

 **Cambodia**



 **Laos**



 **Myanmar**



 **Vietnam**



# CLMV Monitor

Q2 | 2019

On the firm footing amid rising challenges  
from country-specific risks and China's slowdown



# CLMV Monitor

## Q2 2019



CLMV economy will maintain its high growth around 6-7% in 2019. Amid rising global uncertainties, especially trade war, international demand to CLMV still supports growth in exports, FDI, and tourism. CLMV exports recorded a 5%YOY growth in the first two months of 2019, particularly to the countries with trade privileges and bilateral deals. Meanwhile, CLMV governments have prioritized their spending to improve business environment via infrastructure investment and new industry development. Rapid economic growth during the past years also leads to an expanding middle class which helps support domestic consumption going forward. Nonetheless, key risks ahead to CLMV economy are China's economic slowdown, prolonged current account deficits, and country-specific uncertainties, notably a loss of EU's trade privileges (EBA) in Cambodia and Myanmar, high external vulnerabilities in Laos and Myanmar, and a high credit growth which may lead to new bad loans piling up in Vietnam.

### Cambodia

**Cambodia's economy will grow 6.8% in 2019.** Exports still grew well, especially to the US and China, under bilateral deals. FDI will continue due to untapped opportunities and relocation plans to avoid the trade war. Tourism sector will remain the key driver this year onward. Risks are associated with the potential loss of EU's EBA in 2020.

### Myanmar

**Myanmar's economy will grow 6.4% in FY2018/19, losing its momentum.** Exports will be affected by the new round of the trade war and potential loss of EU's EBA. Together with a prolonged Rohingya crisis since 2018, investor confidence has been dampened. Medium- to long-term economic outlook depends on the success of the second economic reforms.

### Laos

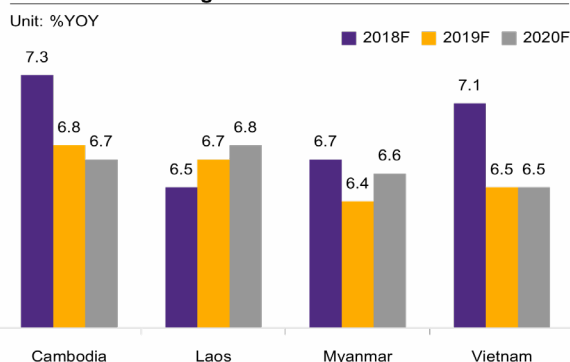
**Laos' economy will continue its brisk growth in 2019.** Construction, electricity exports, and tourism sector are the three key economic drivers. Nonetheless, key challenges are high external vulnerability from high external public debt and low foreign reserves and a high exposure to China's economy, especially investment.

### Vietnam

**Vietnam's economy will gradually slow to 6.5% in 2019 and in the next 5 years.** FDI and exports are key growth drivers supported by EVFTA and manufacturing relocation from China to avoid the trade war. Major risks to Vietnam are slower-than-expected global growth, which may dampen exports and a high credit expansion.

**CLMV economies will maintain momentum though growth is expected to slightly slow in 2019.**

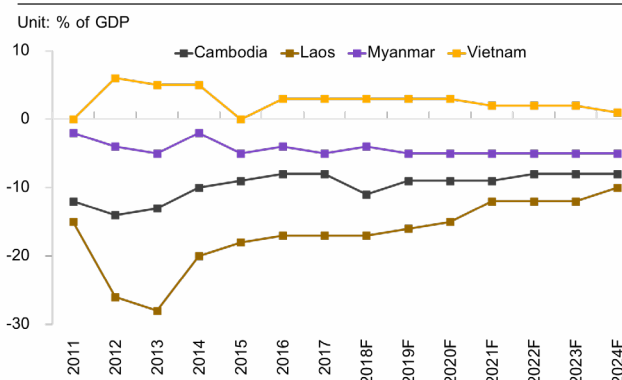
CLMV's economic growth 2018-2020



Source: IMF WEO April 2019

**IMF expects continued current account deficits in years ahead, except for Vietnam.**

CLMV's current account balance



Source: IMF WEO April 2019



# CAMBODIA

## OVERALL ECONOMY

### Facts and Figures

Population (2018)	16.45 million
Labor force (2017)	8.9 million
GDP (2017)	22.3 USD billion
GDP per capita (2017)	1,390 USD
GDP by sector (2017)	Agriculture: 25.3%, Industry: 32.8%, Services: 41.9%
Top exports (2017)	Textile 65%, Footwear 11%, Travel goods 3%

### Things to watch in 2019



Increasing Chinese influence could be both opportunity and threat



Growing consumer credit reflects strong consumption demand

## Macroeconomic update



### Economic Outlook

**Cambodia's economy will grow 6.8% in 2019, driven by strong international demand and increasing influence from China.** In the first 2 months of 2019, exports continued to perform well, rising 12%YOY. A slower export growth of 3.3%YOY to the EU, especially in garment and footwear, was offset by an accelerating export growth of 17%YOY to the US, backed by the duty- and quota-free traveling goods. Though relatively small share, exports to China gained momentum with 19%YOY growth. The Kingdom is expected to receive a large inflow of foreign direct investments (FDI) which concentrate in booming industries, comprising manufacturing of emerging products, banking, tourism, real estate, and construction. China will remain the Kingdom's biggest investor as both governments have agreed on many infrastructure development projects under Belt and Road Initiative. Moreover, foreign companies currently based in China announced plans to relocate their production to Cambodia to avoid effects of the US-China trade war. For tourism industry, tourist arrivals increased 10%YOY in the first quarter of 2019. The number of Chinese, the largest group of foreign tourists, jumped 35%YOY as Cambodia was among China's top traveling destinations. The increasing role of China in key sectors reflects a rising influence of China in boosting economic activities in the Kingdom this year and beyond.

**Risks are associated with China's economic slowdown and the potential withdrawal of Everything But Arms (EBA).** Cambodia's increasing dependence on China also poses risks to economic growth and development. An abrupt slowdown of Chinese economy, caused by the effect of intensified trade war with the US, could impact Cambodia through trade and financial channels. A reversal of FDI inflow from China will be significantly dampen the Kingdom's investment outlook. Lower Chinese consumption might also affect Cambodian exports. Under the worst-case scenario where the Chinese government announces controls on outbound Chinese tourists, Cambodia's international receipts will be severely reduced. Moreover, the withdrawal of EBA benefits from the EU scheduled in August 2020 would result in reduced competitiveness, particularly in exports of garment, footwear, and bicycle, which are the backbones of Cambodia's economy. Thus, the government have introduced a series of initiatives to diversify the Kingdom's key industries and build economic competitiveness by implementing tax incentives, business fees cut, and infrastructure projects, for example.



## Financial markets

**Consumer loans saw positive development.** The total outstanding consumer credit increased 7.4%YOY and the number of consumer credit applications rose 11.5%YOY in the first quarter of 2019. The growth was driven by personal and mortgage loans, reflecting a strong demand in consumer markets and real estate. The non-performing loans reached 1.24% in March, a slight increase from the end of 2018 but still at a manageable level. However, the National Bank of Cambodia (NBC) keeps an eye on a rapid expansion of personal loans to serve a strong demand for imported consumer goods, which could further worsen current account deficit. In addition, the NBC will continue to strengthen confidence and usage of Khmer Riel, the local currency, to improve the effectiveness of monetary policy in the future.



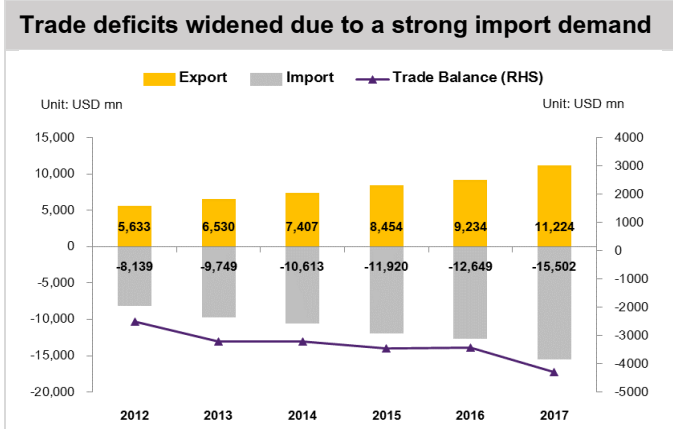
## EIC's view

**Healthy growth in export-oriented manufacturing will continue if government efforts to promote new industries and diversify market are successful.** Amid global trade slowdown and uncertainty from the EU's EBA withdrawal, Cambodia's exports were shielded by the Generalized System of Preferences programs, particularly from the US and Japan. However, these privileges are going to be canceled as Cambodia will soon reach a lower-middle income status, classified by the UN. Meanwhile, garment and footwear manufacturing and exports, which have been the biggest drivers of the economy, are facing intensified competition. Thus, the government has shifted its focus to support new priority sectors, such as, agribusiness and electronics. Moreover, the growing presence of China in the Kingdom's key sectors, namely exports, investment, and tourism, presents opportunity for business to serve such a large Chinese demand. Foreign companies are encouraged to invest in higher value-added products linking to regional value chain, like high-tech electrical parts, serving the international demand for longer period. Meanwhile, domestic consumption is also growing, reflected by high import volume of consumer goods and rising personal loans. Business opportunities arise in manufacturing of processed food and consumer goods for import substitution.

