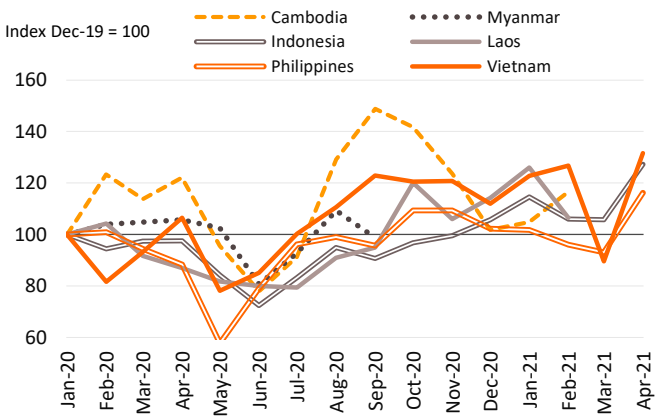
Source: News media, Krungsri Research

- **Although exports from most CLMVIP countries fell substantially in 2020, the situation will tend to rebound on a strengthening of global demand and the positive impact of FTAs, with Vietnam, Indonesia and Cambodia performing best.**

At the start of the global pandemic in March and April 2020, export growth of the CLMVIP countries slowed down or posted different levels of contraction due to the extent of supply chain disruption that each country experienced. Following this initial period, exports were then hit by the various measures implemented in country's worldwide as the pandemic spread.

It is noteworthy that **Vietnamese exports were not only much more mildly affected by the 2020 crisis than were those of the other CLMVIP countries but these also returned to growth much quicker, this in fact happening as early as May 2020**. Because of this, Vietnam's export sector enjoyed growth of 7.0% for the year as a whole, with standout segments including computers and computer parts, for which exports were up 24.4% from a year earlier, machinery and components (9.6% of exports), which jumped 47.9%, and wood and wood products (4.4% of exports), which saw growth of 15.3%. Exports from **Indonesia and Cambodia** also returned to growth, though not until the last quarter of the year. In the case of **Indonesia**, rising commodity prices have lifted the export sector, while for Cambodia, recovery in the main export markets of the US and China has translated into a turnaround in the export sector as a whole.

Figure 11: Exports from the CLMVIP Countries



Source: CEIC, Krungsri Research

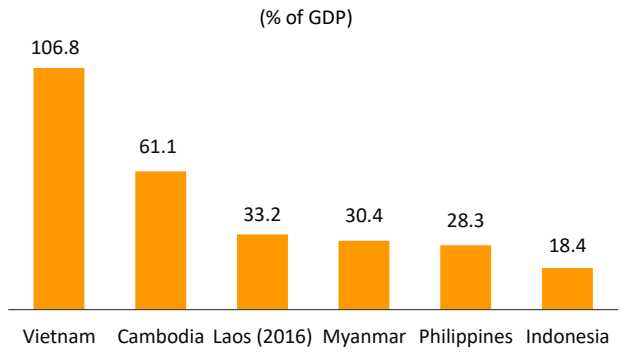
Across the CLMVIP region, exports will slowly recover through 2021, helped by the following.

I. **Recovery in world trade and the global economy:** The IMF sees the global economy growing by 6.0% in 2021), while, the WTO predicts an 8% expansion in world trade this year from a 5.3% contraction in 2020. Exporters in many countries in the region will also benefit from strong growth in their major export markets with the US and Chinese economies expected to enjoy growth of respectively 6.4% and 8.4% in 2021.

II. **Regionalization:** Trends towards regionalization have been sped up by the agreement of a number of large, comprehensive free trade agreements (FTAs), most notably the RCEP agreement, which at present covers 15 countries that collectively control a third of global GDP. The agreement lays out mechanisms that guarantee free trade in a wide range of areas and through this, benefit both manufacturers and consumers in the signatory nations, most notably by reducing import duties on up to 99% of goods. Because this will then cut the cost manufacturers have to pay for raw materials and other goods, the agreement will help to boost regional trade and investment and reduce friction in manufacturing supply chains. Of the CLMVIP countries, Vietnam has agreed the greatest number of free trade agreements with the widest range of partners, and this will help the country establish a central role for itself linking manufacturing supply chains that run between nations with which it has FTAs.

