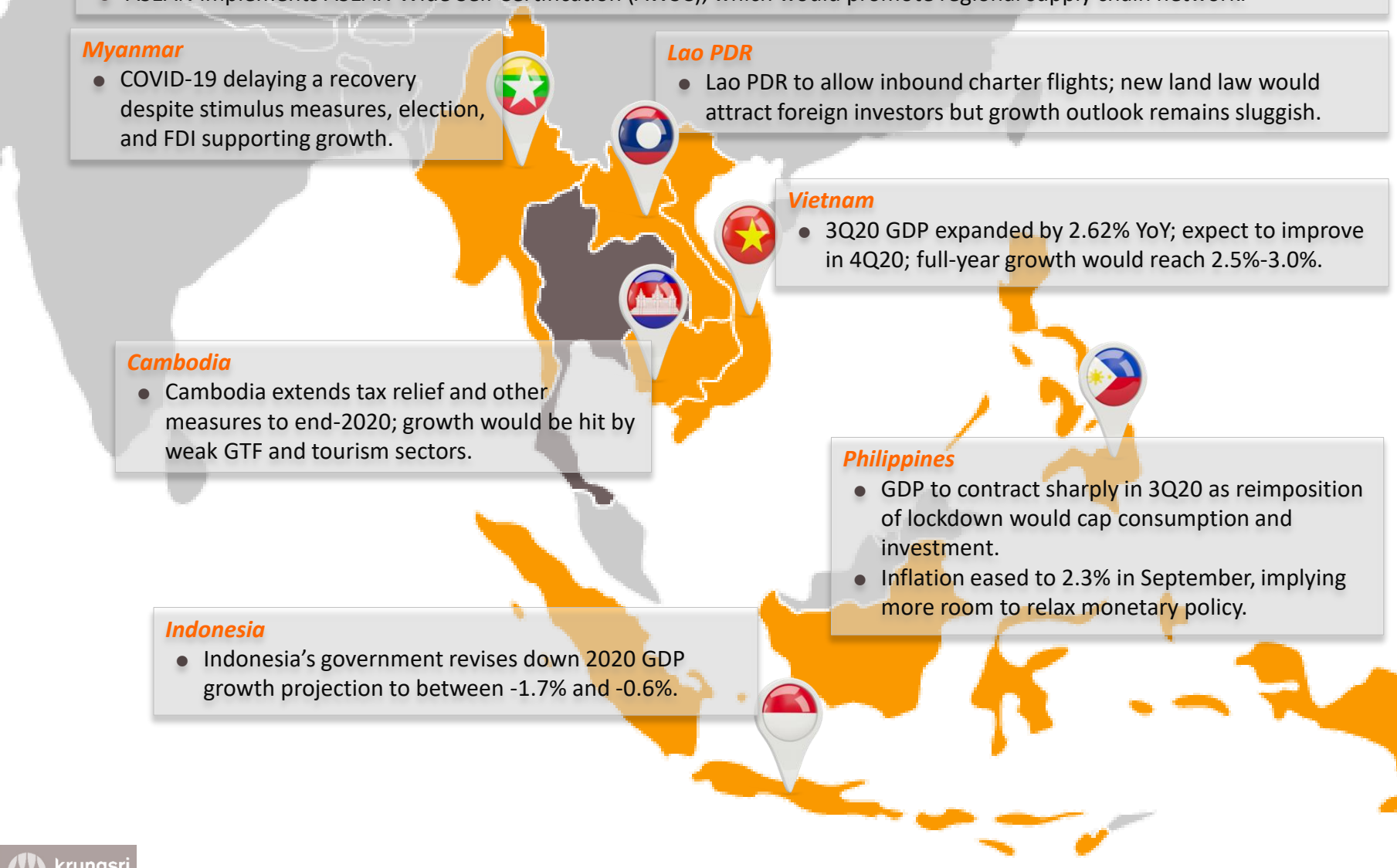
Regional Economic and Policy Developments in October



ASEAN

- ASEAN economy would contract more-than-expected as extended COVID-19 impact will derail regional recovery.
- ASEAN implements ASEAN Wide Self Certification (AWSC), which would promote regional supply chain network.

Myanmar

- COVID-19 delaying a recovery despite stimulus measures, election, and FDI supporting growth.

Lao PDR

- Lao PDR to allow inbound charter flights; new land law would attract foreign investors but growth outlook remains sluggish.

Vietnam

- 3Q20 GDP expanded by 2.62% YoY; expect to improve in 4Q20; full-year growth would reach 2.5%-3.0%.

Cambodia

- Cambodia extends tax relief and other measures to end-2020; growth would be hit by weak GTF and tourism sectors.

Philippines

- GDP to contract sharply in 3Q20 as reimposition of lockdown would cap consumption and investment.
- Inflation eased to 2.3% in September, implying more room to relax monetary policy.

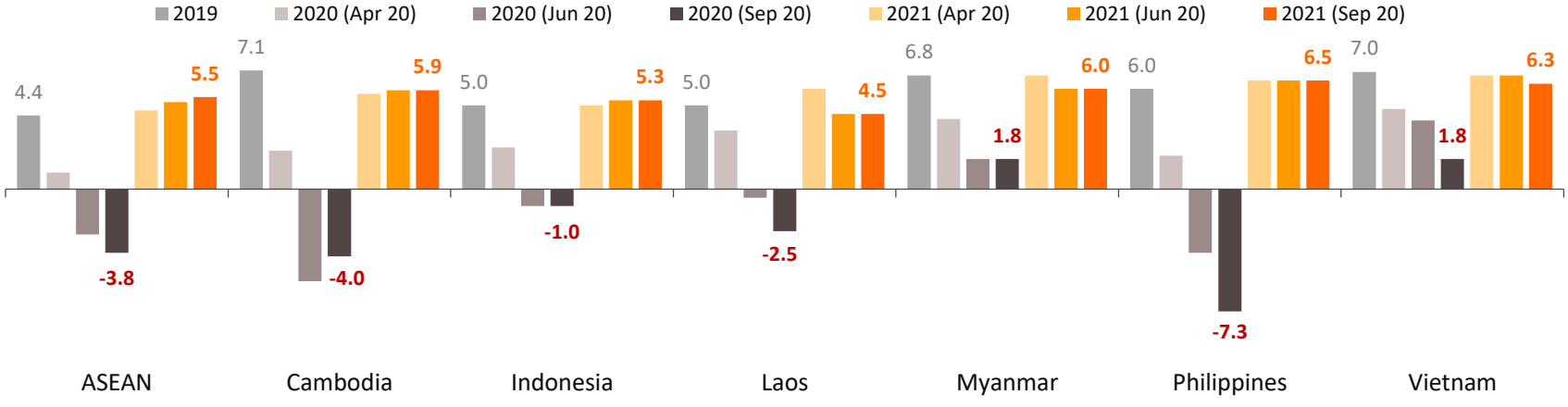
Indonesia

- Indonesia's government revises down 2020 GDP growth projection to between -1.7% and -0.6%.