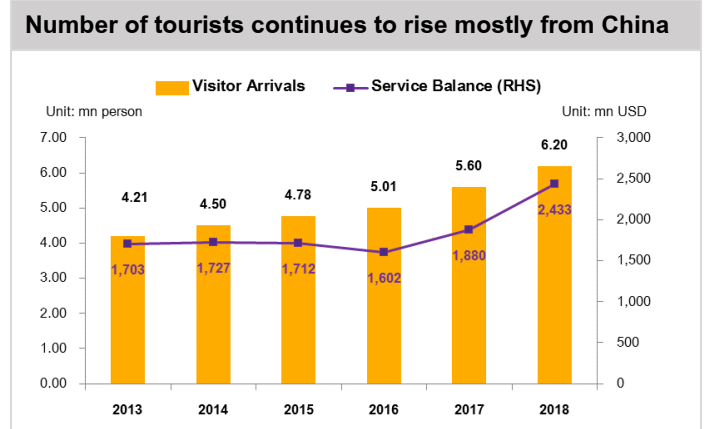
# Cambodia's Key Indicators

Indicators	Unit	2014	2015	2016	2017	2018E	2019F	2020F
Real GDP	% YOY	7.1	7.0	6.6	7.0	7.3	6.8	6.7
Consumer price index	%	1.0	2.8	3.9	2.2	1.6	2.6	2.8
Current account balance	% of GDP	-10.1	-9.0	-8.4	-8.0	-10.5	-9.1	-9.0
Policy rate (end of period)	%	1.4	1.4	1.4	1.4	1.4	-	-

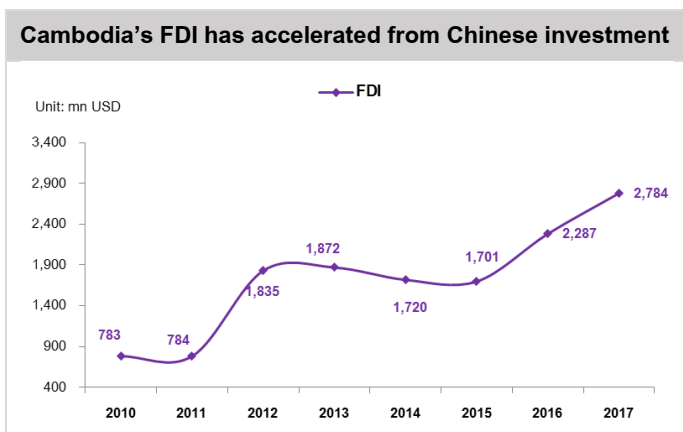
Sources: International Monetary Fund (IMF) and The National Bank of Cambodia



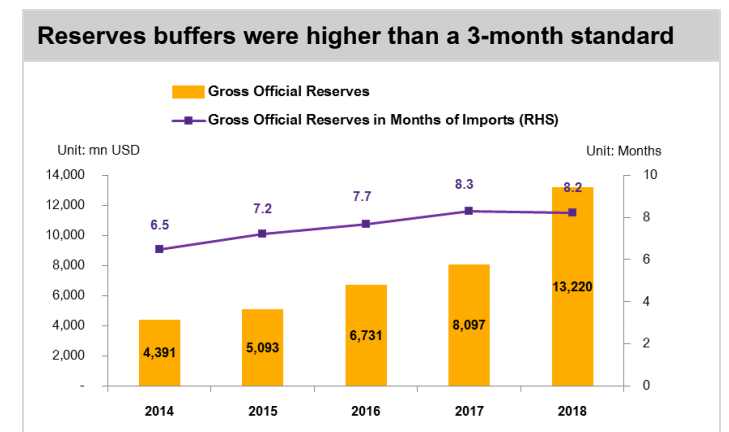
Sources: World Bank



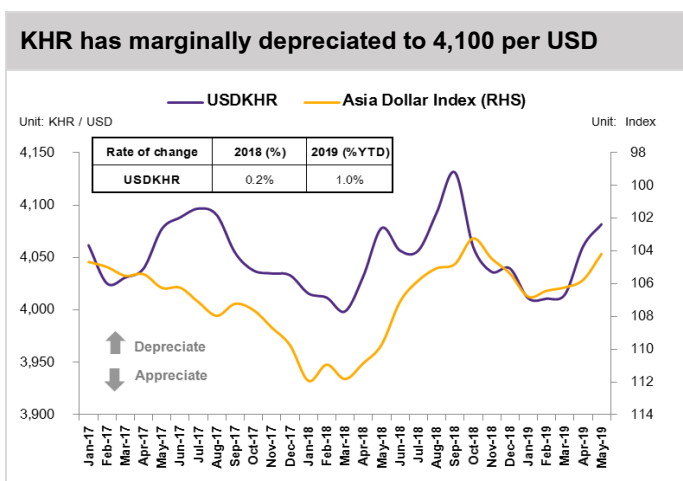
Sources: World Bank and CEIC



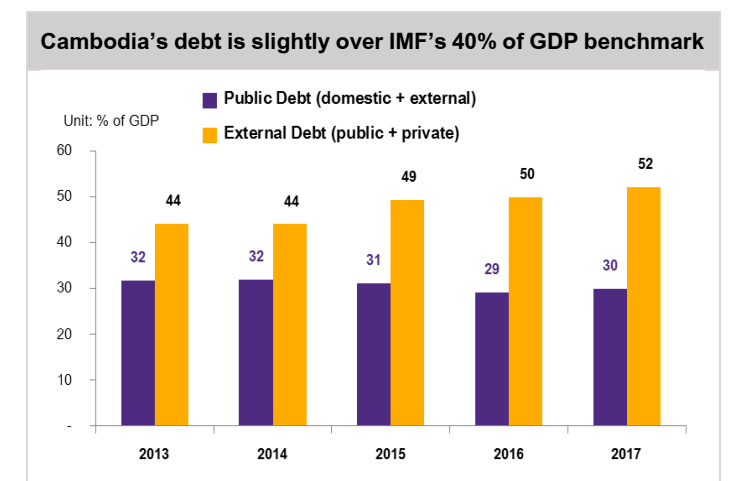
Sources: World Bank



Sources: IMF



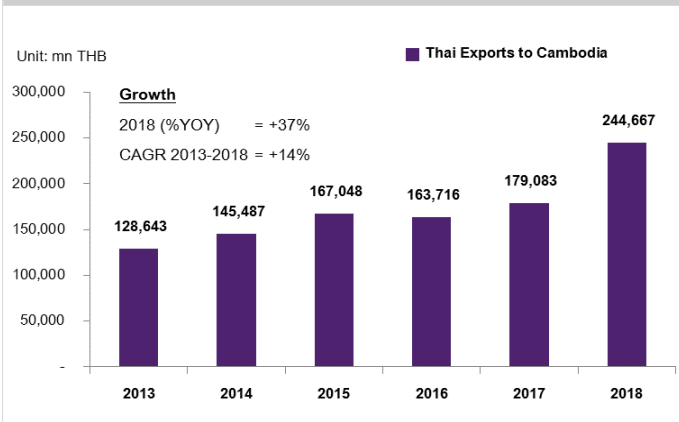
Sources: Bloomberg



Sources: International Monetary Fund (IMF) and CEIC

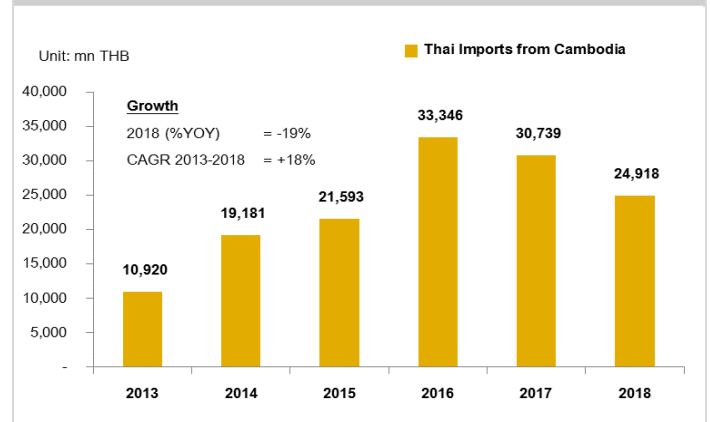
# Links with Thai Economy

## Exports to Cambodia rose sharply in 2018, especially jewelry, auto parts, intermediates, and consumer goods



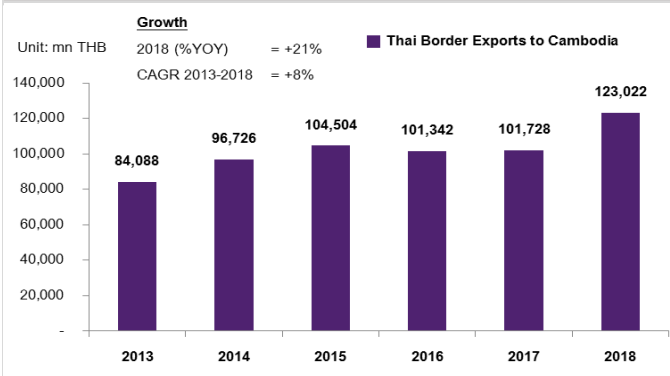
Sources: Thailand's Ministry of Commerce

