



Cambodia



Laos



Myanmar



Vietnam



CLMV Monitor

Q3 | 2019

Growth to moderate in coming years from external headwinds and rising domestic challenges



CLMV Monitor

Q3 2019

CLMV economic growth will likely moderate to 6-7% in 2019 and 2020 as external risks have become more pronounced. The global economic slowdown caused by trade conflicts has had spillover effects on CLMV economies. CLMV exports in the first five months of 2019 contracted by 8%YOY, dragged down by falling shipments to major Asian trade partners. However, CLMV countries continue to attract large FDI inflows. The current trade war is likely to accelerate production relocation trends to the CLMV in the coming years, mainly to Vietnam. In addition, the tourism and service sectors are expected to play an increasing role in contributing to economic growth ahead as a buffer from weak exports. For domestic markets, urbanization and a growing middle-income class have increased people's purchasing power and demand for more varied goods and services. Nonetheless, the key risks to CLMV economies are a sharper-than-expected global economic slowdown, especially in China, and country-specific challenges.



Cambodia

Cambodia's growth remains favorable at around 6.8% in 2019, but begins to decelerate in the medium term. While the risk of losing the EBA scheme from the EU is increasing, future exports and FDI depend on the success of economic reform. The tourism sector presents promising prospects over the medium term. However, unregulated microfinance risks arose as a domestic challenge.

Myanmar

Myanmar's economy slightly moderated to 6.4% FY2018/19, supported by the domestic industrial and service sectors. Government reforms and investment are expected to boost the economy before the 2020 general election. Downside risks largely come from external factors, as exports and FDI have started to feel the impacts from the global trade slowdown.

Laos

Laos' economic growth will likely rebound to 6.4% in 2019, after severe floods slowed growth in 2018, but mildly accelerate to 6.5% in 2020. Growth is driven by electricity exports, infrastructure, and service sectors led by wholesale and retail trade and tourism. Risks are tilted to the downside by low foreign reserves and deteriorating debt sustainability as reflected in a recent sovereign rating downgrade.

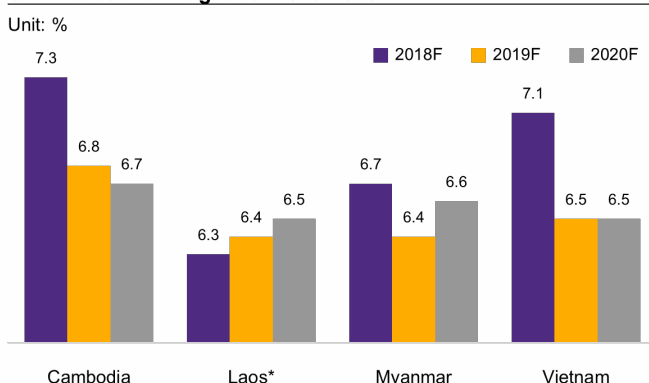
Vietnam

Vietnam's growth is likely to soften to 6.5% in 2019 and over the medium term. The US-China trade war will bring opportunities for exports and FDI to Vietnam, but also put the country at risk as the next target of the US tariffs. Japan-South Korea frictions could affect Vietnamese manufacturing as the country relies on Korean tech materials.

CLMV Highlight: A Look into Consumer Spending in Cambodia and Vietnam

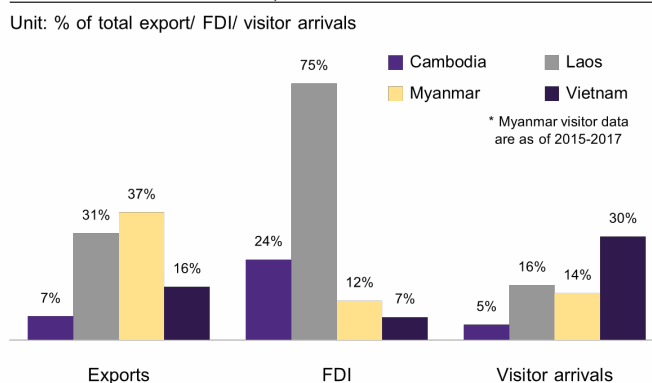
Amid global trade tensions, slow recovery is likely to continue for CLMV economies.

CLMV's economic growth 2018-2020



A high reliance on China poses risks to CLMV economies, especially to Laos.

CLMV's reliance on China, 2016-2018





CAMBODIA

OVERALL ECONOMY

Facts and Figures

Population (2018)	16.45 million
Labor force (2017)	8.9 million
GDP (2018)	24.57 USD billion
GDP per capita (2018)	1,512 USD
GDP by sector (2017)	Agriculture: 25.3%, Industry: 32.8%, Services: 41.9%
Top exports (2018)	Textile 65%, Footwear 11%, Travel goods 4.5%

Things to watch in 2019



The US, Japan, and China - alternative export markets



Growing concerns of microfinance risk

Macroeconomic update



Economic Outlook

Cambodia's economic growth remains favorable at around 6.8% in 2019. Amid rising uncertainties in global trade and the potential loss of Everything But Arms (EBA) from the EU, exports saw healthy growth at 12%YOY, especially key export products garments and footwear, which still grew well at 18%YOY in the first 4 months of 2019. Exports to the EU, the Kingdom's biggest market, decelerated to 2.5%YOY, while export growth to the US, Japan, and China recorded 22%YOY, 21%, and 29%YOY, respectively. This robust growth may be the result of the government's efforts to diversify export markets. During the first three months of the year, the Cambodia Development Council (CDC) approved 102 investment projects worth USD 2 billion, almost half last year's figure. Most projects were concentrated in garments and footwear, travel goods, other manufactured products, hotels, commercial centers, and entertainment venues. Despite many foreign companies looking for alternative production bases outside China to avoid trade war effects, none of the projects approved by the CDC has confirmed being an investment relocation from China. Over 3.3 million tourists visited Cambodia in the first half of 2019, increasing by 11.2%YOY. Chinese tourists remain the largest tourism market, with a 39% share and high growth, followed by Vietnam, Laos, and Thailand.

However, the economy is expected to decelerate to 6.7% in 2020 due to increasing external risks, particularly, the potential loss of the EBA preferential trade scheme from the EU. EIC foresees a rising odds of Cambodia losing EBA benefits (Read more in Box: Will Cambodia go on without EBA?). Since the EU started the EBA withdrawal process in February 2019, there has been no significant effort from the government to improve the human rights situation in the Kingdom and Prime Minister Hun Sen has downplayed the possible loss of the EBA scheme. Facing increased Western pressure, Cambodia has turned toward China for diplomatic and economic assistance. The slower-than-expected growth of the Chinese economy, dragged down by the trade war with the US, will likely lead to severe spillover effects on the Cambodian investment, trade, and tourism sectors, leading to higher reliance on China. In response to rising external risks, the government has continued to develop new growth engines and improve the business environment to achieve sustainable growth of around 7% over the medium term.