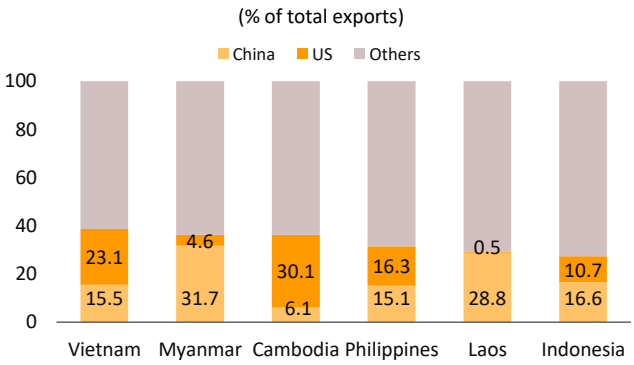
III. **Competitive advantages (i.e., taxation and labor costs) and diversity in export goods and markets:** Vietnam is again the winner here thanks to its extensive portfolio of FTAs and its diversified manufacturing sector. Vietnam is followed in order by Indonesia and Cambodia.

Figure 12: Export Value to GDP for the CLMVIP Countries, 2019



Source: World Bank, CEIC, Krungsri Research

Figure 13: Proportion of Exports from the CLMVIP Countries Bound for the US and China, 2019



Source: World Bank, CEIC, Krungsri Research

Among the CLMVIP countries, **Vietnam, Indonesia and Cambodia will see their export sectors grow significantly**. Of these three, **Vietnam** will likely prove to be the strongest and most impressive thanks to recovery in its main export markets of the United States and China, the varied range of product groups that it manufactures and the appeal of these to the market (especially electronic products, which have benefited from the surge in working from home), its competitive advantages and low labor costs, and the free-trade agreements that it has signed with more than 50 other countries. **Indonesian** exports are benefitting from the strengthening price of commodities and rising demand in China, the country's main export target. **For Cambodia,** the successful conclusion of bilateral trade agreements with China and Korea will help to lift exports, while for **the Philippines**, recovery in its main export markets (again, China and the US, which together soak up more than 30% of all the country's exports) and stronger demand for some product groups (around half of all exports are of electronics) will help to support a better outlook for the export sector, but the country is saddled with a lack of competitiveness on world markets, especially with regard to labor costs since these are higher than those of its competitors, especially of Vietnam's. Unlike other countries in the region, the Philippine economy is also coming under pressure from the strengthening of the peso against the US dollar. The outlook is less positive for **Lao PDR**, where the export sector may encounter difficulties given its structural weaknesses with regard to both markets and products, and although the weakness of the kip will make exports more attractive, exporters are highly reliant on the Thai market (around half of all exports are to Thailand) and at present, demand from this is weak. Given this, the outlook for recovery in Lao exports remains uncertain. For **Myanmar**, the situation looks unpromising, and exports are expected to continue the slide that was precipitated by the military coup and the declaration of an extended state of emergency. As a result of this, much economic activity has slowed or halted, and many countries have imposed travel bans on military leaders, seriously undermining confidence in the economy. At present, there is no sign of a turnaround in this situation.

- **Private consumption remains fragile in the region and recovery will vary from one country to the next depending on the extent of government stimulus measures, progress on vaccination programs, and growth in exports and investment. Once again, Vietnam is likely to outperform the other countries in the region.**

The measures put in place to control the spread of Covid-19 did so at the expense of also slowing much economic activity, especially in the manufacturing and service sectors, parts of which had to temporarily shutter operations. **This then drove up unemployment in many countries, most notably in the Philippines and Indonesia, where it hit historic highs**. **However, in the second half of 2020, labor markets began to improve** (Figure 14) **and this then helped to stimulate stronger consumption, responsible for an average of 55.2% of GDP in the CLMVIP nations**. **Vietnam enjoyed the quickest and clearest recovery from this situation,** with this reflected in figures for retail sales (Figure 15) that returned to growth in May 2020**,** just 1 month after the ending of the country's lockdown, and from this point, they have continued on an upward trend. In Indonesia and the Philippines, retail sales underwent a much sharper contraction, although the worst of the decline is now behind them and with the ending of lockdowns, these appear to be on the path to recovery.