ASEAN economy would contract more-than-expected as extended COVID-19 impact will derail regional recovery

- According to the *Asian Development Outlook* (September 2020), **the Asian Development Bank (ADB) revised down economic growth projection for ASEAN in 2020 to -3.8% from -2.7%. The Philippines** would see a deeper contraction of -7.3% (from -3.8%). **Laos** is projected to register -2.5% growth (from -0.5%). **Vietnam**'s growth has been revised down but remains in positive territory at +1.8% (from +4.1%). On a positive note, the ADB projects **Vietnam and Myanmar would grow at the same pace as China this year.**
- **The major downside risk remains the extended COVID-19 impact worldwide and in the region, which could derail regional economic recovery.** COVID-19 cases continue to surge in the region, especially in Indonesia, the Philippines, and Myanmar. These could lead to another lockdown (possibly partial) in those countries. Consequently, consumption expenditure – the major growth driver for most of ASEAN countries, at about 60% of GDP on average – would remain subdued in the coming months. In addition, given still-weak external demand and limited cross-country transportation, recovery in the export and tourism sectors would be delayed.
- **However, we anticipate economies with strong fundamentals will continue to register positive growth.** For example, **Vietnam** has diversified exports, from IT products supported by several supply chain clusters in the country, to agricultural products as the government continues to develop the agriculture and agro-processing sector. The country's export growth increased by 4.1% YoY in the first nine months of 2020 led by computers & parts – its top export product at up to 18% of total exports – because of work from home trend. Agricultural products – including rice and fishery products – also benefited from the recently-enforced EVFTA. **Myanmar** will also benefit from economic reforms which will continue to draw FDI inflows.
- **In contrast, economies with weak economic fundamentals will struggle with the extended COVID-19 impact. Philippines** relies a lot on remittances from overseas which account for up to c.12% of its GDP. The lockdowns worldwide have led to significant job losses, which would reduce remittance inflows. **Laos** has limited revenue sources, mainly from electricity exports and tourism, and is dependent on demand from Thailand and China. It also has high external and public debts, which means the government has limited ability to stimulate growth. Given still-sluggish demand in Thailand and the tourism sector at a standstill amid surging new COVID-19 cases worldwide, Laos' economic growth would fall into negative territory.

ASEAN: ADB's economic growth projection for 2019-2021 (%YoY)



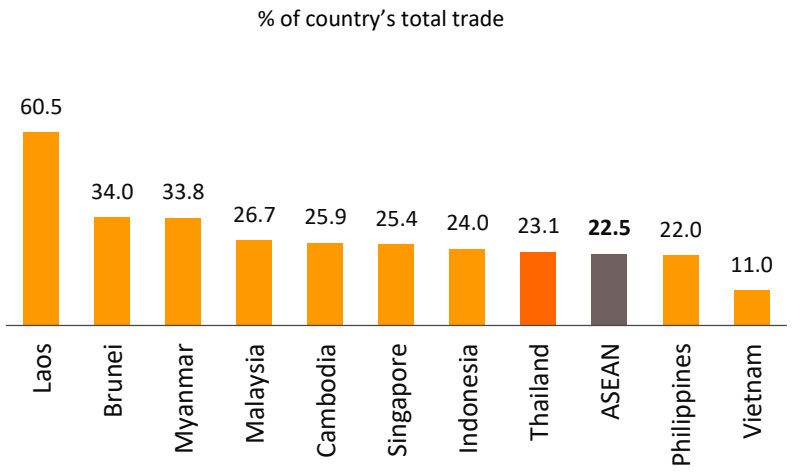
Source: ADB Outlook 2020 Update (April, June, September 2020), CEIC, Krungsri Research

ASEAN implements ASEAN Wide Self Certification (AWSC) to promote regional supply chain network

Origin Certification Procedure (OCP) under AFTA*

Country	Pre-export verification (examination of origin)	Issuance of Certification of Origin (CO)
Cambodia	• Within 7 working days	• 10 hours, 55 mins
Indonesia	• 15 working days for first time users; 1 working day for exporters in database	• Within 1 day
Laos	• 3-7 days	• 3 days
Malaysia	• 7 working days	• 1 working day
Philippines	• Within 5 working days	• Within same day
Singapore	• Step 1: Factory registration – 1 week • Step 2: Manufacturing cost statement - at least 7 days before exportation	• 2-3 working hours
Thailand	• 3 working days	• Within 1 day; 4 hours for Electronic Data Interchange (EDI) systems
Vietnam	Within 5 working days	

Intra-ASEAN trade by country



Krungsri Research's view

- ***The ASEAN-wide Self Certification (AWSC)* regime took effect on 20 September 2020**. The AWSC allows certified exporters to conduct self-certification of the origin of goods for their own products to enjoy preferential trade treatment under the ASEAN Trade in Goods Agreement (ATIGA).
- **The AWSC could be part of efforts to improve convenience and export competitiveness among ASEAN members.** To get FTA privileges, exporters have to secure a Certificate of Origin (CO) to declare their products meet the minimum 40% regional value content (RVC, based on total product value). Data from Economic Research Institute for ASEAN and East Asia (ERIA) shows that the current process to acquire the CO in each country takes 3 to 15 working days and requires applicants to submit hard copies of documents. **Registered exporters under the scheme can certify the origin of their products by themselves and submit electronic documents between member countries. This will help (i) reduce cost (fees) and time to get a certification, (ii) reduce costs of having to submit hard copies, (iii) easily submit e-documents through the system, and (iv) shorten the declaration and clearance process at ports/customs.**
- **We also expect the improved export procedure to help promote trade within the region, where intra-ASEAN trade accounts for 22.3% of total trade. This would help to strengthen the intra-regional supply chain network.**