Financial markets

Rapid credit growth continues while microfinance risk is increasing. Overall credit growth in the first quarter of 2019 registered 26.3%YOY, picking up from 24%YOY at the end of 2018. Persistently high credit growth has been driven by microfinancing, which is facing rising concerns. Currently, there are more than 80 microfinance institutions registered with the National Bank of Cambodia, and there are additionally hundreds of unregulated credit operators that also offer microloans. According to a report by the Cambodian League for the Promotion and Defense of Human Rights (LICADHO) and local NGO Sahmakum Teang Tnaut (STT), the average microloan debt per borrower in Cambodia is rather high at around USD 3,370. This amount is close to the entire median disposable income for rural Cambodian households in 2017 (USD 3,900) and more than double the 2018 GDP per capita income (USD 1,512)¹. Though microfinance is regarded as a key tool for providing access to finance and improving the welfare of the low-income segment, the growing systemic importance of microfinance may pose downside risks to financial and macroeconomic stability in the long term.



EIC's view

Businesses should be increasingly cautious as Cambodia is facing higher risks on both the external and internal fronts, although opportunities remain. Despite a high risk of losing EBA benefits from the EU, Cambodia still presents business opportunities in non-garment and non-footwear manufacturing, such as agro-processing products, electronics, and consumer goods, which are among the priority sectors supported by the government. These products are expected to be sold overseas to the US and Japan, which still offer a GSP preferential scheme, and China, the world's top consumer market, and serve the domestic market as the middle-income segment continues to expand. Moreover, the tourism sector will maintain its moderate growth at least in the medium term. Thai businesses should consider investment in hospitality and tourism-related services in Cambodia. However, businesses should keep an eye on 1) global trade conflicts, affecting Cambodia's export potential, and 2) structural challenges, especially in financial systems, that could shake Cambodia's economic stability and medium-term growth outlook.

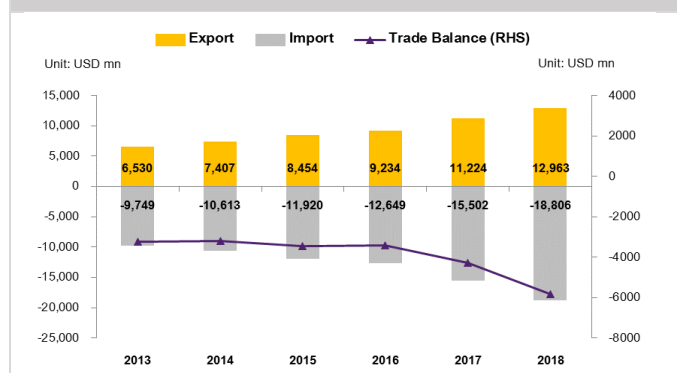
¹ Cambodian League for the Promotion and Defense of Human Rights (LICADHO) and Sahmahum Teang Tnaut, *Collateral Damage: Land Loss and Abuses in Cambodia's Microfinance Sector*, August 2019

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	-	-

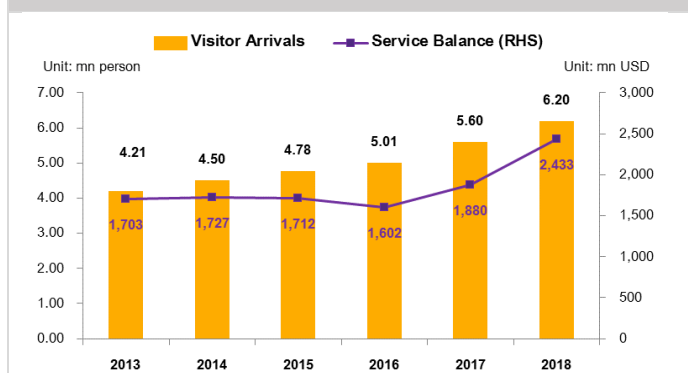
Sources: International Monetary Fund (IMF) and The National Bank of Cambodia