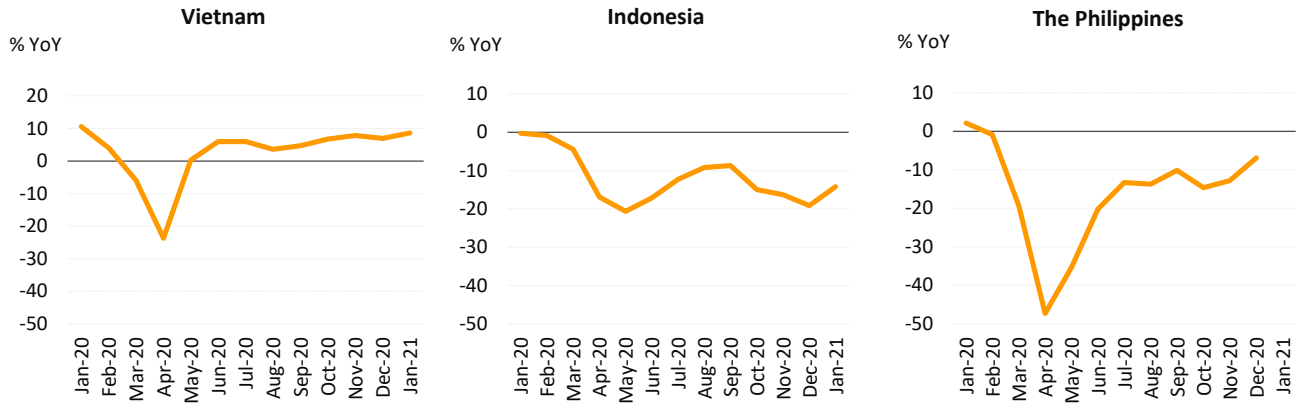
Looking forward, consumption in the CLMVIP countries should begin to recover in 2021, though the speed and extent of this will vary by country. Vietnam will be quickest to rebound and domestic consumption expenditures are expected to return to its pre-pandemic level during the second half of 2021. This rapid recovery will be helped by: (i) government stimulus measures that will run through 2021 and that have the explicit goal of lifting domestic consumption; (ii) the relaxation of lockdowns and other measures aimed at stopping the spread of Covid-19 together with expected progress on the national rollout of vaccinations; and (iii) recovery in the labor market that will be helped by stronger exports and investment. **As regards the rest of the CLMVIP zone**, **any rise in consumption will likely be slower than in Vietnam,** given the need to extend pandemic-control measures into mid-2021 and the effects of this on many business activities. In addition, countries are being affected by delays in spending funds allocated for government stimulus packages and uncertainty over how vaccination programs will unfold. These factors are conspiring to hold back economic recovery, and as of the start of 2021, unemployment levels had eased only slightly; at 6.3% in Indonesia and 8.7% in the Philippines in February 2021, this was still higher than it had been for almost a decade. Because lockdowns have been enforced through to the middle of the second quarter of the year, unemployment is likely to remain elevated through to at least the third quarter and this will weigh on domestic consumption for the whole of 2021.

Figure 14: Unemployment Rates



Source: CEIC, Krungsri Research

Figure 15: Growth in Retail Sales (Left axis: YoY % change; right axis: Index)



Source: CEIC, Krungsri Research

- **Tourism: Recovery in foreign tourism will happen only slowly, though Vietnam is best placed to reopen to foreign arrivals and will likely also benefit the most from recovery in its domestic tourism segment.**

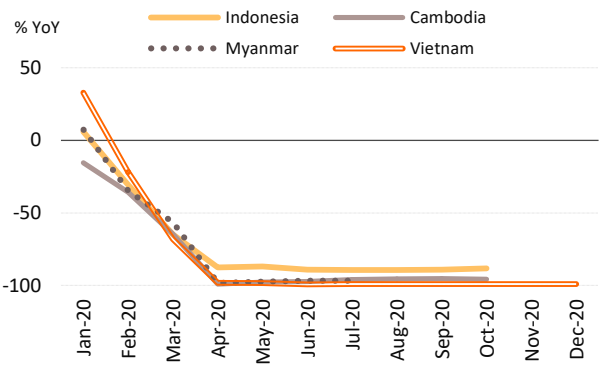
At the start of the Covid-19 pandemic, tourist arrivals to the region were hit by the double blow of a shutdown in international travel and then within individual countries, the implementation of social distancing measures and controls on movement. Within the CLMVIP countries, the contribution of tourism to national income varies widely. the contribution of tourism to national income varies widely. This is highest in Cambodia, where 18.2% of GDP comes from tourism, followed in order by Vietnam (12.5% of GDP), Lad PDR (5.0%), and Indonesia (1.6%), though in all these countries, **from April 2020 onwards, the number of tourist arrivals collapsed almost 100%** (Figure 16).