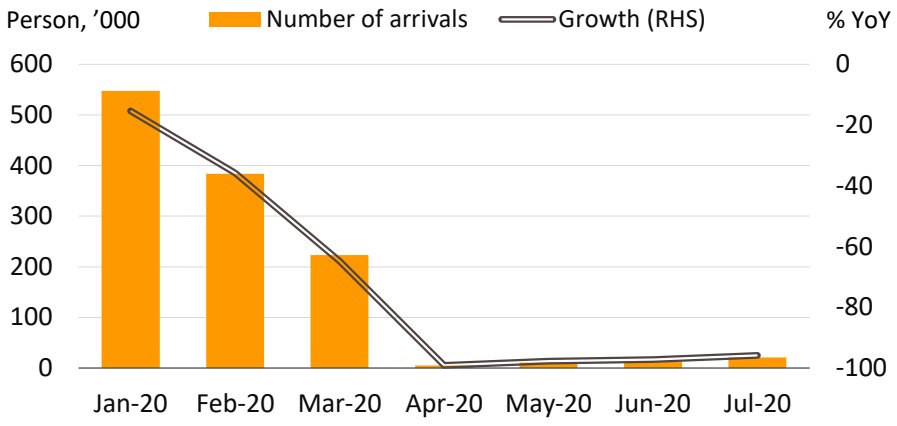
Note: *data from Economic Research Institute for ASEAN and East Asia (ERIA).
Source: asean.org, ERIA, CEIC, Krungsri Research

Cambodia extends tax relief and other measures to end-2020; growth would be dragged by GTF and tourism sectors

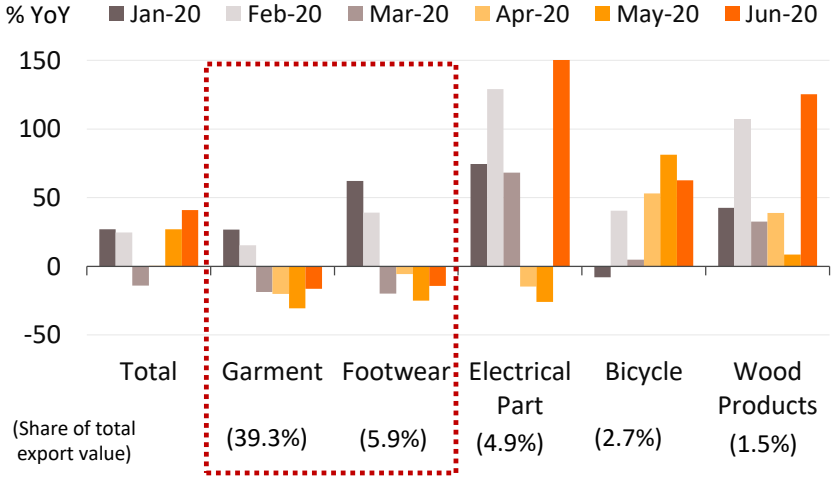
Cambodia: Key relief measures

Measures	Targeted sectors
• Paying USD40 per month for a worker until end-2020	• Garment, textile and footwear • Tourism
• An exemption from monthly taxes	• Tourism • Registered hotels • Guest houses • Restaurants • Tour agencies
• The postponement of social security payment obligations on the pension system	• Garment, textile and footwear • Tourism
• Applying the minimum tax to all airline entities operating in Cambodia	• Aviation

Cambodia: Foreign tourist arrivals



Cambodia: Major export products



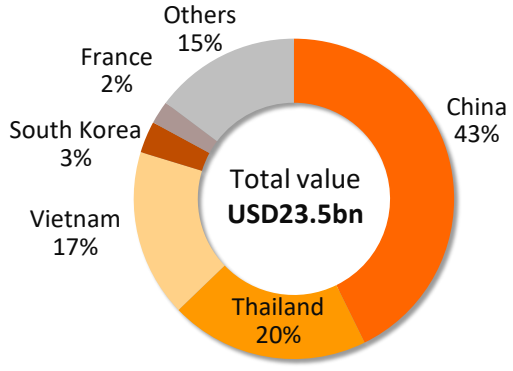
Source: National Bank of Cambodia, Ministry of tourism, CEIC, local news media, Krungsri Research

Krungsri Research's view

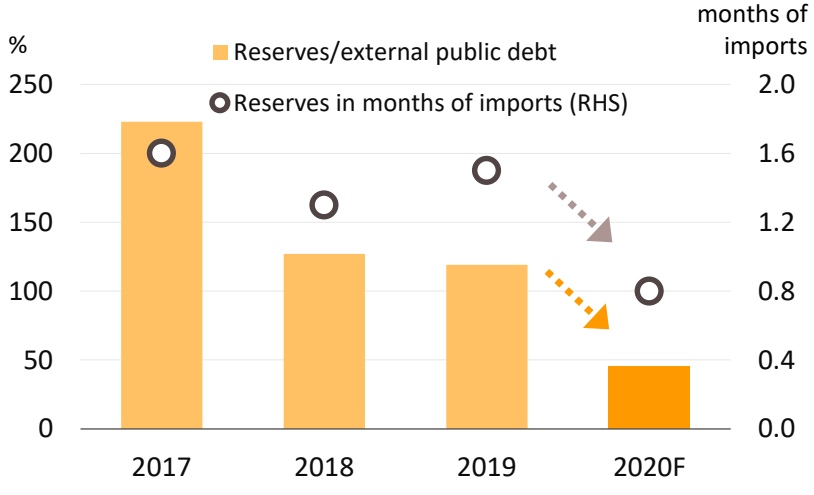
- **Cambodia's government has extended support measures for businesses affected by the COVID-19 pandemic, including the garment, textile, and footwear (GTF), tourism and aviation sectors, to end-2020.** (see table)
- The GTF and tourism sectors are major drivers of Cambodia's economy. They employ c.25% of its labor force and contribute 30% of GDP. We anticipate the extended relief measures would reduce the burden on workers and businesses during this crisis. However, **the measures would be insufficient to spur growth in consumption and investment.**
- **Looking ahead, we anticipate the GTF and tourism sectors to remain weak** because (i) they are not essential products & services; (ii) the EU has withdrawn preferential treatment for some of Cambodia's GTF goods under the Everything But Arms (EBA) scheme; and (iii) **Cambodia has continued to increase minimum wage to USD192 per month, from current USD190, effective 1 January, 2021. Rising wages will not only dampen its export competitiveness, but also discourage new FDI inflows** because Cambodia will lose its appeal as a low-cost production base for labor-intensive industries.