Trade deficits widened due to strong import demand



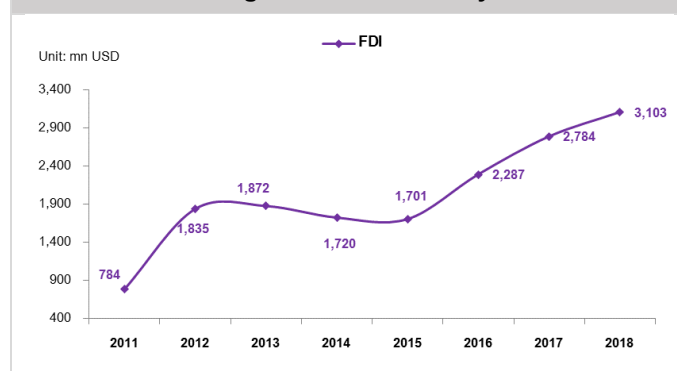
Sources: World Bank

Number of tourism visitors continued to rise



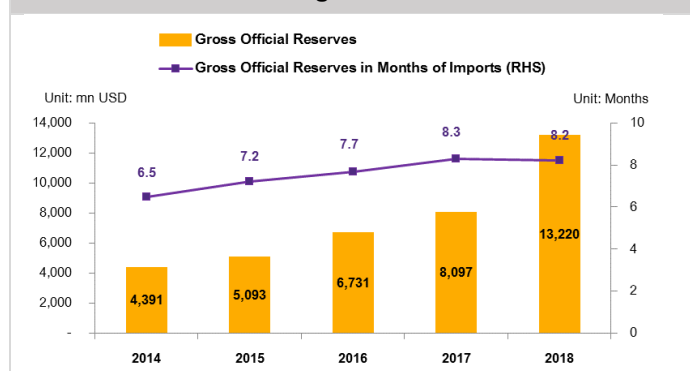
Sources: World Bank and CEIC

Cambodia is among investment-friendly economies



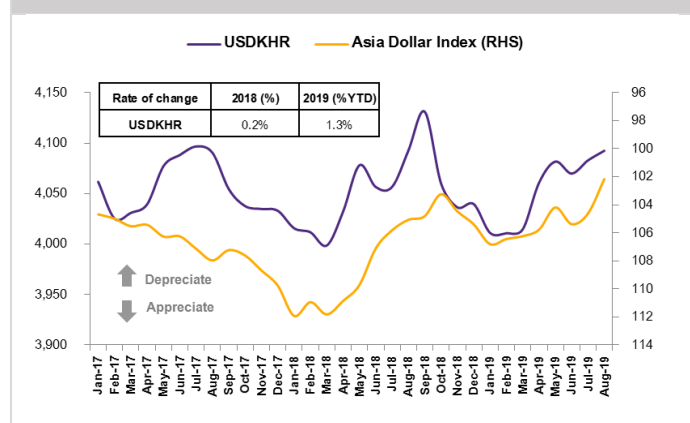
Sources: World Bank

Reserves buffers were higher than a 3-month standard



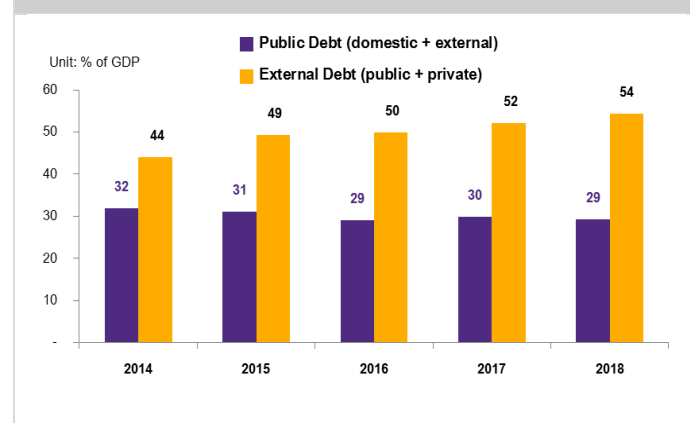
Sources: IMF

KHR has maintained its value around 4,100 per USD



Sources: Bloomberg

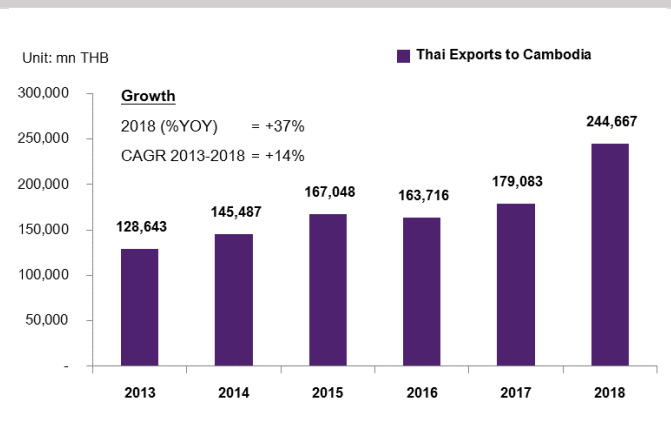
Manageable public debt level but rising external debt



Sources: International Monetary Fund (IMF) and CEIC

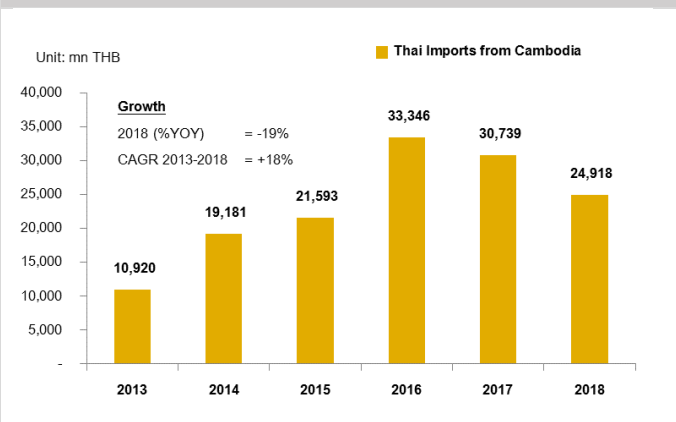
Links with the Thai Economy

Exports to Cambodia rose sharply in 2018, moving toward USD 15 billion bilateral trade commitment by 2020



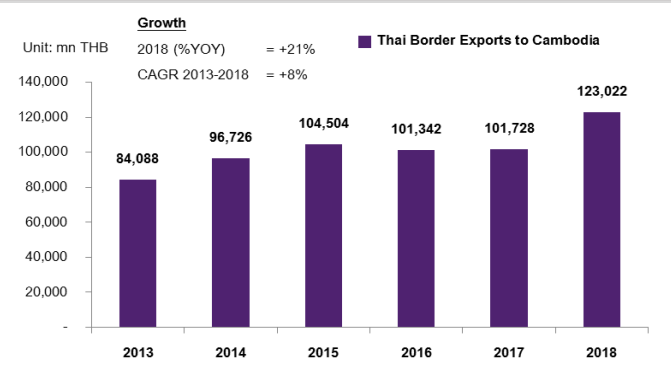
Sources: Thailand's Ministry of Commerce

Imports from Cambodia have recently declined from slower consumer product imports



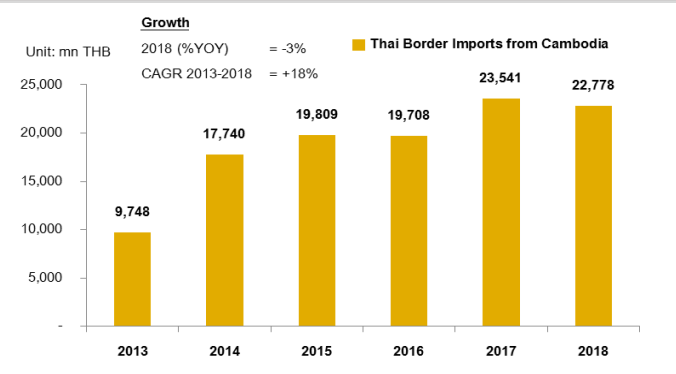
Sources: Thailand's Ministry of Commerce

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



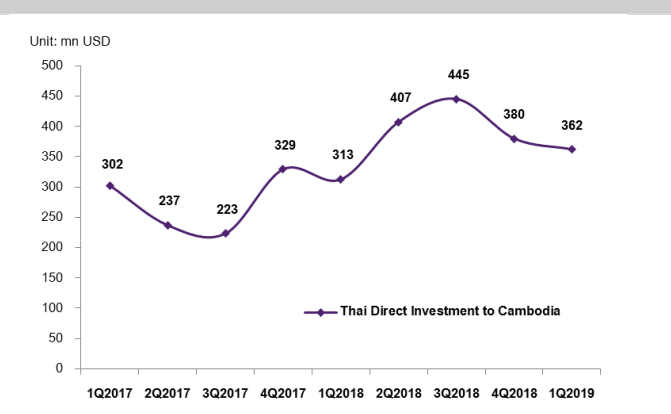
Sources: Thailand's Department of Foreign Trade