Krungsri Research believes that within the CLMVIP zone, the rate of recovery in a country's tourism sector will largely be determined by two factors: (i) how effectively the country controls the spread of Covid-19 and how high the daily caseload goes, and (ii) how quickly national vaccination programs are rolled out and how rapidly the population reaches herd immunity. Of the six countries being considered, **Vietnam** can be expected to reopen to international tourists before the others since it has been broadly successful in suppressing the domestic transmission of Covid-19 and the number of new cases is being kept impressively low. In addition, the country has made good progress on securing vaccines for its population, and officials hope to have administered vaccinations to 70% of the population by the end of 2021 (the country will be supplied with additional doses each quarter), which will then both increase tourists' confidence in the country and push it close to achieving herd immunity. **Indonesia** also has ambitious plans for its national vaccination program, and the country hopes to vaccinate 79% of the population by the end of the first quarter of 2022. To this end, the country is trying to explore

as many ways as possible of getting the population jabbed, including setting up drive through vaccination centers and allowing companies to buy vaccines and administer these to staff themselves (Indonesia was the first country in the world to permit this). However, delays in acquiring vaccines and the country's severe outbreak of Covid-19 will count against Indonesia's tourism sector, and this will delay its reopening.

Some of the CLMVIP countries have put in place ambitious plans for the reopening of their tourism sectors from 3Q21 onwards. **These include Indonesia, which hopes to restart tourism in Bali in June to July this year**, **Vietnam, which plans to reopen to international arrivals in July, and Cambodia, which expects to start welcoming foreign tourists to the major tourist sites of Phnom Penh, Kandal and Sihanoukville in the last quarter of the year, and given current plans for mass vaccinations, this should be achievable.** These moves will be supported by two developments. (i) The plan for vaccine passports will help countries assure themselves that by reopening only to foreign arrivals who have been vaccinated, they will not be exposing themselves to an excessive risk of new waves of Covid-19 reemerging. (ii) Some countries are considering reopening within 'travel bubbles' that permit travel only between countries that have made a prior agreement to allow this. At present, all countries in the region have in fact suspended their plans for travel bubbles (Table 6), but the idea behind these is that travelers would be admitted from countries that have been successful in suppressing the spread of Covid-19 and so now have only low caseloads, although these also impose quarantines of at least 5-14 days.

Figure 16: Growth in Foreign Arrivals in the CLMVIP Countries*



Note: * Monthly data for Cambodia, Laos, Philippines are not available
Source: CEIC, Krungsri Research

Table 6: Plans for Travel Bubbles in the CLMVIP Countries (at present, these plans are all on hold)

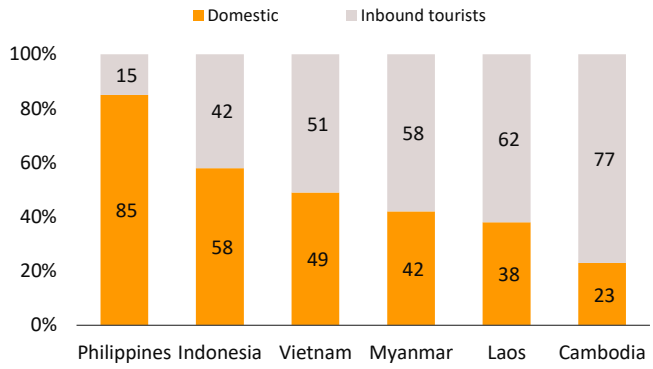
Country	Possible partners in a travel bubble (correct as of March 2021)
Vietnam	China, South Korea, Japan, Taiwan, Singapore, Lao PDR, Cambodia and Thailand
Indonesia	• Creation of a 'green lane' for arrivals from Singapore • China, South Korea, Japan and Australia (Currently suspended due to the latest wave of infections)
Cambodia	China, Vietnam and Lao PDR
Lao PDR	China, Cambodia and Vietnam
The Philippines and Myanmar	No plans for a travel bubble