Lao PDR to allow inbound charter flights; new land law to attract foreign investors but growth will remain sluggish

Laos: major sources of FDI (cumulative 1989-2019)



Laos' international reserves*



Source: World Bank, Ministry of Information, Culture and Tourism, MPI, CEIC, Krungsri Research

New Land Law: Key details

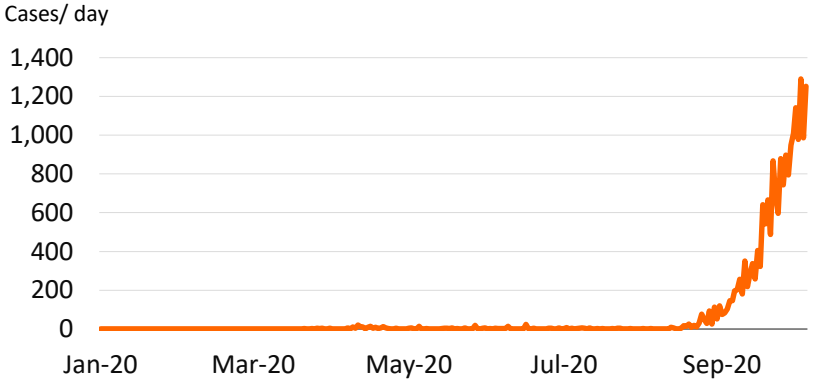
Issues	Details
• Ownership	• Foreigners are permitted to have limited ownership of land-use rights for state land.
• Purpose of land use rights	• Restricted to the development of condominiums, apartment buildings, or other residential or commercial complexes.
• Rights	• Foreigners will have legal right to transfer, mortgage, or bequeath rights to the land and the buildings on it. • They will have the right to sell or transfer ownership of individual units in a building to potential buyers (Lao citizens and foreigners).

Krungsri Research's view

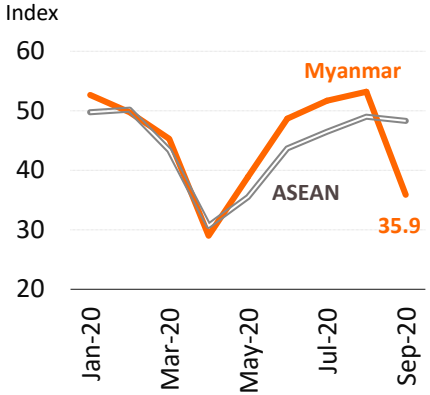
- **Laos government has extended its COVID-19 prevention measures to 31 October 2020. It also has agreed in-principle to allow group tours under charter flights from low-risk countries. The government recently introduced a new *Land Law,* effective in August 2020.** which would allow foreigners to have limited land-use rights for state land for up to 50 years (renewable). Under this law, foreign developers is no longer restricted to accessing land through concession and lease agreements. **We anticipate the charter flights plan and new land law would target Chinese tourists and investors; China is the top 3 source of foreign tourists and the largest investors in Laos, respectively.** China has large investments throughout the country, from the development of special economic zones to other infrastructure. The latest moves would increase China role in Laos' economy.
- However, in early September, **Fitch Ratings downgraded Laos to CCC, matching Moody's downgrade in mid-August. This reflects strong external liquidity pressure** as a result of the coronavirus shock and maturity of a large amount of sovereign debt. Laos has to repay USD500m the rest of 2020 and USD1.1bn per year over 2021-2024. In addition, **Laos' fiscal deficit is projected to deteriorate, which will increase the need to secure near-term financing. The fragile economic structure, vulnerability to external shocks, the rating downgrades, as well as the COVID-19 impact on Laos' economy, could increase default risk and worsen its economic prospects.**

Myanmar: COVID-19 to delay recovery despite support from stimulus measures, election, and FDI

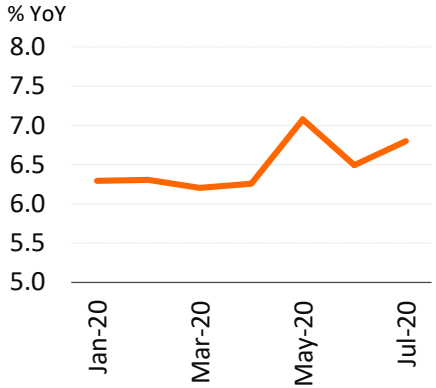
New COVID-19 cases in Myanmar



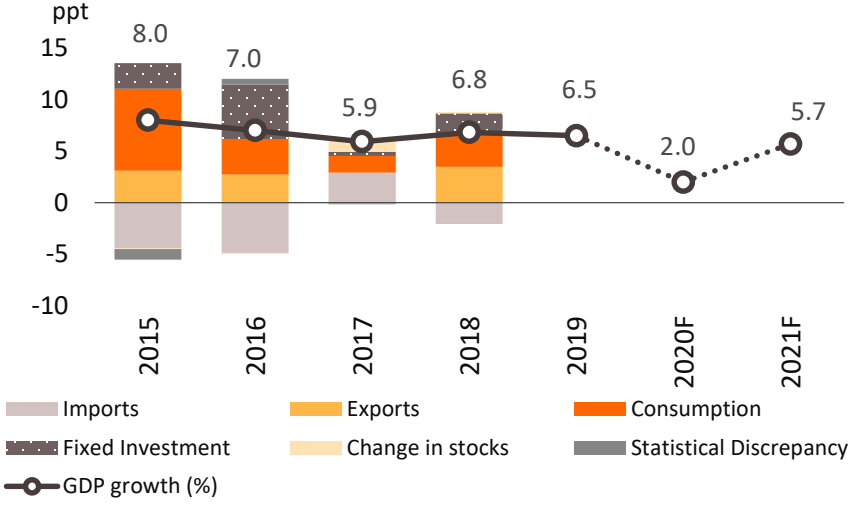
IHS Markit Manufacturing PMI: Myanmar and ASEAN