Almost all Thai imports from Cambodia in 2018 were through borders



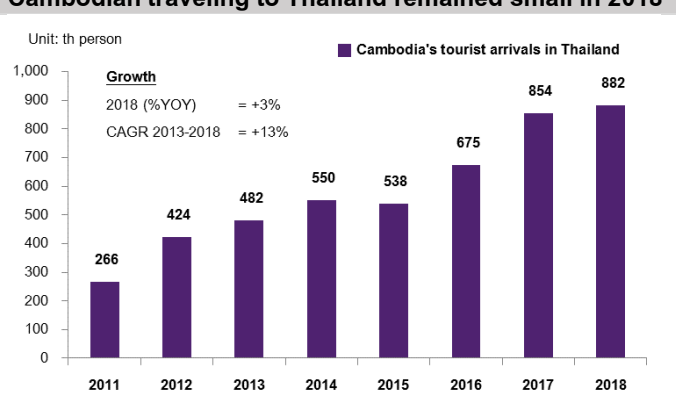
Sources: Thailand's Department of Foreign Trade

TDI in Cambodia has been slowing down recently



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

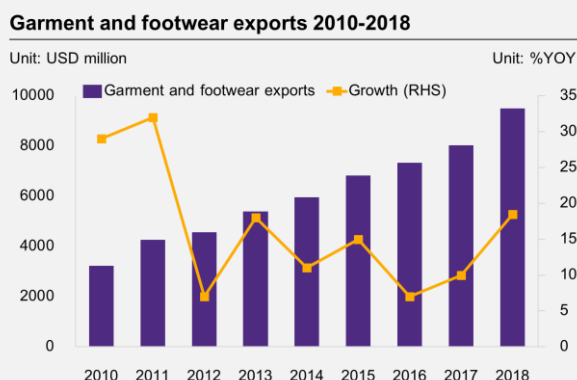
BOX

Will Cambodia go on without EBA?

The EU's Everything But Arms (EBA) preferential trade scheme has been a key factor in developing the garment and footwear industry in Cambodia over the past two decades. The industry alone accounted for 40% of the Kingdom's GDP and contributed around 2 percentage points to GDP growth in recent years. It is also the Kingdom's largest export sector, with a 75% share in total exports in 2018. Therefore, the garment and footwear industry has remained the backbone of Cambodia's economy, creating 1 million jobs for local labors and lifting approximately 33% of total population out of poverty, according to the World Bank estimation.

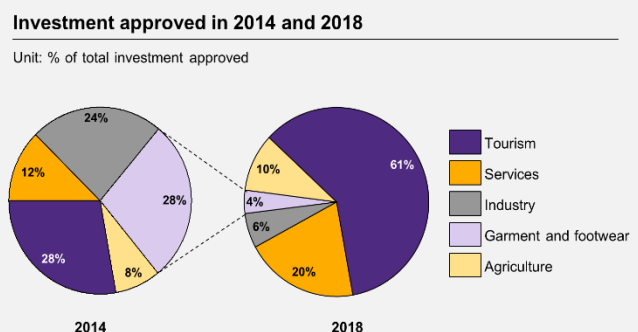
However, garment and footwear industries are expected to slow down in the medium term as the risk of losing EBA benefits from the EU increases. Exports of garment and footwear products have decelerated from 30%YOY in 2010 to 9.5%YOY in 2017 (Figure 1) as well as the share of garment and footwear products to total exports diminishing from 86% in 2013 to 75% in 2018. The share of newly approved foreign direct investment (FDI) in the garment and footwear sector also fell dramatically, from 28% in 2014 to only 4% in 2018 (Figure 2), reflecting lower foreign investor confidence in the industry. The cloudy outlook for the garment and footwear industry has been accelerated by the EU's EBA withdrawal process in February 2019, the Kingdom's biggest export market.

Figure 1: Garment and footwear exports have continued decelerating since 2010.



Source: EIC analysis based on data from Cambodia Garment and Footwear Sector Bulletin, International Labor Organization

Figure 2: Share of FDI in garment and footwear fell dramatically in 2018.



The EU started the EBA withdrawal process in February 2019 as the human rights situation in Cambodia is considered very poor in three main areas. The first is labor rights, with systematic harassment of independent trade unions and employees who have exercised their right to strike several times in the past. The second concern is land-grabbing. Due to an EBA-driven surge in sugar exports, as many as 10,000 farmers have lost their land to expanding plantations as concessions were granted to many private companies for industrial sugarcane production. Documented land grabs and associated human rights abuses by these companies affect many people from dozens of communities. The third and most significant issue, took a sharp turn for the worse. Cambodia has now become a “one-party state” after Prime Minister Hun Sen dissolved the opposition party and his CPP party won every seat in parliament in the July 2018 general election.

The Cambodian government revised its 2020 GDP growth forecast downward from 7.1% to 6.5%, taking into account the full withdrawal of EBA from the EU. Cambodia’s economy is expected to be severely affected, as the EU is the largest export market and Cambodia is the second largest beneficiary of the EU. If the government does not take enough action to improve the human rights situation before the official withdrawal of EBA takes effect in August 2020, the nation’s top export products to the EU under the EBA scheme, including garments (78% of total exports to the EU), footwear (13%), and bicycles (6%) will be subjected to import tariffs of 12%, 16%, and 10%, respectively. Higher cost burdens to Cambodian exporters are estimated to be no less than USD 700 million per year, which will likely dampen the Kingdom’s export competitiveness when comparing with its competitors; namely Myanmar, Vietnam, and Bangladesh. In addition, the EU decided to impose tariffs on Cambodian Indica rice in January 2019 at EUR 175 per ton in 2019, EUR 150 per ton in 2020, and EUR 125 in 2021, claiming that the EU domestic market was affected by the influx of Cambodian Indica rice. Thus, **EIC sees risks in Cambodia losing the EBA scheme and the chances of diminishing export competitiveness have increased.**

For beneficiary countries, EBA benefits can be withdrawn under 3 conditions;

1. If the beneficiary country graduates from Least Developed Country (LDC) status by the UN Committee for Development Policy
2. If the beneficiary country has some exceptional circumstances, notably in case of serious and systematic violation of principles laid down in fundamental human rights and labor rights conventions (under Article 19 of UN’s regulation)
3. If specific products originating from the beneficiary country affect the EU’s domestic manufacturers and market, the EU can impose tariffs on such products.