## A significant drop of fruit and vegetable imports, The largest imports from Cambodia, dragged overall imports



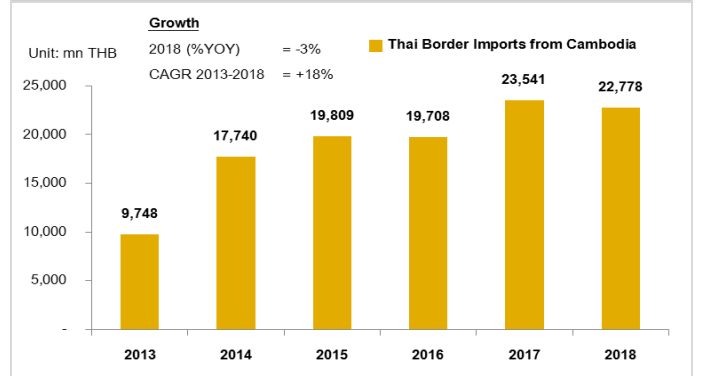
Sources: Thailand's Ministry of Commerce

## Thai exports via borders were around half of total exports to Cambodia in 2018



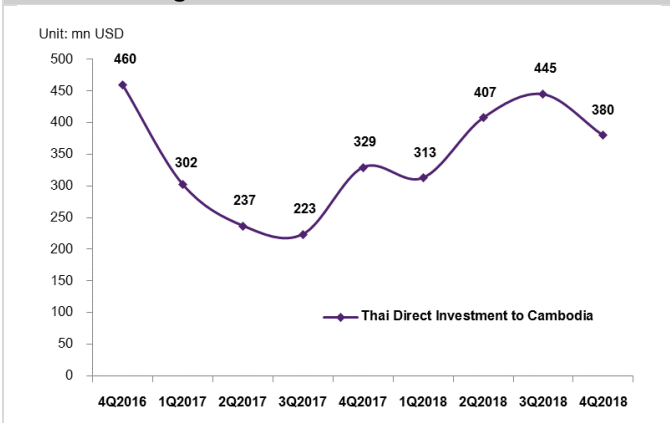
Sources: Thailand's Department of Foreign Trade

## Almost all Thai imports from Cambodia in 2018 were through borders



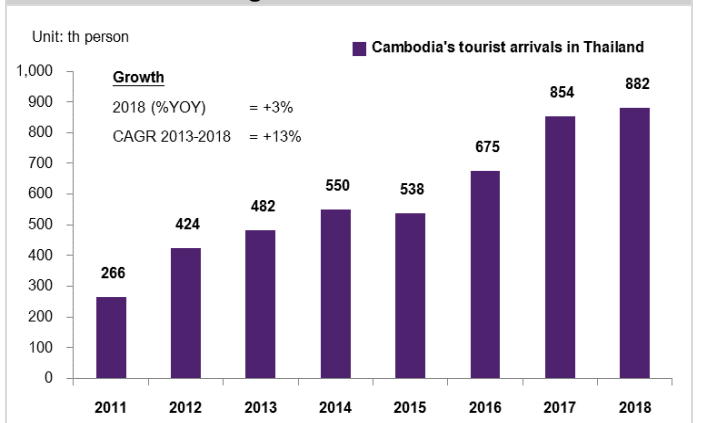
Sources: Thailand's Department of Foreign Trade

## TDI in Cambodia in 2018 was concentrated in manufacturing and financial sectors.



Sources: Bank of Thailand

## Despite a gradual improvement, the number of Cambodian traveling to Thailand remained small in 2018



Sources: Thailand's Department of Tourism



# LAOS

## OVERALL ECONOMY

### Facts and Figures

Population (2017)	7.13 million
Labor force (2017)	3.6 million
GDP (2017)	17.15 USD billion
GDP per capita (2017)	2,568 USD
GDP by sector (2017)	Agriculture: 20.9%, Industry: 33.2%, Services: 39.1%
Top exports (2017)	Electricity 24%, Copper 20%, Electrical product 12%

### Things to watch in 2019



Growing Chinese influence in trade, investment, and tourism



A continued depreciation of Lao kip value

## Macroeconomic update



### Economic Outlook

**The Laotian economy will continue its brisk growth in 2019-2020.** Based on an IMF estimation, the Lao economy posted 6.5% growth in 2018 and will advance to 6.7% and 7% in 2019 and 2020, respectively. Construction, electricity exports, and the tourism sector are the three key economic drivers. Laos has been developing its infrastructure development countrywide, which will help boost the construction sector. Major projects in the pipeline include the China-Laos railway, the Vientiane-Vangvieng expressway, infrastructure in special economic zones, and hydropower projects, many of which are China-funded. The tourism sector is also a spearhead industry. During January-March 2019 the total number of foreign tourists in Laos dropped by 0.5%YOY, but visitors from China surged 16%YOY, bolstered by a “Visit Laos-China Year 2019” campaign. In 2018, Chinese tourists ranked 3<sup>rd</sup> in number of inbound visitors and accounted for 19% of total foreign tourists in Laos. This highlights growing Chinese influence in Laos in terms of investment, trade, and tourism.

**High external vulnerability remains a key challenge to the Laotian economy.** First, low foreign reserves increase downward pressure on the Lao kip. The World Bank reported that Laotian foreign reserves were able to cover only 1.3 months of imports in 2018 – lower than the IMF benchmark of 3 months. This puts pressure on the Lao kip, which is currently under central bank control and is believed to be overvalued by 44-49% as of the end of 2016, based on IMF estimation. Despite a higher foreign-currency income from electricity exports, Laos' trade balance is expected to remain negative and may result in further depleting reserves. Second, Laos is at high risk of debt distress owing to a high debt in foreign currencies. According to the World Bank, Laos' public debt was as high as 61% of GDP in 2018 and about 82% of this was in foreign currencies, particularly the US dollar. Laos will also face a high debt service payment as a proportion of non-concessional borrowing with higher interest rate tending to increase. Interest payments are estimated to reach 12.9% of domestic revenue in 2018, almost double their 7.1% share in 2015.



### Financial markets

**Seven major banks in Laos jointly established the Lao National Payment Network (LAPNet) company.** The seven members are the Lao foreign trade bank BCEL, Lao Development Bank, Agricultural Promotion Bank, Lao-Viet Joint Venture Bank, Joint Development Bank, ST Bank, and BIC Bank. LAPNet aims to improve Laos' payment system and inter-bank transaction infrastructure. The system will allow customers to access banking services via ATM and CDM, and promote cashless payment channels such as QR Code and Internet-Mobile Banking in the country.



## Law & Regulation

**Laos is considering imposing an environmental protection tax and incentives for green industries.** These may include additional taxes on sectors causing pollution and harmful waste, tax privileges for green products and energy saving sectors, and lower bank loan interest rates for environmental protection companies. The government has not yet concluded an exact timeline but pledged to support such initiatives under the National Green Growth Strategy endorsed in January 2019. Better environmental protection measures would help secure Laos' sustainable growth and back the country's aim to graduate from the UN's list of Least Developed Countries.



## EIC's view

**Laos has been striving to turn itself from a land-locked to a land-linked country, via road and railway connection.** The China-backed Kunming-Vientiane high-speed railway is one of the projects in the pipeline, and will later connect with Thailand through the Vientiane-Nong Khai border. Thailand also plans a high-speed rail route from Bangkok to Nong Khai and from Nong Khai to Vientiane. Once finished, they will offer seamless transportation from Southern China straight to Bangkok.

**Better connectivity will help boost Thailand's border trade and tourism both from Laos and the Southern China.** In 2018, Thailand-Laos border trade value rose by 3.17%YOY and accounted for 98% of total trade between the two countries. Meanwhile, cross-border trade with Southern China surged 19%YOY. Major cross-border export products with high growth were fruits, tires, and electronics parts. **Thai fruit exports to Southern China have been soaring in the past five years**, with annual average growth of 44% during 2013-2018, surpassing 22% growth in total cross-border trade between Thailand and the Southern China. This marks a lucrative opportunity for Thai producers and traders, especially with e-commerce platforms becoming popular among the Chinese. Through e-commerce, it is becoming easier to gain access to China's marketplace of 1.4 billion customers.