Myanmar: Growth of cumulative FDI



Myanmar: Contribution to real GDP growth (%)



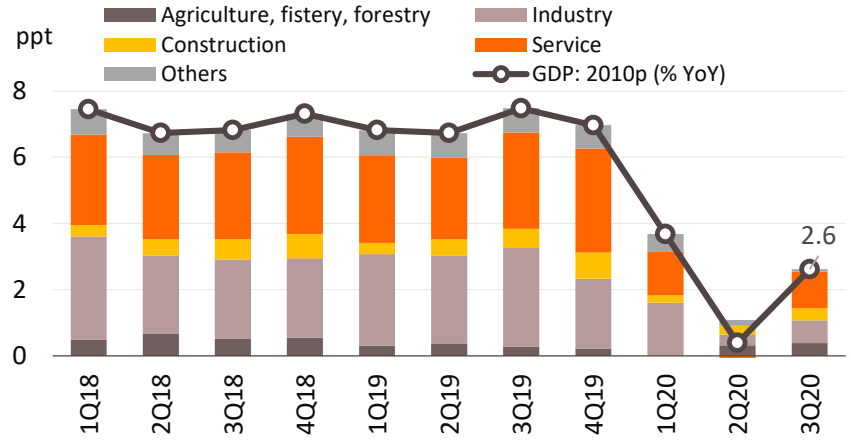
Note: *% share of cumulative Permitted Enterprise (PE): Approved Amount, data as of July 2020
Source: IMF, IHS Markit, Ministry of Planning and Finance, CEIC, Krungsri Research

Krungsri Research's view

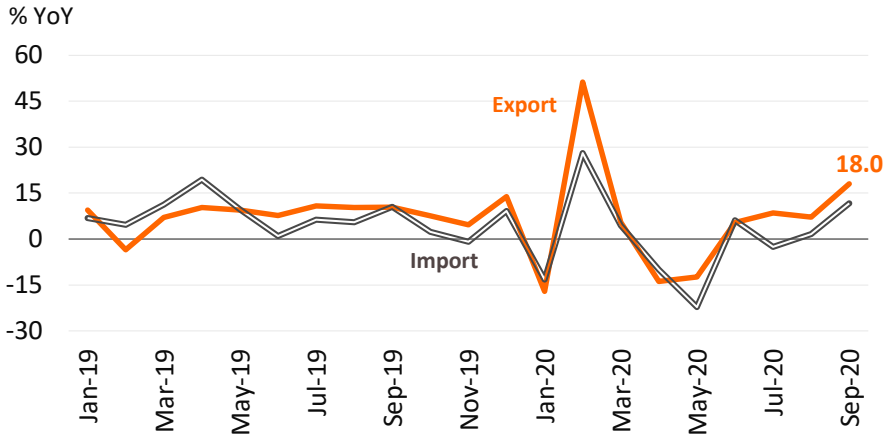
- **Myanmar has seen another round of COVID-19 outbreak. Total cases have reached 30,000 with daily new cases have accelerated** from 14 in August to 1,087 in the 1st week of October. Most of the cases are in Yangon city, the country's largest economic area which accounts for c.23% of total nominal GDP. Authorities have reimposed strict lockdown measures in the city which has stalled most economic activities.
- **The IHS Markit Manufacturing PMI for Myanmar has dropped sharply to 35.9 in September, the second-lowest on record,** after expanding for two consecutive months. This was because factories had temporarily closed in key regions and border trade was blocked. With production tumbling in September, backlog fell by the largest pace in three months and the 12-month outlook for production moderated to the lowest since April.
- **We expect a new outbreak to derail recovery in domestic consumption**, the largest GDP component at c.68% of Myanmar's GDP. **Growth would be weaker than expected but is projected to remain in positive territory. This would be supported by higher government spending** – including stimulus packages (c.2.9% of GDP) and pre-election spending (polls scheduled for 8 November 2020). **Rising FDI driven by economic reforms would also support growth**. The key FDI destinations have expanded from oil & gas and power (traditional sectors) to banking & financial services and information & communication industries. The latter sectors are attracting more FDI following reforms in banking and digital sectors to transition to a digital economy.

Vietnam's GDP expanded by 2.62% YoY in 3Q20, to improve in 4Q20; full-year growth would reach 2.5%-3.0%

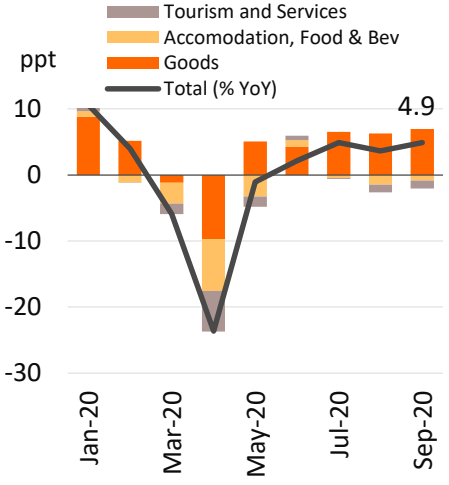
Vietnam: Contribution to GDP - Production side