Moreover, if Cambodia meets eligibility criteria by the next triennial review in 2021, the Kingdom may graduate from LDC status as early as 2027. According to the United Nations ESCAP, in order for a country to graduate from LDC status any 2 of the 3 following eligibility criteria (alternatively, income-only criterion) must be met in 2 consecutive triennial reviews to be considered. For Cambodia, only the Human Assets Index (HAI) met the graduation thresholds in the 2018 triennial review (Figure 3), which requires Cambodia to at least achieve another eligibility criterion in the next triennial review to fully meet the graduation criteria and another 3 years to enable the CDP’s recommendation for graduation.

Figure 3: Cambodia has met eligibility criteria for the first time in 2018 triennial review.

Indicator	Graduation thresholds (2018 triennial review)	Cambodia	Meet the thresholds in 2018 triennial review
Per capita GNI	USD 1,230 or above	USD 1,075	X
	USD 2,460 or above (income-only criterion)		
Economic Vulnerability Index (EVI)	32 or below	34.8	X
Human Assets Index (HAI)	66 or above	68.9	/

Source: EIC analysis based on data from UN



EIC's view

In response to the potential loss of the EU's EBA, the Cambodian government has pushed forward efforts to promote new industries and diversify export markets, which open a window of opportunity for Thai investors. As the garment and footwear industry is losing its charm, the government has shifted to new priority sectors. Agro-industrial products, electronics, computer and parts, machinery and parts, and automobile parts present current opportunities as they are Thailand's top export products. Thai businesses could expand their production bases to Cambodia to export to other market, particularly, US and Japan, which still offer a GSP preferential trade scheme, and later to serve rising domestic demand.



LAOS

OVERALL ECONOMY

Facts and Figures

Population (2018)	6.78 million
Labor force (2017)	3.6 million
GDP (2018)	18.43 USD billion
GDP per capita (2018)	2,720 USD
GDP by sector (2018)	Agriculture: 15%, Industry: 36%, Services: 40%
Top exports (2018)	Electricity 25%, Copper 22%

Things to watch in 2019



Flash floods in the Northern province may weigh on economic growth



Progress of fiscal consolidation

Macroeconomic update



Economic Outlook

Laos' economic growth will likely rebound to 6.4% in 2019 mainly due to a low base effect. A lower growth in 2018 was due to severe flooding which damaged agricultural areas and delayed construction projects in many provinces. Major growth drivers in 2019 were electricity exports, infrastructure construction, and service sectors, which have seen robust growth in recent years led by wholesale and retail trade and tourism investment. During the first four months of 2019, exports shrank by 5%YOY, mainly from lower manufacturing shipments to Thailand. This reflected spillover effects from the global trade slowdown, particularly the electronics sector, but the decline was partly offset by buoyant exports to the US.

A weakening Lao kip fueled inflation in 2019. As of 30 August, the Lao kip depreciated by 2.3%YTD and 8.2%YTD against the US dollar and Thai baht, respectively. According to the World Bank, the reasons behind a weakening Lao kip include (1) high demand for foreign currency to cover imports and external debt service, and (2) a strengthening US dollar and baht against regional currencies. The Lao kip depreciation and higher food prices led to an inflation spike in the first half of 2019. The Bank of Lao PDR reported that inflation picked up from 1.5% in January to 2.5% in June. Rising food prices were driven by lower rice production affected by severe flooding in 2018 while a weakening Lao kip lifted the price of imported goods.

TRIS downgraded Laos' sovereign rating, citing low foreign reserves and worsening debt sustainability as key risks. In July 2019, Laos' sovereign rating was revised downward from "BBB+ with negative outlook" to "BBB with stable outlook". Downside risks to the economy are low foreign reserves, a rising debt service burden, and high external debt. The IMF estimated that foreign reserves could cover only around two months of imports in 2018, lower than the 3-month standard. Laos is also at risk for debt distress, with external debt expected to reach 122% of GDP in 2019 and remain high over the medium term. Due to limited revenue sources, the Lao government will need to acquire loans from both foreign and domestic sources to finance ongoing infrastructure projects and fiscal deficits. This will likely result in a higher debt service going forward. TRIS also lowered its rating for the EDL-Generation Public Company (EDL-Gen) as the entity is highly related to the sovereign rating outlook. The state-owned Electricite Du Laos is the sole purchaser of electricity produced by EDL-Gen and currently holds 75% of EDL-Gen shares.





Financial markets

The Lao government plans to issue more domestic bonds to fund fiscal deficits. Due to its currently high public external debt, the Lao government is seeking domestic funding sources. Local-currency bonds will be issued through the Lao Securities Exchange (LSX) and the Bank of Lao PDR. Such a move also reflects the higher potential of Laos' financial market, but its size and dynamics remain small compared to regional peers. As of August 2019, LSX has 10 listed companies and 10 government-issued bonds. The latter has a total listing value of LAK 1 trillion, or around USD 115 million.



EIC's view

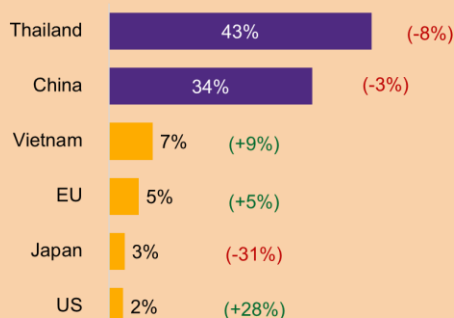
With more pronounced external risks, Laos' GDP growth should gradually rise but remain below 7% over 2019-2020. Beyond energy and construction, Laos has seen a rising share of FDI in wholesale and retail, and accommodation and food services. During 2015-2017, both sectors accounted for 39% and 19% of total FDI in Laos, respectively. This reflects an investment appetite for upholding higher consumption demand amid a growing middle class and supporting tourism services. Meanwhile, the global economic slowdown is weighing on Laos' growth outlook. Exports during January-April 2019 fell by -5%YOY, dragged down by shipments to Thailand and China declining by 8% and 3%, respectively. Both countries are Laos' top export destinations and currently facing negative effects from the escalating US-China trade war.

Compared to its regional peers, trade war effects on Laos' exports remain limited for two main reasons. First, major exports from Laos are primary goods which have low linkage with manufacturing supply chains. Key exports from Laos include electricity and farm crops. These products are less likely to be affected by the trade war. **Second, Laos receives preferential trade treatment from various countries, which would help in securing exports amid rising trade protectionism.** Listed as a Least Developed Country (LDC), Laos is eligible for Generalized System of Preferences (GSP) privileges from more than 50 countries, including Japan and the EU, and LDC preferential treatment from China and Thailand.