Source: News media, Krungsri Research

In addition to the international market, domestic tourism plays an important role in the tourism sectors of the CLMVIP nations, and although the figure varies substantially across the six countries, in most, domestic travel accounts for at least 40% of all receipts from tourism (Figure 17), though **Vietnam will benefit most noticeably from recovery in its domestic tourism segment**. (i) Vietnam has been able to rapidly suspend lockdowns, and although the country has had to endure repeat waves of infection, in each case, authorities have been quick to react and as such, outbreaks have been suppressed within a month and lockdowns have quickly been lifted. Because of this, the population is able to travel without restrictions and spending on domestic tourism is rising. (ii) purchasing power is strengthening, while unemployment is relatively low and from the second half of 2020, this has been returning to normal levels. At present, this stands at just 2.2%, similar to its pre-pandemic level**. Other countries may also receive a positive impact from domestic tourism, but the extent of this will be more limited**. In Cambodia and Lao PDR, although case numbers are low and the government has been attempting to stimulate the domestic tourism segment since mid-2020, much of the population works in tourism and garment production where recovery has been slow and so spending power remains weak and fragile. In Indonesia and the Philippines, the situation is somewhat different since these two countries have had to endure extensive outbreaks of Covid-19 that then necessitated the imposition of strict disease control measures by the government and because of this, domestic travel and tourism has been heavily affected. In the case of Myanmar, the outlook for domestic tourism is somewhat bleak following the military coup earlier this year and the imposition of a lengthy state of emergency by the armed forces. In response, many countries have imposed travel bans on Myanmar's military leaders, seriously damaging confidence among investors and foreigners and raising fears over the safety of travel in the country.

Figure 17: Receipts from Domestic and International Tourism in the CLMVIP* Countries

(Percentage of all income from tourism in each country)



Source: World Travel and Tourism Council, Krungsri Research

In conclusion, recovery in the CLMVIP region will be led by Vietnam, Indonesia and Cambodia.

With the notable exception of Vietnam, the economies of the CLMVIP countries were badly affected by the outbreak of Covid-19 in 2020. Krungsri Research forecasts that these six countries should see growth reach 4-7% in 2021, a higher rate of growth than emerging markets in other regions. Vietnam will lead the pack, followed by Indonesia and Cambodia. A summary of the factors supporting growth in each of these countries is given below.

- **Vietnam will benefit from growth in its economy that should outpace that of the rest of the CLMVIP countries** thanks to four main factors. (i) Despite seeing several waves of infection, Vietnam has generally been very successful in managing outbreaks of Covid-19 and because of this, domestic spending and economic activity has continued to grow through most of the period of the pandemic. (ii) The government has been diligent about pushing through its public investment, especially public infrastructure projects. These will not only have a direct impact on levels of domestic employment but will also have indirect effects in terms of speeding up economic reforms and making government investment more efficient. This will then help to induce crowding-in effects and foreign investments. (iii) Increasing diversity in Vietnam's manufacturing industries is helping to make the export sector more flexible and it is attracting greater inflows of foreign capital as overseas investors look to participate in Vietnamese supply chains. (iv) As discussed earlier, Vietnam has agreed free-trade agreements with a large number of other countries and this is now helping to build competitiveness within the export sector. For investors, these FTAs are also increasing the attractiveness of industries that have been opened up to greater levels of competition with Vietnam's trade partners. Globally, the most important of the free-trade agreements include the European Union-Vietnam Free Trade Agreement (the EVFTA, enforced from August 2020) and the United Kingdom-Vietnam Free Trade Agreement (the UKVFTA, in effect from the end of December 2020), while the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (the CPTPP, with effect from January 2019) and the Regional Comprehensive Economic Partnership (RCEP, to be concluded within the next 1-2 years) will help to support growth in trade and investment between Vietnam and the rest of the CLMVIP countries.