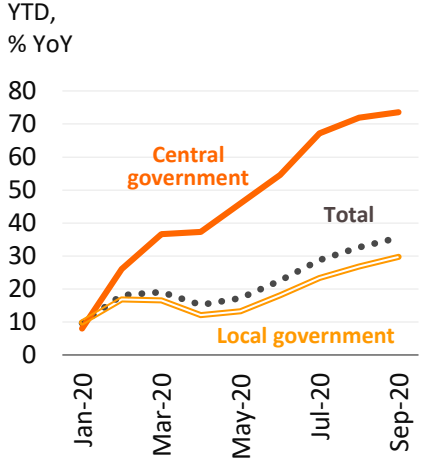
Vietnam's export and import growth



Vietnam retail sales: component contribution



Vietnam state investment



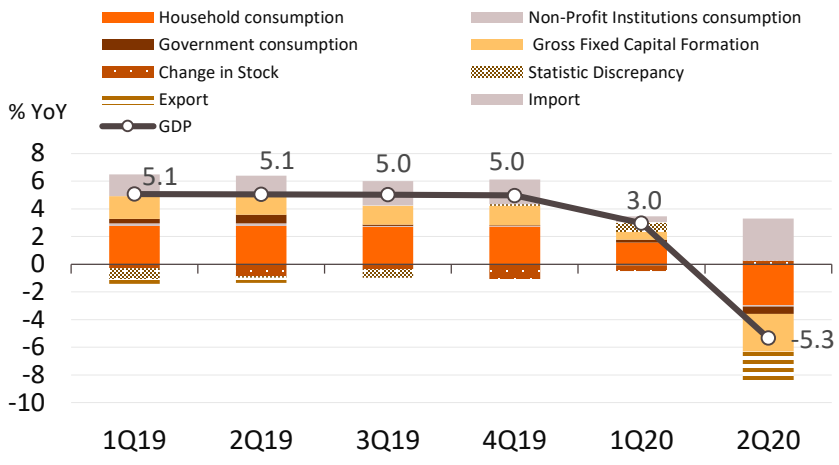
Source: GSO, CEIC, Krungsri Research

Krungsri Research's view

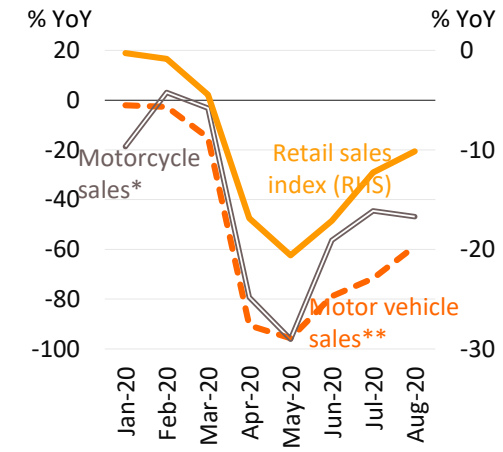
- **Vietnam's economy expanded by 2.6% YoY in 3Q20 led by strong growth in exports and state investment, as well as a recovery in domestic demand. In the first nine months of 2020, the economy grew 2.1%, the strongest among Asian countries.**
- Exports have performed well, surging 11.1% YoY in 3Q20, close to its 5-year annual average of 12.1%. This is supported by strong growth in major export products, led by computer (+26.8% YoY), machinery & equipment (+62.8%), wood & wooden products (+28.0%), and iron & steel (+67.6%). **Vietnam's export sector is supported by strong cost-competitiveness, development of supporting industries, and several FTAs including EVFTA and CPTPP. The significant recovery in the services sector is also a major contributor to economic expansion, led by a recovery in trade, retail sales, and accommodation services** despite another lockdown measures in the central region of the country. This reflects the continued recovery in consumption expenditure and domestic tourism. Accelerating state investment – especially spending by the central government – also supported growth.
- Looking ahead, **Vietnam's economy would continue to recover. We expect full-year growth to be 2.5%-3.0% this year.** This would be driven by anticipated positive growth in exports, an increase in government investment spending, and resilient domestic demand.

Indonesia's government slash 2020 GDP growth projection to between -1.7% and -0.6%

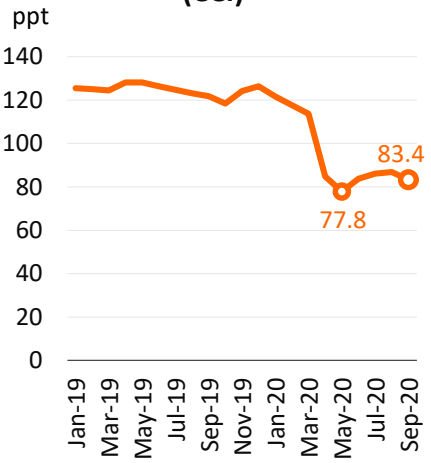
Indonesia: Contribution to GDP - Expenditure side



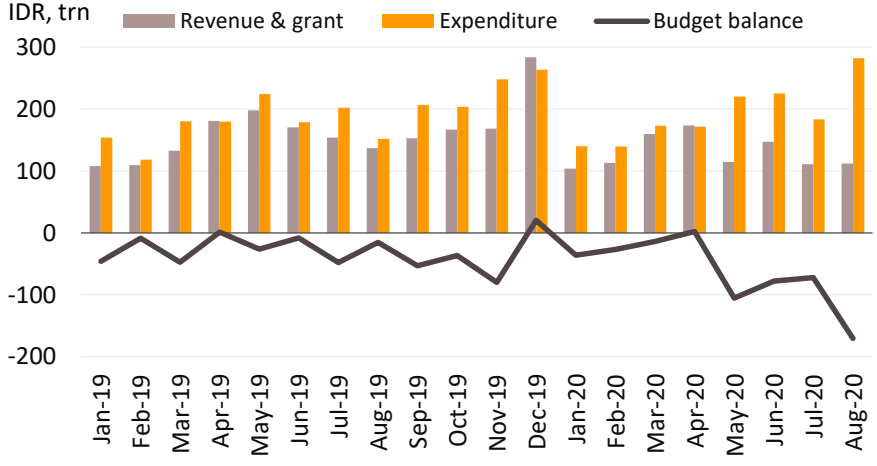
Indonesia's motor vehicle sales, motorcycle sales, and retail sales index



Consumer Confidence Index (CCI)