However, trade war effects on FDI and tourism, especially from China, could be significant. Apart from being its top trade partner, China's influence over Laos is growing through investment and tourism. In 2018, China was the top FDI source in Laos, accounting for 79% of foreign investment and ranking third in terms of foreign visitors. Between 2015-2018, the number of Chinese tourists surged 32% per year on average. Its share to total foreign visitors also expanded from 6% in 2010 to 19% in 2018. With such high reliance, a sharper-than-expected slowdown in China's economy would pose severe risks to Laos' outlook going forward.

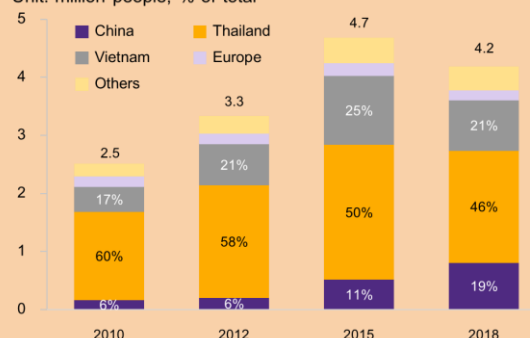
Laos' exports by major destination, 2018

Unit: % of total exports, (% growth 4M19)



Number of tourism arrivals to Laos

Unit: million people, % of total



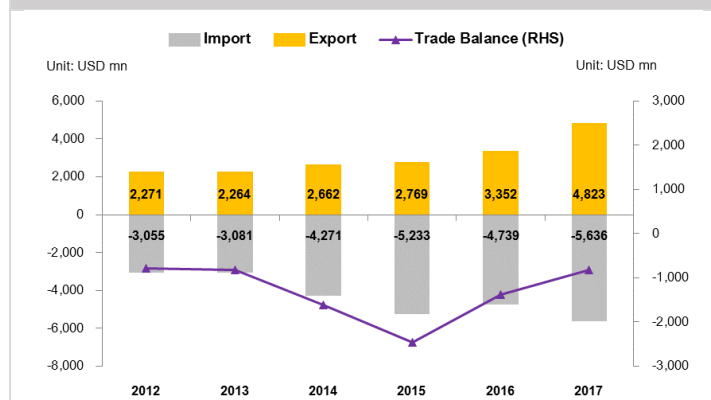
Source: IMF, Lao Statistics Bureau, and CEIC

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	-	-

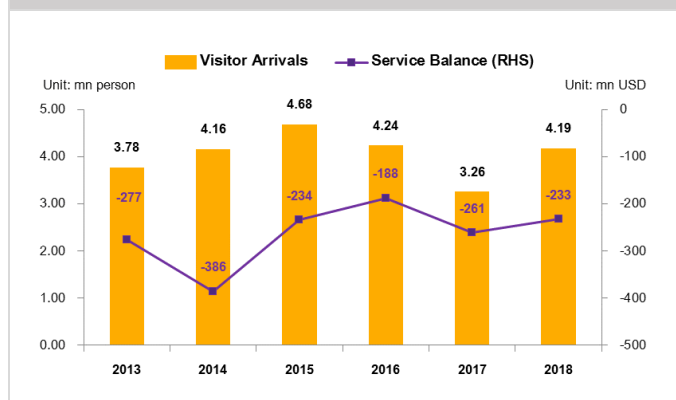
Sources: International Monetary Fund (IMF) and Bank of the Lao PDR

Trade balance improved thanks to surging exports



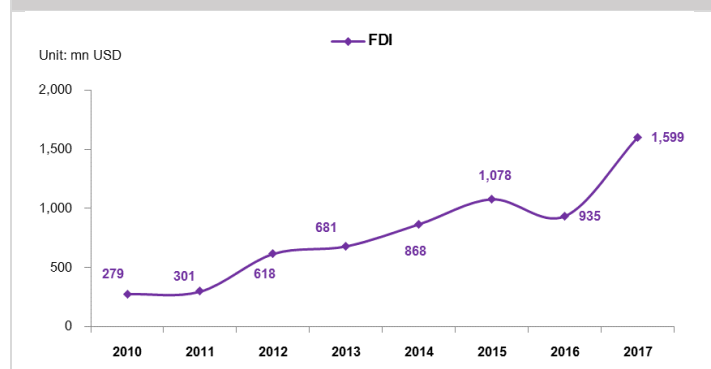
Sources: World Bank

Tourism visitors dropped during the past 2 years



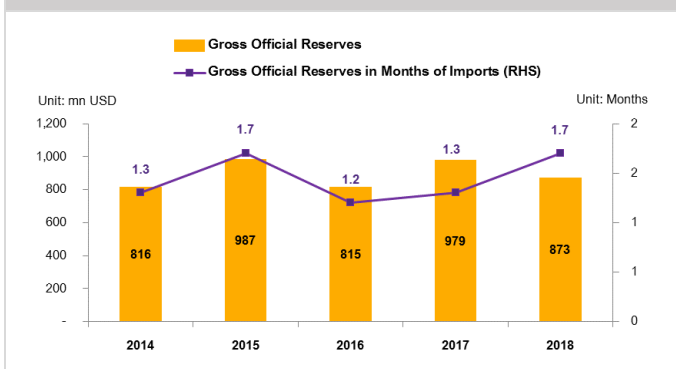
Sources: World Bank, Lao Tourism Development Department, CEIC