- **Indonesia is expected to see the second fastest rebound in the region after Vietnam**. The Indonesian economy will benefit from the government's vigorous efforts to source and administer vaccines (Indonesia was the first country in the ASEAN zone to begin vaccinations), its plans to begin reopening to international tourism in July 2021 and for the population to achieve herd immunity during the first quarter of 2022, and the clear policy for state support of economic recovery. The latter includes keeping monetary and fiscal policy relaxed for the foreseeable future, heavy investment in the building of new infrastructure, and reform of the laws governing investment. More broadly, the country will likely benefit from recovery in its main trading partners' overseas markets of China and the United States and the stimulus effect that this will have on the Indonesian export sector. Nevertheless, the country is still affected by outbreaks of Covid-19 and the strict measures that are being kept in place to counter this in many areas will weigh on recovery, and although domestic consumption will improve, it will struggle against these headwinds.

- **Cambodia sits third in the rankings of predicted rates of recovery.** Exports will benefit from growth in key trading partners, especially in the US and China, which are forecast to see rapid expansion this year. The Cambodian government has also been moving forward with spending on infrastructure megaprojects, including the construction of a new international airport in Phnom Penh, and this will support higher levels of employment and economic activity. The economy will be further boosted by the signing of a free-trade agreement with China and, assuming all goes according to plan, the conclusion later in the year of another new free-trade agreement with South Korea, which should then help to improve the outlook for international trade and investment. On the downside, though, recovery is likely to be slower than expected, given the recent emergence of a new wave of infections and the rapid rise in new cases of Covid-19 that this is causing. This will then drag on recovery in tourism and garment manufacturing, which together account for a full 20% of GDP. At present, the Cambodian government plans to counter this by concentrating its efforts at mass vaccinations in the major tourist areas (e.g., Phnom Penh, Kandal and Sihanoukville) and if this is successful, it will go some way towards helping to trigger recovery in tourism in these locations.
- **The Philippines will see a slower recovery than either Indonesia or Vietnam** despite the impact of a stimulus package worth 4% of GDP and a gradually improving outlook for the country's export sector, especially for electronics goods and parts (with an almost 50% share of all exports, this is the Philippine's most important export industry). However, recovery will remain disappointing due to the only slow disbursement of government stimulus funds and the fact that the country has the second highest total of Covid-19 infections in the ASEAN region. Indeed, the country is currently enduring a severe second wave of infections that increased the daily caseload ten-fold in the four months between January and April this year. Because of this, officials will have to keep strict health measures in place through the second quarter of the year and this will then drag heavily on domestic consumption expenditures, which contributes 73% of national GDP.
- **Lao PDR will continue to be troubled by economic instability and structural problems** that have robbed the country of the ability to inject significant new liquidity into the economy and left recovery weak and fragile. In addition, any improvement in the export sector is likely to be a drawn-out affair since this is heavily dependent on the Thai market, but the latter has been struggling against new waves of infection since the first half of 2021 and this is weakening demand for goods from Lao exporters. The ability of the country to attract new FDI inflows is also limited by the narrow range of investment targets (mostly related to power generation and infrastructure), and the combination of weakness in exports, tourism and investment inflows will mean that foreign currency reserves may come under threat.
- **Myanmar has been plunged into profound political uncertainty** since military leaders seized power and declared a state of emergency that will last for at least the next two years. This has severely delayed the prospects for recovery, and following the decision by many countries to impose sanctions on Myanmar's leaders, confidence has crashed further among investors and trade partners. As such, investment and exports will slide through 2021 and if the current situation extends into the future, there is a significant risk that the country's economic development will be stagnant.

Overall, the majority of the six CLMVIP countries will see recovery from the Covid-19 crisis thanks to similar underlying factors: (i) the effect on domestic economies of favorable fiscal and monetary policy, especially of additional spending on the construction of national infrastructure; (ii) cyclical recovery in the world economy that will lift exports from the CLMVIP countries, though particularly important will be a strong rebound in the major export targets of the US and China; and (iii) the trend to greater regionalization, which has been accelerated by the signing of free-trade agreements, most notably the RCEP. The latter covers the 15 Asian countries and as it comes into effect, it will help to strengthen manufacturing supply chains that straddle and connect the region. The net effect of these factors will thus be to speed up regional economic growth, although each country will still have to navigate its own path and clear its own obstacles as it travels towards recovery.

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