Indonesia's government balance



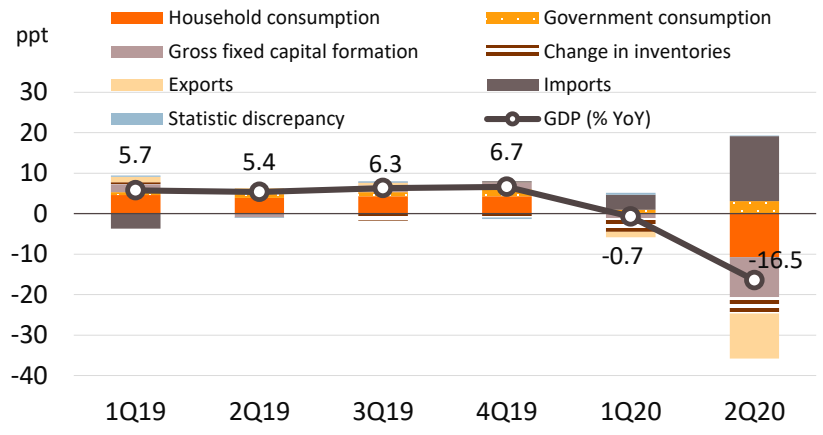
Note: * data from the Indonesian PT Astra International Tbk (PT Astra)
** data from the Association of Indonesian Automotive Manufacturers (Gaikindo)
Source: Bank Indonesia, Directorate General of Treasury, CEIC, Krungsri Research

Krungsri Research's view

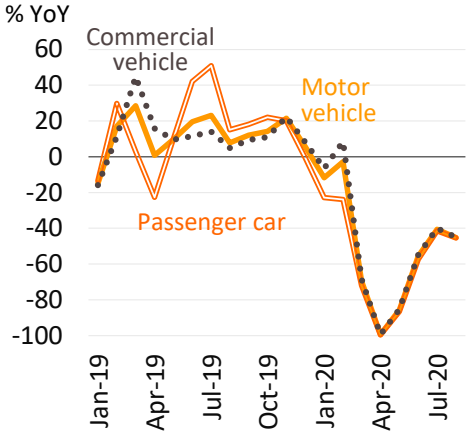
- **The Indonesian government has revised down its growth projection for 2020 again, to between -1.7% and -0.6%** from its previous forecast of between -1.1% and +0.2%. **This is in line with our view that Indonesia's economy would contract this year.**
- **Recent developments suggest recovery remains weak. Consumption, the country's largest GDP driver at 57% of total GDP, would remain sluggish amid worsening consumer confidence.** New COVID-19 cases continue to surge and authorities have extended partial lockdown measures several times since 5 June, mainly in Jakarta – Indonesia's largest city which contributes c.20% of national GDP. Hence, **retail sales index and motor vehicle sales remained in deep negative territory.** Consumer Confidence Index (CCI) also fell in September, for the third straight month, and wis close to the country's low of 77.8. **Government spending accelerated in August although disbursements have reached only 56% of the total budget for 2020 – similar level to the same period last year.** The Finance Minister blamed the reduced spending on red tape and social restrictions during the pandemic. **This implies disbursement of the remaining stimulus packages for this year would be delayed.**
- **Looking ahead, the extended partial lockdown and still-rising new COVID-19 cases would delay economic recovery. Although accelerating government expenditure in the coming months would improve economic activity in 2H20, full-year growth would remain in negative territory.**

Philippines' GDP to contract sharply in 3Q20 as another lockdown caps consumption and investment

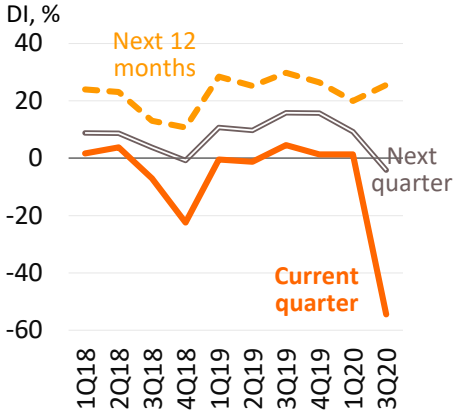
Philippines: Contribution to GDP - Expenditure side



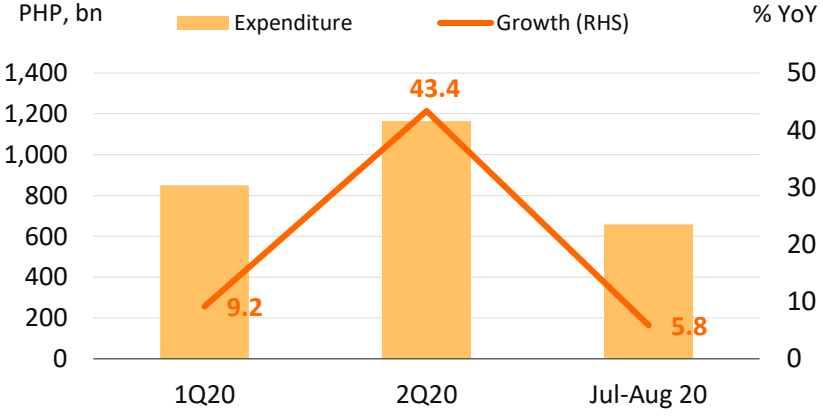
Philippines' motor vehicle sales



Philippines' Consumer Expectation Survey (CES)*



Philippines' government expenditure



Note: * There is no survey for 2Q20.