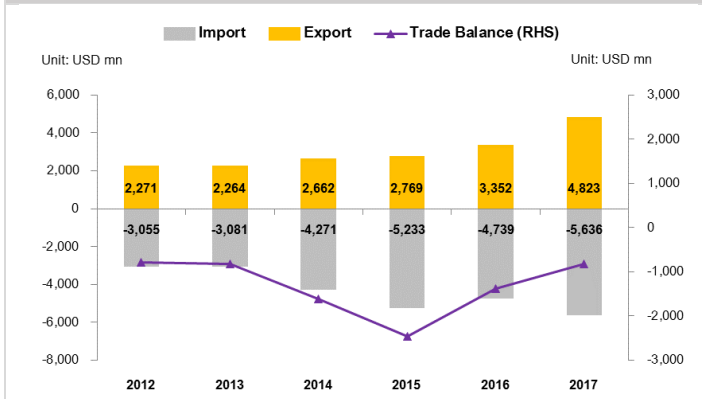


# Laos' Key Indicators

Domestic Demand	Unit	2014	2015	2016	2017	2018E	2019F	2020F
Real GDP	% YOY	7.6	7.3	7	6.8	6.5	6.7	6.8
Consumer price index	%	2.4	0.9	2.5	0.1	1.5	2.9	3.1
Current account balance	% of GDP	-28.4	-20	-18	-16.9	-16.9	-17.1	-16.4
Policy rate (end of period)	%	5.0	4.5	4.3	4.0	4.0	-	-

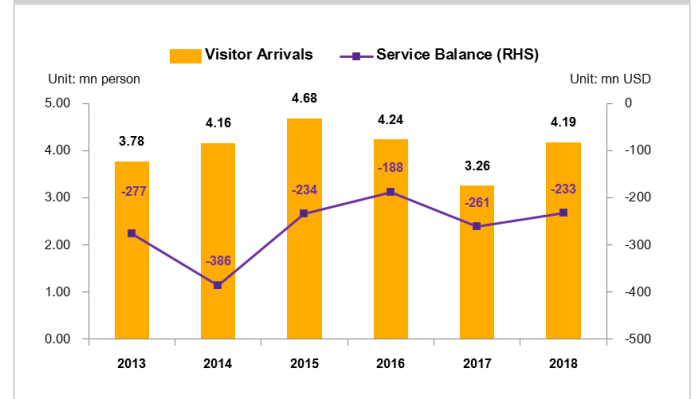
Sources: International Monetary Fund (IMF) and Bank of the Lao PDR

## Trade balance improved thanks to surging exports



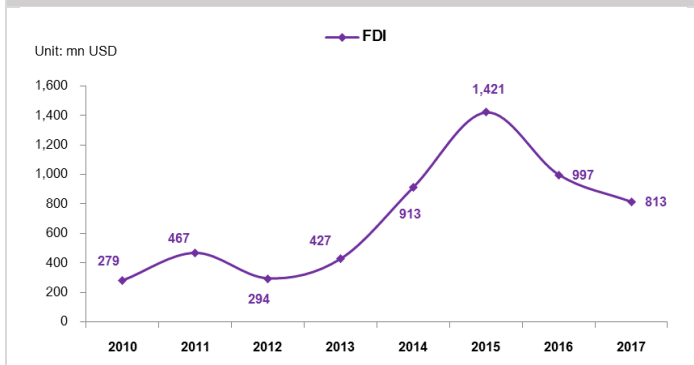
Sources: World Bank

## Visitors rebounded thanks to the tourism campaign



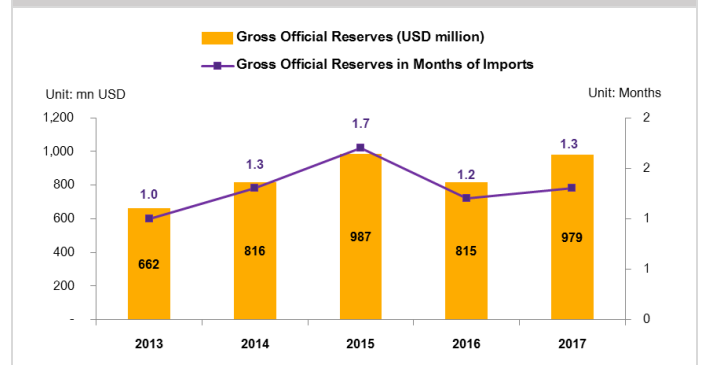
Sources: World Bank, Lao Tourism Development Department, CEIC

## FDI fell but remained robust led by Chinese investment



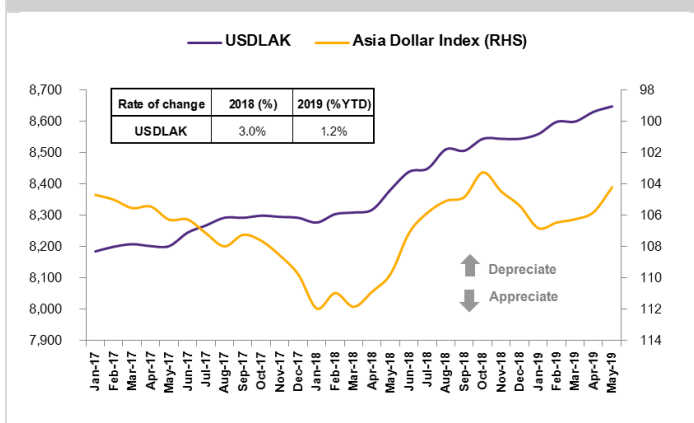
Sources: World Bank

## Low foreign reserves intensified external vulnerability



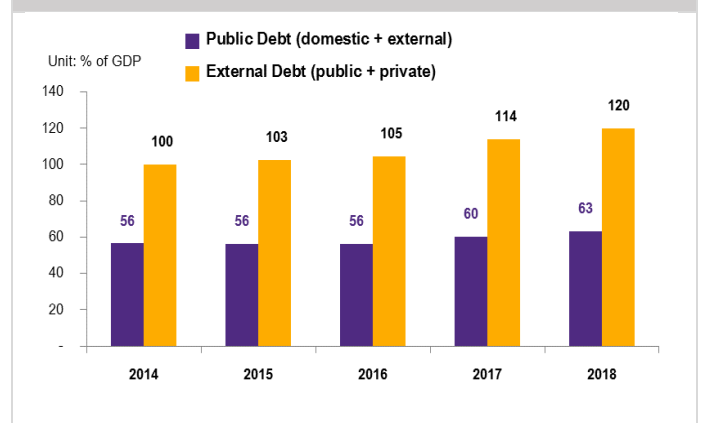
Sources: IMF

## LAK depreciates due to CA deficits and low FX reserves



Sources: Bloomberg

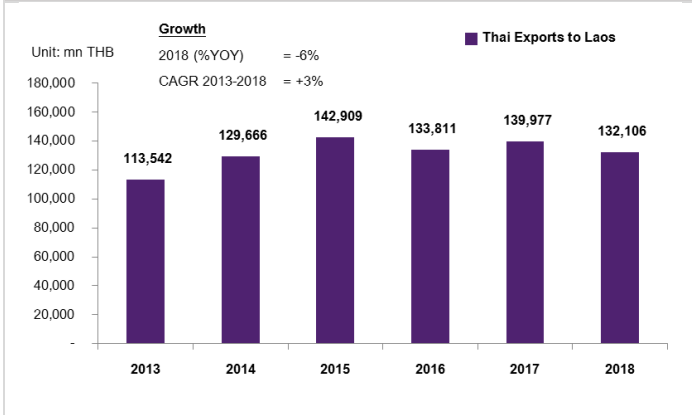
## High external debt level is a major risk to Laos



Sources: International Monetary Fund (IMF)

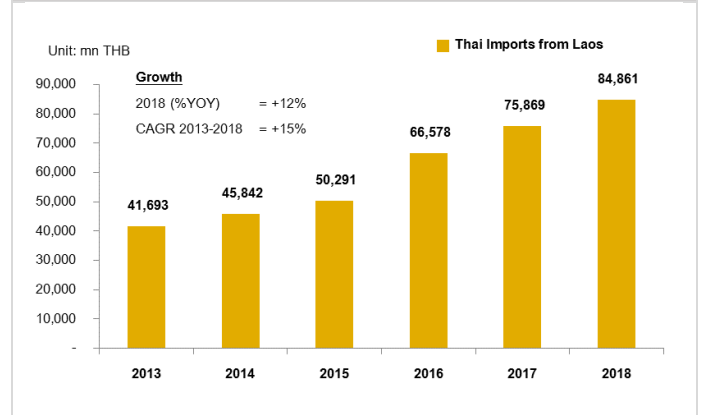
# Links with Thai Economy

## Thai exports to Laos slowed in 2018, dragged by industrial products and auto parts



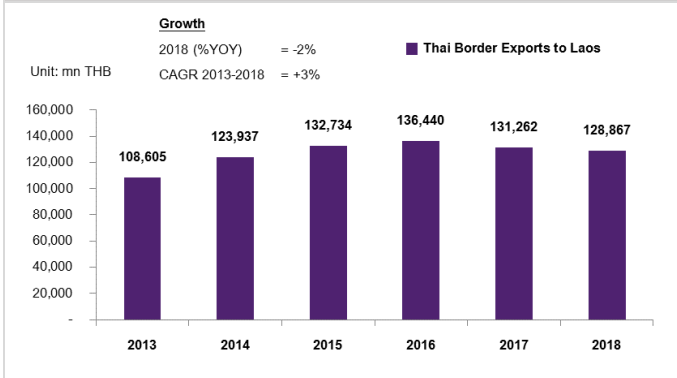
Sources: Thailand's Ministry of Commerce

## Imports from Laos continued to rise led by electricity, copper products, and electronics parts



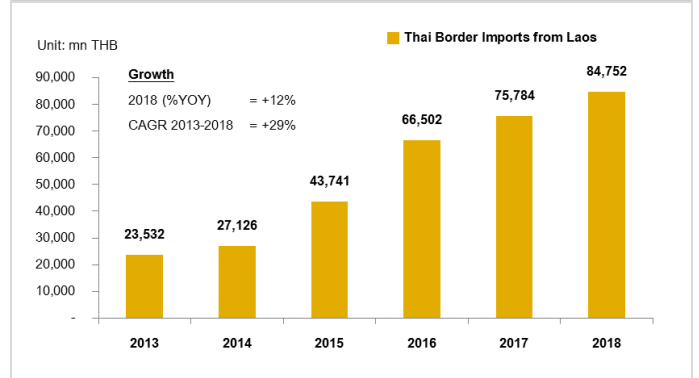
Sources: Thailand's Ministry of Commerce