FDI fell but remained solid led by Chinese investment



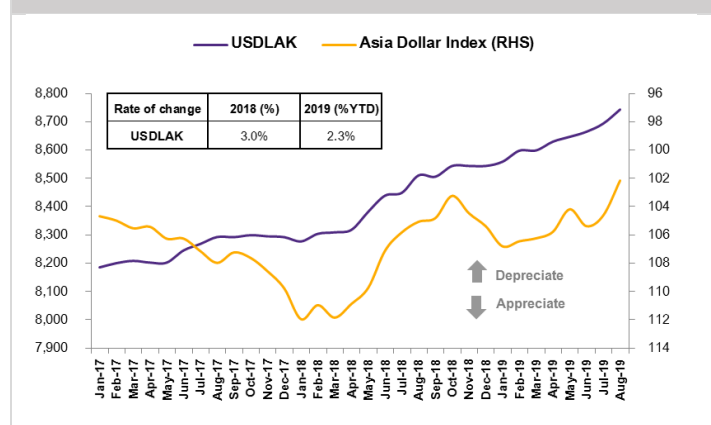
Sources: World Bank

Low foreign reserves intensified external vulnerability



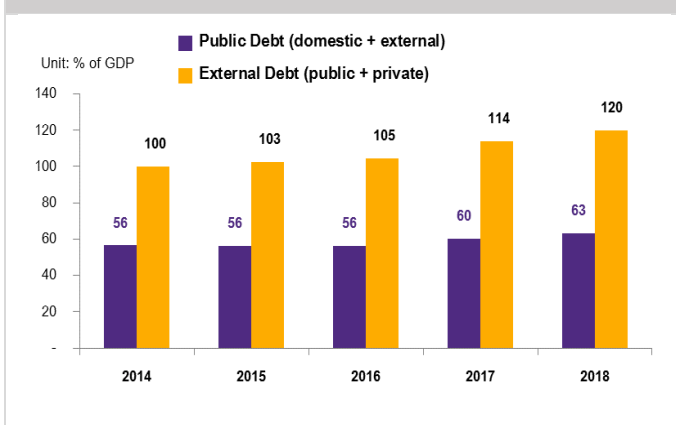
Sources: IMF

LAK is depreciating as USD strengthens



Sources: Bloomberg

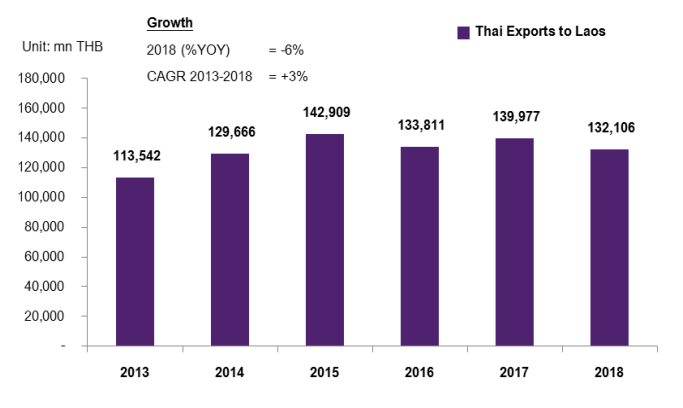
High external debt level is a major risk to Laos



Sources: International Monetary Fund (IMF)

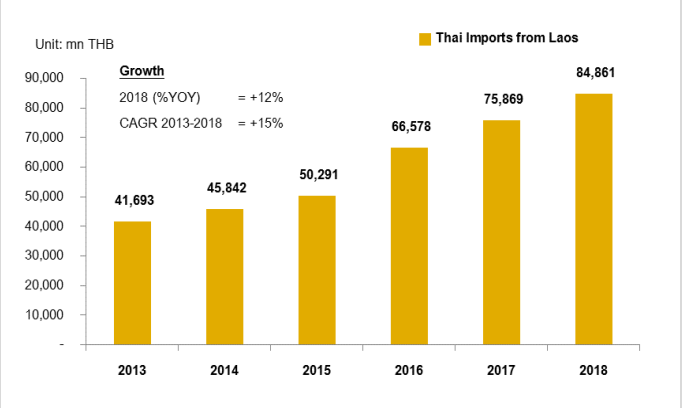
Links with the Thai Economy

Exports to Laos slowed in 2018, dragged by industrial products and auto parts



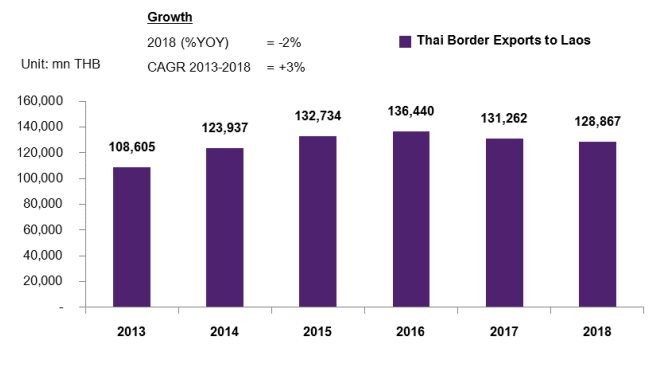
Sources: Thailand's Ministry of Commerce

Imports from Laos continued to rise thanks to a surge in imports of electronics parts



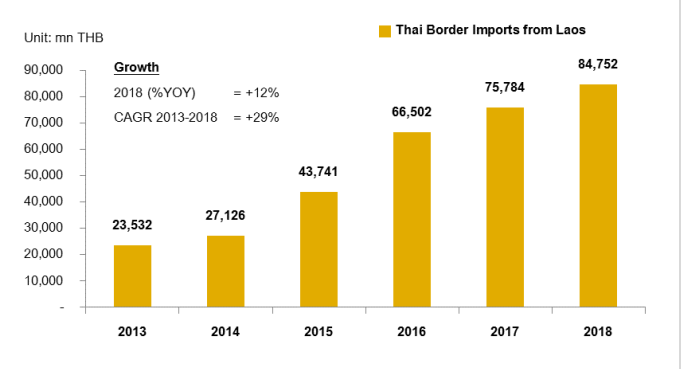
Sources: Thailand's Ministry of Commerce

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



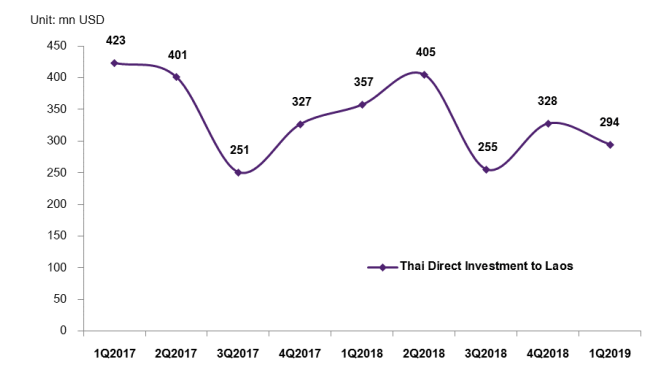
Sources: Thailand's Department of Foreign Trade

Expanding border imports were led by electricity and copper products



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 route 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 economy is slowly regaining its momentum, with expected growth at 6.4% in FY2018/19, after moderation in a transition period¹. The recovery is supported by a modest fiscal stimulus and moderate inflation supporting consumer spending. The industrial sector still performs well, and manufacturing output growth is expected to pick up to 10.2%, led by the production of garments for export and new higher value-added products, such as machinery parts and components, building materials, and auto parts. Moreover, the purchasing managers' index remained above the 50-benchmark level. Government and private infrastructure projects should boost the construction sector. The service sector, which accounted for 42% of GDP in 2018, will maintain healthy growth of around 8.3% in FY2018/19 due to a boom in the wholesale and retail sectors and logistics after liberalization in mid-2018. The acceleration of government economic reforms and investment in mega projects before the 2020 general election will also help boost the economy.