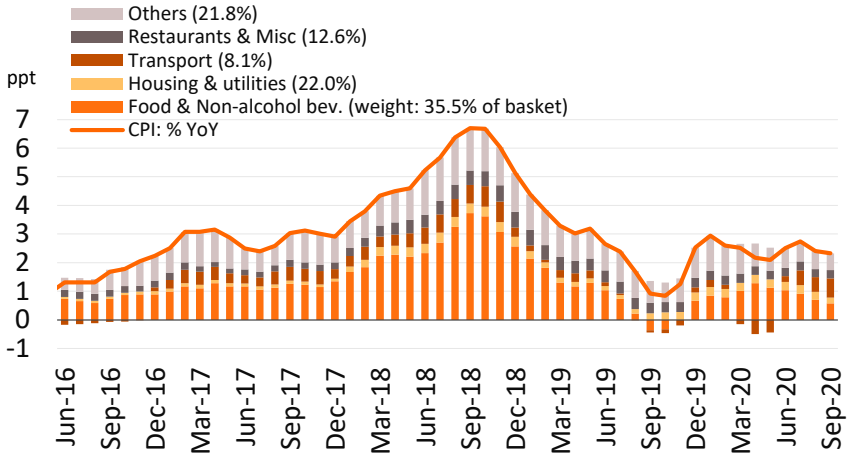
Source: Philippine Statistics Authority, Bangko Sentral ng Pilipinas, CEIC, Krungsri Research

Krungsri Research's view

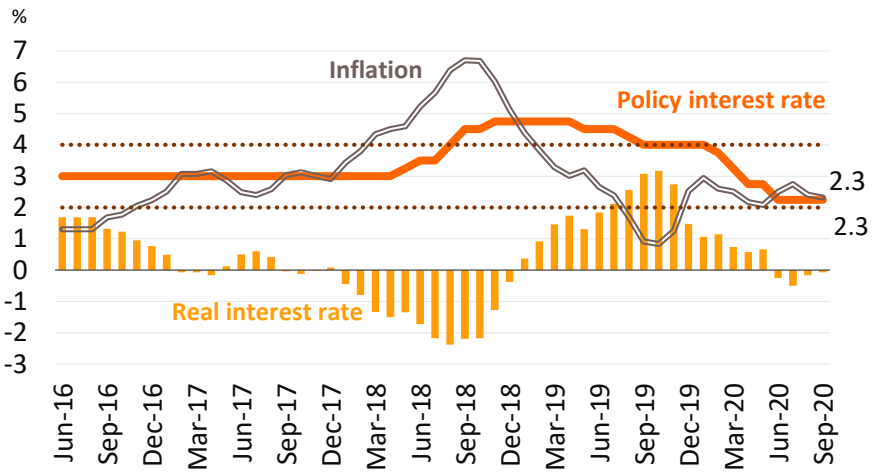
- The slump in consumption spending, the largest GDP driver at c.78% of national GDP, had dragged the Philippines' into a recession in 2Q20. **Looking ahead, consumption would remain sluggish because of the extended lockdown. Export growth would remain in negative territory. Government expenditure would rise at a slower pace given more prudent spending and still-muted construction industry due to the lockdown.**
- **Recovery in domestic demand paused in 3Q20.** The extended lockdown measures since late-July has worsened consumer sentiment, reflected by a sharp drop in motor vehicle sales and consumer confidence. **Demand will remain weak in 4Q20** due to the extended lockdown and relatively small cash aid for workers program under the 2nd relief package valued at PHP20bn vs PHP100bn under the first package.
- Philippines' exports – led by electronic products which contributed 57% of total exports – experienced a double-digit contraction in the first eight months of 2020. **Exports are likely to contract further in the coming months given weak recovery in global demand and lower export competitiveness** relative to other countries which export similar products - including Vietnam – partly due to higher wages, a stronger peso, and relatively limited export privileges.
- **Government expenditure was a major GDP driver in 2Q20, but it would increase at a slower pace in 3Q20** following the expiry of Phase 1 fiscal stimulus in June and more prudent spending. The Finance Minister said *"We have the resources necessary to endure this challenge, but we must also conserve our resources for succeeding rounds of this fight".* **In 4Q20, given the modest PHP160bn Phase 2 fiscal recovery bill (compared to PHP209.9bn Phase 1 bill) and a high base in 4Q19 (+27.4% YoY), we expect government expenditure to be slower.** And, disbursements would be limited due to the extended lockdown measures and because most of the expenditure is allocated to support domestic demand and MSMEs.

Philippines' inflation eased to 2.3% in September, implying more room for further easing of monetary policy

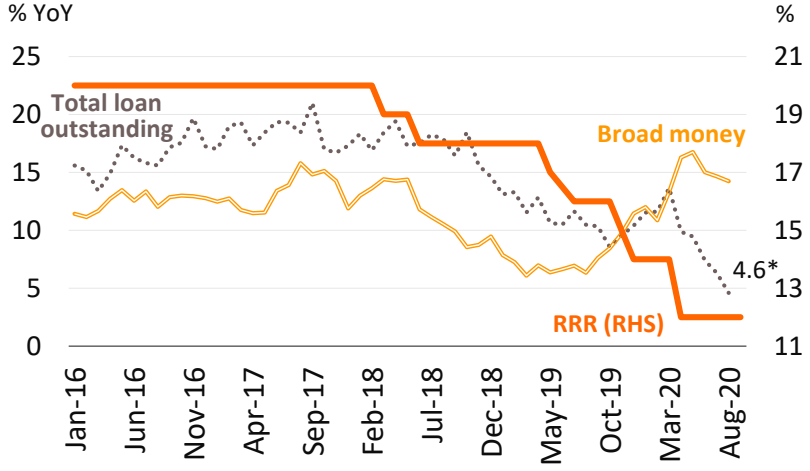
Philippines: Headline inflation



Philippines: Inflation and policy interest rate



Liquidity in Philippines' banking system



Note: * data of 4 big banks (source: Philstar.com)

Source: Bangko Sentral ng Pilipinas, CEIC, Krungsri Research

Krungsri Research's view

- **Philippines' inflation eased to 2.3% in September**, slowing for a second straight month, supported by lower food prices and weak domestic demand. **The Bangko Sentral ng Pilipinas (BSP) also revised down its 2020 inflation forecast to 2.3%**, from 2.6%, closer to the lower-end of its 2%-4% range for this year. It also revised down 2021 and 2022 inflation forecasts to 2.8% and 3.0%, respectively.
- **The easing inflationary pressure would allow the central bank to relax monetary policy further to address the anticipated deep economic contraction as well as looming risks from the extended lockdown. The monetary stimulus should lift (bank) loan growth,** which recently fell to a 13-year low of 4.6% YoY in August. The next policy move would be to reduce both reserve requirement ratio (RRR) and policy interest rates. **Further rate cuts could reduce pressure the peso** which has strengthened by 4.8% this year (up to September). This would help improve its export competitiveness as well.

KRUNGSRI RESEARCH

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