## Border exports accounted for about 98% of total Thai exports to Laos



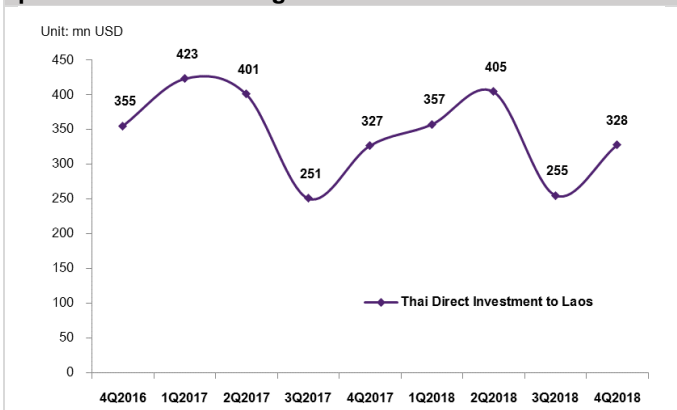
Sources: Thailand's Department of Foreign Trade

## Electricity imports rose 17%YOY and accounted for 54% of total border imports from Laos



Sources: Thailand's Department of Foreign Trade

## TDI in 2018 is driven by financial services and food product manufacturing



Sources: Bank of Thailand

## Lao tourists in Thailand have been rising, thanks to more flight's connection between the two countries



Sources: Thailand's Department of Tourism



## Facts and Figures

Population (2017)	55.12 million
Labor force (2017)	22.3 million
GDP (2017)	66.96 USD billion
GDP per capita (2017)	1,272 USD
GDP by sector (2017)	Agriculture: 24.8%, Industry: 35.4%, Services: 39.9%
Top exports (2017)	Oil & Gas 27%, Textile 14%, Cereal 10%

## Things to watch in 2019



The second wave of reforms under Myanmar Sustainable Development Plan (2018-2030)



Banking and insurance sector development

## Macroeconomic update



### Economic Outlook

**Myanmar's economic activity is losing its momentum with 6.4% growth in FY2018/19<sup>1</sup> due to weakening external and domestic demand.** A prolonged humanitarian crisis has increased uncertainty on Myanmar's economy, depressing foreign investor confidence and reducing further concessional donor financing. For the first half of FY2018/19, Foreign direct investment recorded USD 2.4 billion, accounted for only 25% of the annual target under the 20-year Myanmar Investment Promotion Plan (MIPP). Export growth is expected to grow moderately by spillovers from trade tension and possible withdrawal of Everything But Arms (EBA) benefit. As Myanmar's largest export market, China's trade war with the US and its economic slowdown will affect Myanmar export this year. Myanmar's outlook on export and export-oriented manufacturing sectors will be further weakened if the EU implements a full withdrawal of EBA benefit as more than 50% of total exports of garment, footwear, and other labor-intensive products were sent to the EU each year and the sectors employ half a million local workers.

**The medium- to long-term prospect depend largely on the successful implementation of government policies ahead of the general election in 2020.** The second wave of reforms under Myanmar Sustainable Development Plan (MSDP 2018-2030) focuses on developing the private sector as the key engine of growth as well as providing public infrastructure. Agriculture and small and medium enterprises, which accounted more than 90% of total businesses in the country, have become priority sectors. The government aims to promote higher value-added products from these sectors to serve both domestic and international markets. As a result, fruits and vegetables, processed agricultural products, handicraft, gem and jewelry, and digital economy were added to promoted list of the National Export Strategy 2020-2025. Public spending in FY2018/19 shifted toward more investments on infrastructure development. the government will prioritize 9 infrastructure projects under the China-Myanmar Economic Corridor, particularly in power and transportation. Notably, there are the Muse-Mandalay railway, Kyaukphyu deep sea port and new special economic zone and industrial zone proposals.

<sup>1</sup> Myanmar new fiscal year started from October 2018 to September 2019.



## Financial markets

**Myanmar banking sector restructuring and liberalization are in progress.** Credit growth has decelerated from 34%YOY in FY2016/17 to 20%YOY by September 2018 as private banks gradually reduced their large exposure and place more funds in low risk securities. State-owned banks' share of total lending has also fallen to 11%, reflecting the rising role of private domestic and foreign banks as alternative funding sources. The Central Bank of Myanmar (CBM) finally lifted the restriction on foreign banks, allowing them to open more branches to increase locals' access to financing. Foreign subsidiaries were given more opportunities with full function as local banks, including retail banking. Meanwhile, the CBM has committed to strengthen banking sector. The annual credit rate was raised to 20% from 13% to control unsecured lending and improve banks' profitability and risk-pricing capability. In addition, 5 directives were issued to improve banking governance and transparency.

**Five foreign insurers have been granted licenses to establish 100% owned life insurance subsidiaries.** These foreign life insurance companies were required to submit an irrevocable and unconditional proposal bond of USD 400,000 in May. Other applicants still have the opportunity to operate in Myanmar insurance market, resulting in 4 successful joint ventures with the existing local life insurance companies. This move is expected to enhance competition and efficiency in the market and increase Myanmar insurance penetration from the current rate of 0.08% of GDP.



### EIC's view

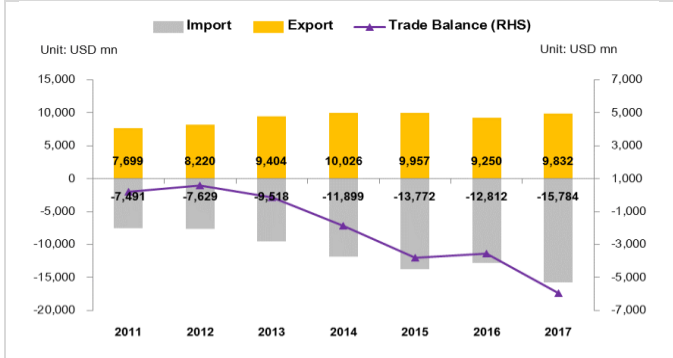
**Myanmar domestic market still presents bright opportunity.** Amid spillover effects from the US-China trade war and potential loss of EBA benefits granted by the EU, Myanmar export outlook will face rising challenges in the near future. Meanwhile, the government shifted more focus to investing in essential infrastructures and developing the domestic market. The acceleration of public infrastructures will directly benefit construction and relating business activities. Once in place, they will facilitate business operation. At the same time, Myanmar wants to reduce reliance on imports of finished products from neighboring countries, and instead, develop higher value-added locally made products. Processed food & beverage, clothing, and other fast-moving consumer goods offer strong business potential, given low cost advantages and Myanmar's limited production capacity. A still expanding working-age population and rising per capita income also confirm promising opportunity in domestic market. Moreover, ongoing liberalization in financial sector and new product development in banking sector will increase alternative financing sources for businesses. EIC expects more foreign footprints in Myanmar domestic market as the government gradually moves toward market-oriented practices.

# Myanmar's Key Indicators

Domestic Demand	Unit	2014	2015	2016	2017	2018E	2019F	2020F
Real GDP	% YOY	8.0	7.0	5.9	6.8	6.7	6.4	6.6
Consumer price index	%	6.1	8.4	7.0	5.4	4.9	2.1	7.1
Current account balance	% of GDP	-2.2	-5.1	-4.3	-4.7	-4.3	-4.9	-4.9
Policy rate (end of period)	%	10	10	10	10	10	-	-

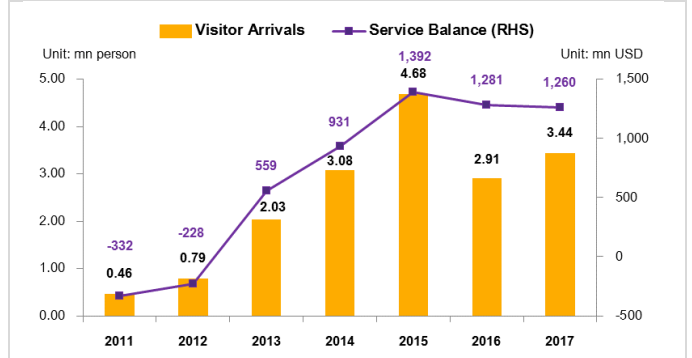
Sources: International Monetary Fund (IMF) and The Central Bank of Myanmar

## Trade deficits deepened as imports continued to rise



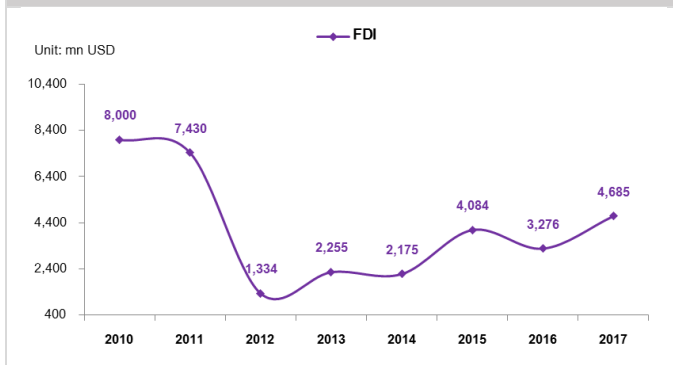
Sources: World Bank

## Tourist arrivals fell from prolonged Rohingya crisis



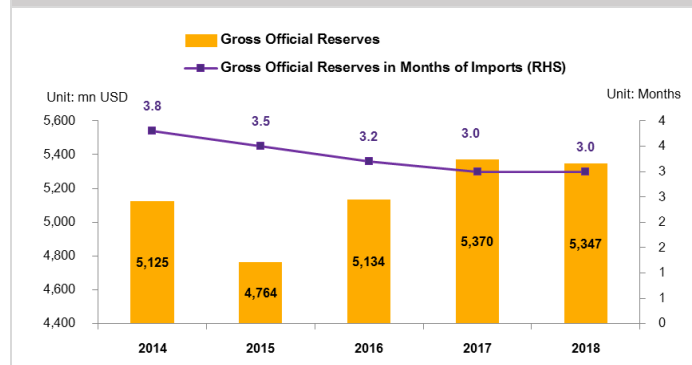
Sources: World Bank and CEIC

## FDI will continue rising under Investment Promotion Plan



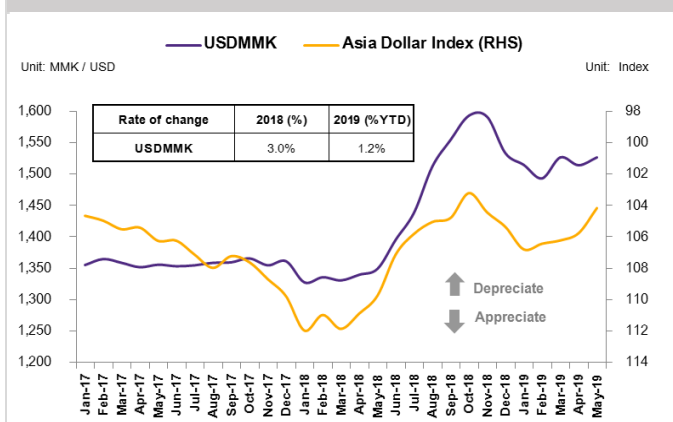
Sources: World Bank

## Foreign reserves remained at the minimum benchmark



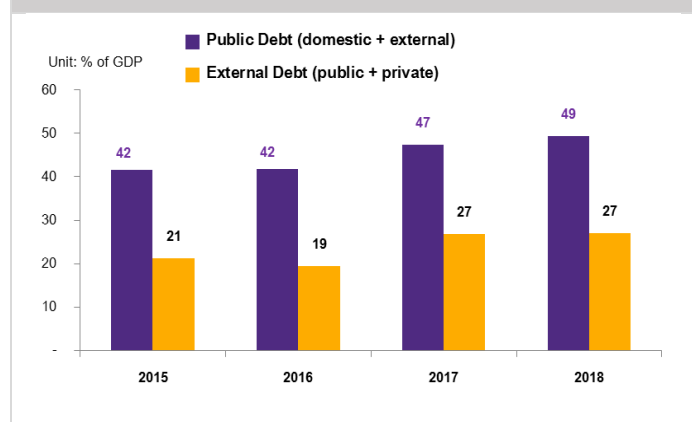
Sources: IMF

## MMK turned to appreciate in 2019 in line with its peers



Sources: Bloomberg

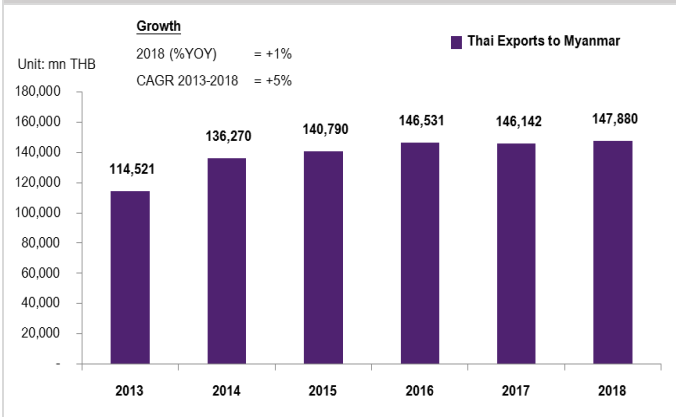
## External debt remained low



Sources: International Monetary Fund (IMF) and CEIC

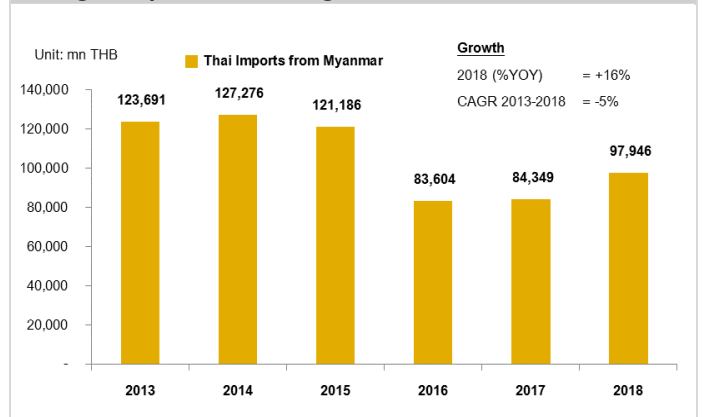
# Links with Thai Economy

**Thai exports to Myanmar marginally increased in 2018, due to a weaker domestic demand for refined oil**



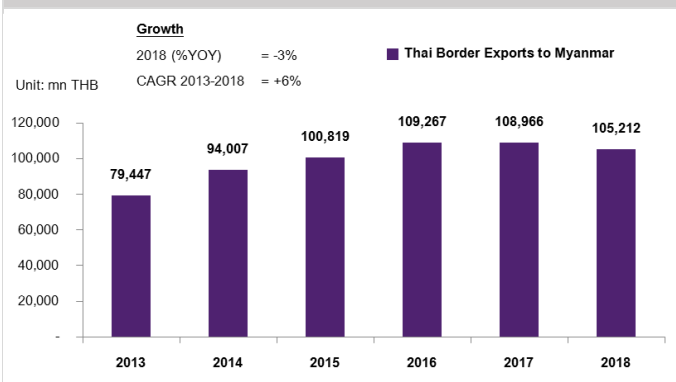
Sources: Thailand's Ministry of Commerce

**Thai imports from Myanmar saw robust growth following a larger imported natural gas and other raw materials**



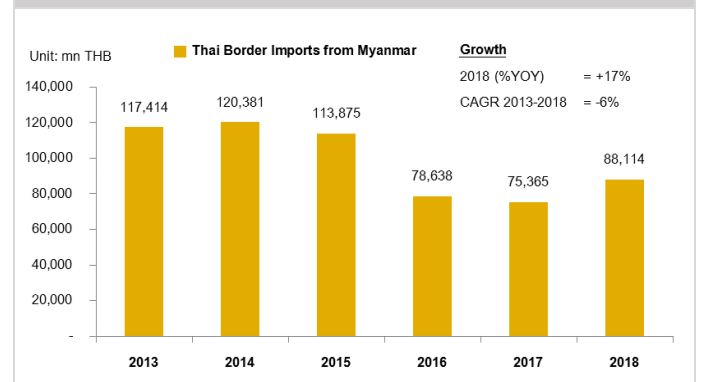
Sources: Thailand's Ministry of Commerce

**Thai exports through 2 major borders dropped in 2018**



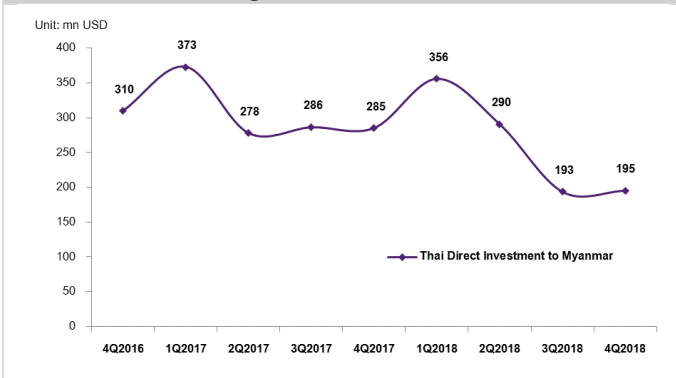
Sources: Thailand's Department of Foreign Trade

**Thai import activities in 2018 improved in all Myanmar borders**



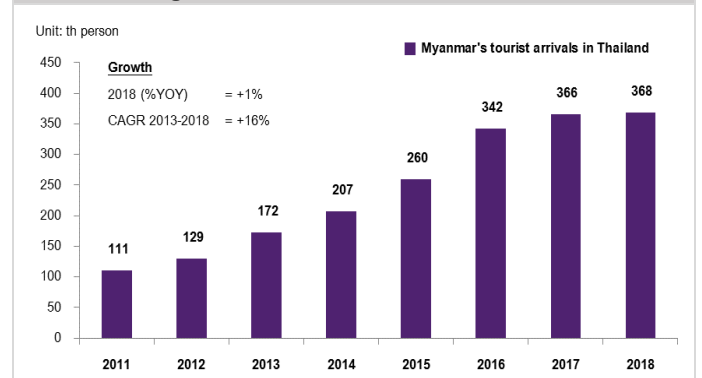
Sources: Thailand's Department of Foreign Trade

**TDI in Myanmar dropped significantly in 2018 due to less investment in mining sector**



Sources: Bank of Thailand

**The number of Myanmar tourists has been less than 1% of total foreign tourists in Thailand.**



Sources: Thailand's Department of Tourism



# VIETNAM

## OVERALL ECONOMY

### Facts and Figures

Population (2017)	96.16 million
Labor force (2017)	56.46 million
GDP (2017)	215.93 USD billion
GDP per capita (2017)	2,306 USD
GDP by sector (2017)	Agriculture: 16%, Industry: 33%, Services: 41%
Top exports (2017)	Electronic products 39%, Garments and footwears 19%

### Things to watch in 2019



EU-Vietnam FTA enforcement by the end of 2019



Improvement in non-cash payment system

## Macroeconomic update



### Economic Outlook

**Vietnam's economy expanded by 6.79%YOY in the first quarter of 2019.** Overall growth was slower than the 7.3%YOY gain the previous quarter but exports and FDI still saw a steady increase. From January-April 2019 Vietnam's exports climbed 6.5%YOY while FDI surged 81%YOY, the highest in four years. Manufacturing remained the top sector, receiving FDI inflows as Vietnam becomes a potential production base, notably for China-based manufacturers seeking to avoid the effects of the US-China trade war. In addition, the EU-Vietnam FTA (EVFTA) set to take effect in 2019 will help bolster Vietnam exports the EU. Going forward, the IMF expects Vietnam's economic outlook to remain sound, though growth is expected to soften to 6.5% in 2019 and over the medium term due to weaker external demand.

**Key risks to Vietnam are slower-than-expected global growth and high credit expansion.** A world economic slowdown would undermine the nation's growth as the country heavily relies on trade. Based on World Bank data, trade accounted for 200% of GDP in 2017. High credit growth also posed risks to financial stability due to a high public debt. In 2018, credit growth in Vietnam reached 14% while public debt leveled at 61% of GDP. An overheating credit growth may weigh on country's debt level if credit mostly aims toward high-risk sectors and ends up as non-performing loans. To curb such high growth, the State Bank of Vietnam (SBV) has put tighter controls on bank lending, especially in risky areas such as consumer loans and real estate. Meanwhile, the government has made good progress in reducing public debt from 64% of GDP in 2016. With an improving economic environment, credit rating agency Fitch Ratings raised Vietnam's outlook from 'stable' to 'positive' in May 2019 and affirmed the country's rating at BB.



### Financial markets

**The SBV loosened restrictions on foreign-currency use by foreign investors.** The central bank amended the law on the use of foreign currencies by adding new exemptions for foreign investors in purchasing shares or capital contributions of state-owned enterprises (SOEs) under an equitization or divestment process approved by the Prime Minister. The previous law from 2013 stipulated that all financial transactions in Vietnam by either residents or non-residents must be conducted in the Vietnamese Dong, unless otherwise permitted by the SBV. The newly amended law took effect on May 13, 2019 and will help ease the process of SOE privatization.



## Financial markets

**Vietnam continued to promote non-cash payments countrywide.** The government targets reducing the cash transaction ratio to below 10% by 2020 and encourages the use of non-cash payment methods. During the first quarter of 2019 internet and mobile payments in Vietnam surged 13.4%YOY and 232%YOY in value, respectively. Vietnam has a high potential to expand mobile e-payment thanks to a high mobile penetration rate. Nonetheless, major obstacles are low advanced technology access in rural areas and the fact that most people still like using cash.



## Law & Regulation

**Several elements of the Investment Law are under revision.** First, the Law on Public Investment is being revised to improve disbursement, administrative procedures, and the transparency of the project. The new draft law will give approval authority to provincial and district-level people's committees for public projects under their management, and also raise the investment cap for key national projects from VND 10 trillion to VND 20 trillion (around USD 868 million). Second, the government is considering a policy to oversee foreign-invested enterprises (FIEs). FDI has been a key driver behind Vietnam's impressive growth, but its contribution to technology transfer and local job creation remains low. Such concerns have prompted the government to work on a new FIE policy. The new regulation may bring changes to business taxation, FIE capital control, and post-investment supervision.



## EIC's view

**Vietnam will further attract foreign investment in high-tech industries thanks to its successful 5G trial program.** The country achieved its first 5G call in May 2019 and plans to bring 5G into commercial operation in 2020. Smart factories will be among the first segments employing this high-speed network. Such a move will help draw FDI to Vietnam, particularly in high-tech industry, one of sectors strongly backed by the government. **At present, Vietnam has three high-tech parks developed as research and development hubs in line with the country's aim toward innovation and value-based growth.** The three parks are located in Hanoi, Ho Chi Minh City, and Da Nang, all focusing on smart technology such as bio-technology and robotics. **Businesses in high-tech parks are eligible for investment privileges,** namely incentive tax rates and tax holidays. Nevertheless, **a lack of high-skilled workers remains a major concern to investors.**

**EVFTA will strengthen Vietnam's competitiveness as a regional export production base.** Once taking effect, EVFTA will eliminate import tariffs on 99% of products traded between Vietnam and the EU within 10 years. The agreement will bolster Vietnam's trade and draw FDI from manufacturers who target exports to EU countries. Based on a study by the Thai Commerce Ministry, **Thailand is at risk of losing competitiveness to Vietnam both in terms of exports to the EU market and investment attraction.** EU-bound products from Thailand that may face higher competition include automobiles and components and alcoholic beverages. Meanwhile, some manufacturing sectors that may lose investment attraction to Vietnam include automobiles and components, electric vehicles (EV), computers and parts, and electrical circuits.

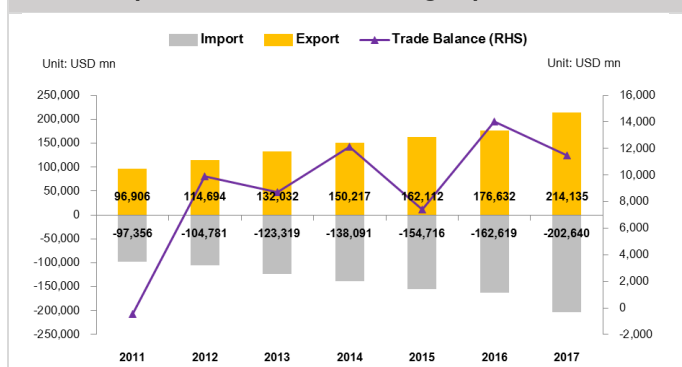


# Vietnam's Key Indicators

Domestic Demand	Unit	2014	2015	2016	2017	2018E	2019F	2020F
Real GDP	% YOY	6.0	6.7	6.2	6.8	7.1	6.5	6.5
Consumer price index	%	1.8	0.6	4.7	2.6	3.0	3.2	3.4
Current account balance	% of GDP	4.9	-0.1	2.9	3.0	3.0	3.1	2.6
Policy rate (end of period)	%	6.5	6.5	6.5	6.25	6.25	-	-

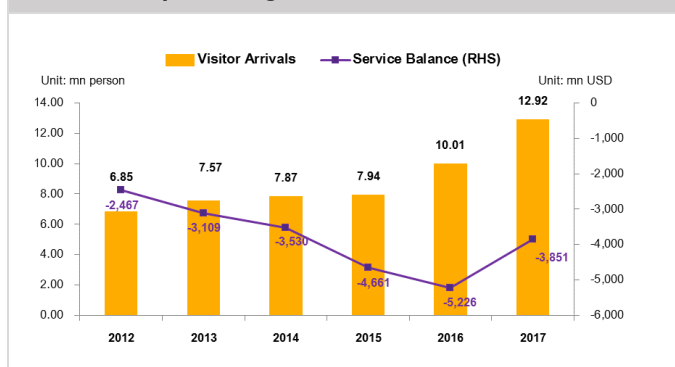
Sources: International Monetary Fund (IMF) and The State Bank of Vietnam

## Trade surplus continued with rising export demand



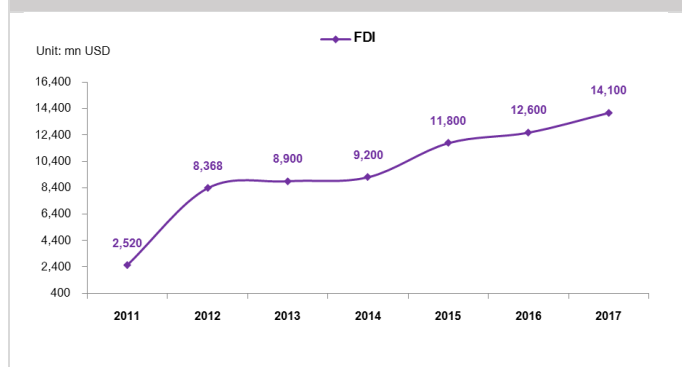
Sources: World Bank

## Tourism helped lifting service balance



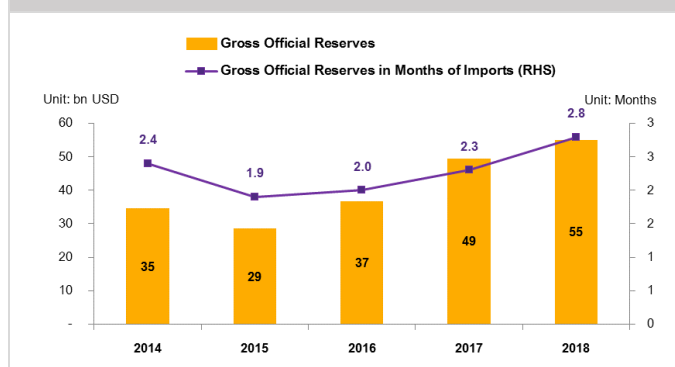
Sources: World Bank and CEIC

## FDI is on the rise, concentrated in manufacturing



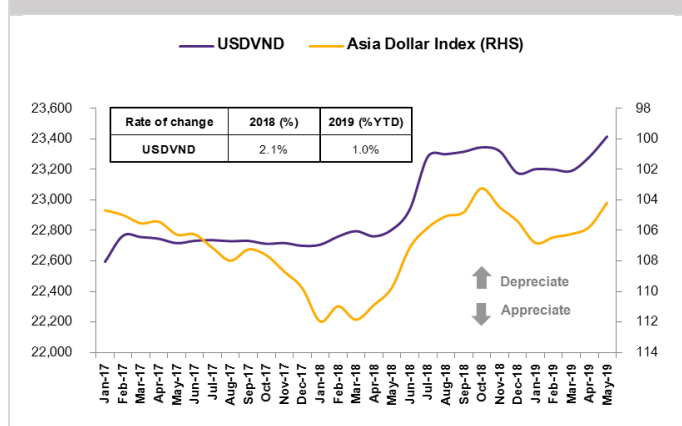
Sources: World Bank

## Reserves buffers remain lower than a 3-month standard



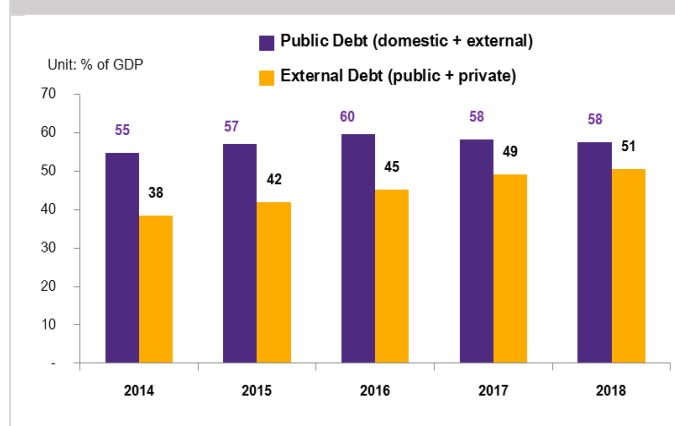
Sources: IMF

## VND moves in line with Asian currencies



Sources: Bloomberg

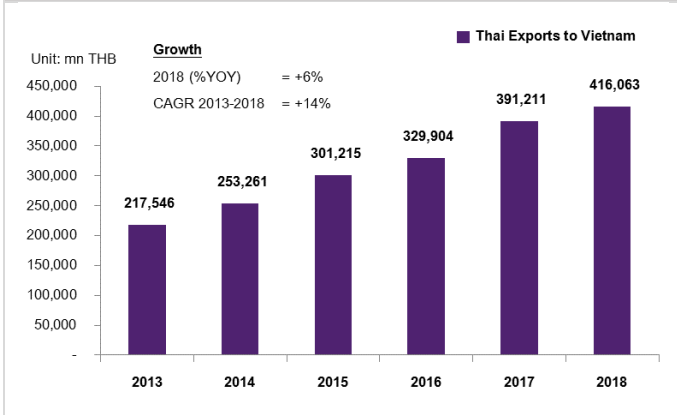
## Public debt level has been improved



Sources: International Monetary Fund (IMF)

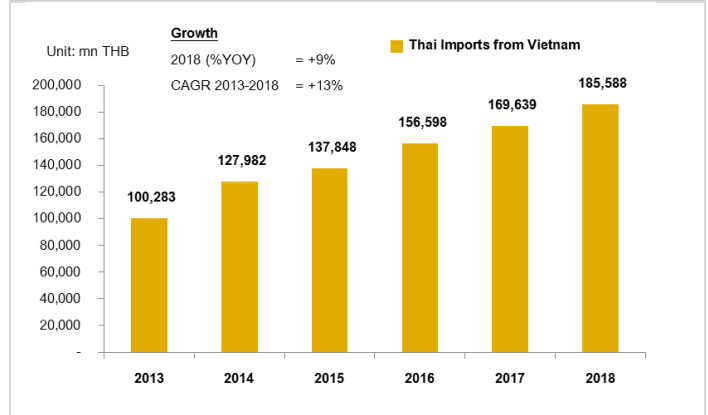
# Links with Thai Economy

## Exports to Vietnam continued rising, driven by auto parts, refined oil and polyethylene resin



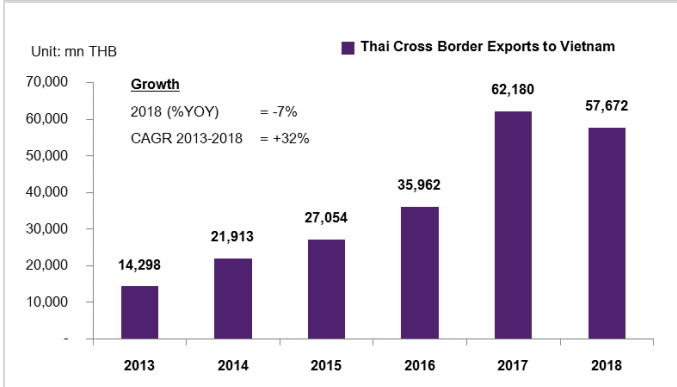
Sources: Thailand's Ministry of Commerce

## Telephones, crude petroleum oil, and electronics parts are among major imported products from Vietnam



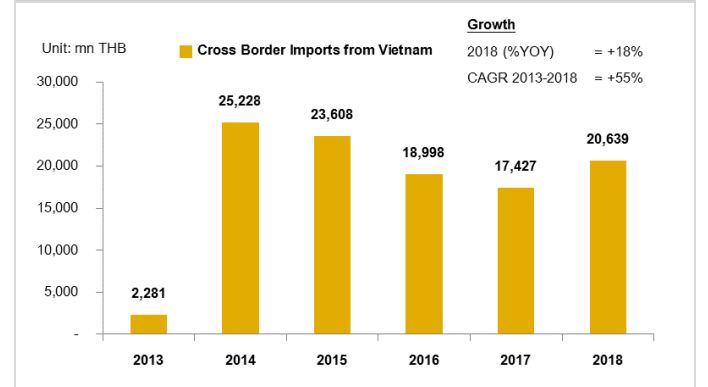
Sources: Thailand's Ministry of Commerce

## Border exports slightly dropped in 2018, but fruits exports saw a rapid growth especially frozen durian



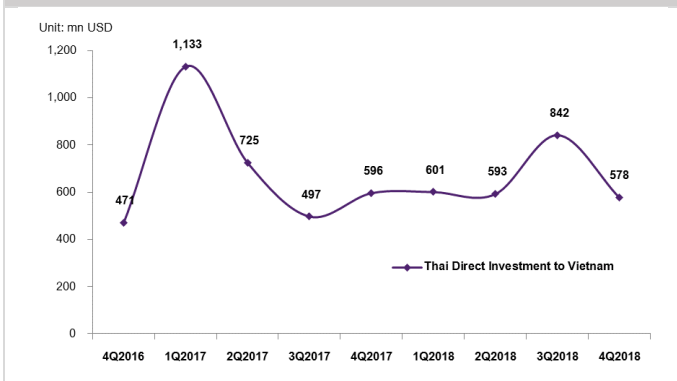
Sources: Thailand's Department of Foreign Trade

## Cross Border Imports recorded an 18%YOY growth in 2018, led by imports of electrical part and plant product



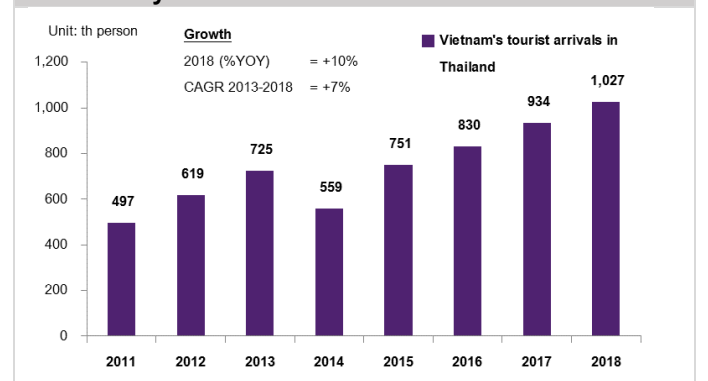
Sources: Thailand's Department of Foreign Trade

## TDI to Vietnam has been concentrated in manufacturing and financial services



Sources: Bank of Thailand

## Tourists from Vietnam has been rising particularly travelers by air



Sources: Thailand's Department of Tourism

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