Myanmar's external sector saw mixed signals. Export growth in the first quarter of 2019 turned negative, particularly a decline in exports to China, one of the nation's largest markets, indicating spillover effects from the global economic slowdown and the trade war. Similarly, imports declined, dragged down by consumer goods and investment products, signaling softening domestic demand. However, imports of industrial intermediate goods still grew well in line with recovery in industrial production. In the first half of FY2018/19, FDI commitments began to pick-up slightly, but remained a third of the total amount of the last fiscal year. FDI is expected to increase as the government has initiated measures to boost FDI, including financial sector liberalization and the formation of a new Ministry for Investment and Foreign Economic Relations.

¹ Myanmar's transition period was during April to September 2018 (A new fiscal year starting from 1 October 2018 – 30 September 2019).



Downside risks to the economic outlook are driven largely by external sources. The global economic slowdown and the trade war have begun to hit Myanmar's exports. Furthermore, exports to the EU are also facing higher risks from the possible revocation of access to the EU market under the Generalized System of Preferences (GSP), following human rights concerns in Rakhine State since 2017. Internal conflicts between ethnic tribes in several states, including Rakhine State, remained a major domestic risk. These risks could severely affect Myanmar's economy through the export, FDI, and tourism sectors.



Financial markets

Credit growth gradually cooled in FY2018/19 as more banks complied with prudential regulations. Credit growth to the private sector stood at 20% in the first quarter of 2019, a slight drop from 21% during the transition period. Loans remained concentrated in a few sectors – trade, construction, services, and agriculture – comprising 68.5% of total loans. This loan concentration should be closely monitored as the construction and agriculture sectors are sensitive. There has been progress in financial access for SMEs, with loan growth registering 80%YOY in the first quarter of 2019. This was partly the result of the Central Bank permitting a 16% lending rate without collateral, aiming to help SMEs, which generally have insufficient collateral.

The Central Bank of Myanmar (CBM) continued to increase liquidity and smooth volatility in the foreign exchange market. After the adoption of a full floating regime, the Kyat averaged 1,541 against the US dollar in the first half of FY2018/19, in line with other regional currencies. The CBM permitted banks with foreign licenses to open Chinese yuan and Japanese yen accounts for cross-border transactions to reduce reliance on the US dollar and ease depreciation pressure. Meanwhile, the spread between the official reference rate and the parallel market narrowed. The outcome is partly linked with the CBM's introduction of a market-based reference exchange rate.



EIC's view

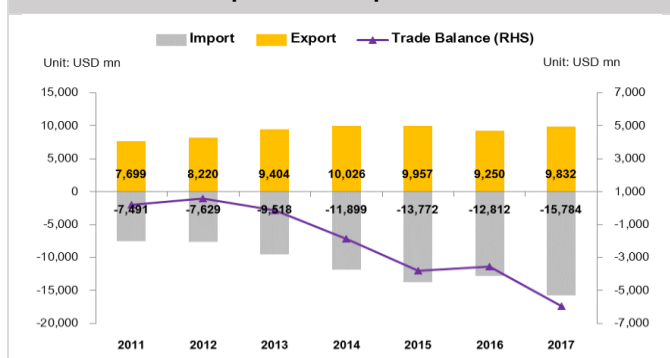
Domestic economic activities are picking up slightly, signaling a firm prospect for higher household consumption. Continued growth in the industrial sector, led by growing manufacturing in garment and agricultural processing, is expected to greatly contribute to income generation for local workers. As reflected by an improving labor market and rising minimum wages, the people of Myanmar should have higher purchasing power and demand more consumer products. With ongoing government reforms, business sentiment and facilities are expected to improve in the near future. Processed food and beverages, clothing, and other fast-moving consumer goods offer strong business potential, given low cost advantages and Myanmar's limited production capacity. Thai businesses could either export more consumer products or expand their production base in Myanmar to leverage Myanmar as a hub between South Asian and Southeastern Asian countries and to diversify risks from major economies such as China and the US. Moreover, ongoing liberalization in the financial sector and new product development in Myanmar's banking sector should increase alternative financing sources for businesses.

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	-	-

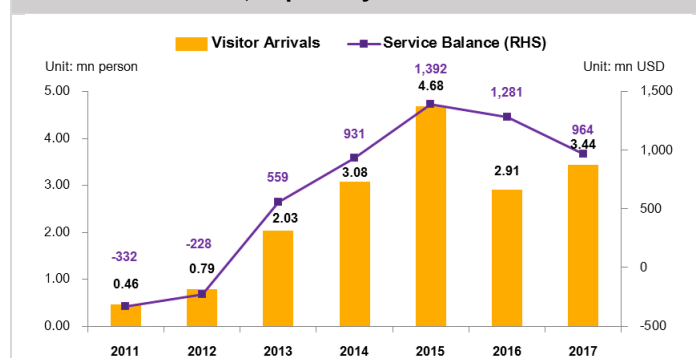
Sources: International Monetary Fund (IMF) and The Central Bank of Myanmar

Trade deficits deepened as imports continued to rise



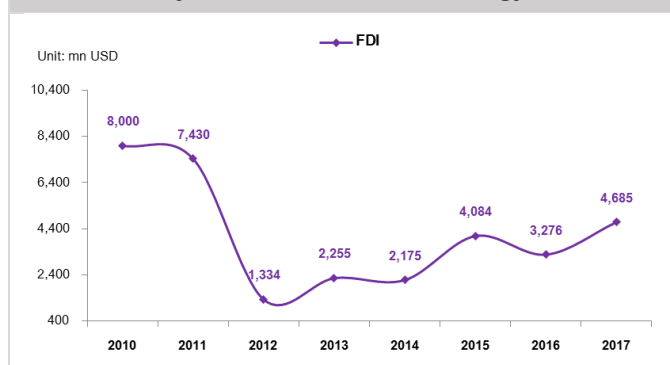
Sources: World Bank

Tourist arrivals fell, especially from western countries



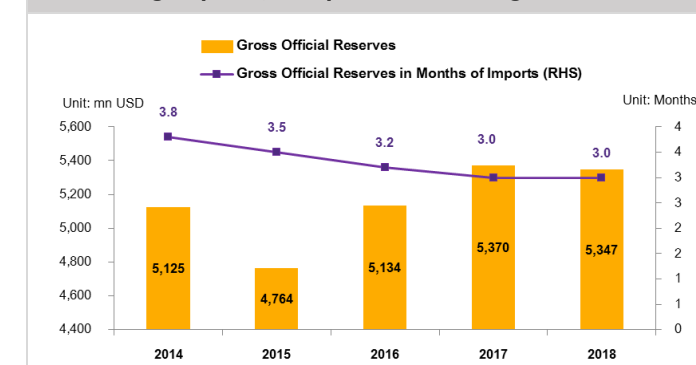
Sources: World Bank and CEIC

Slow recovery in FDI inflow due to Rohingya crisis



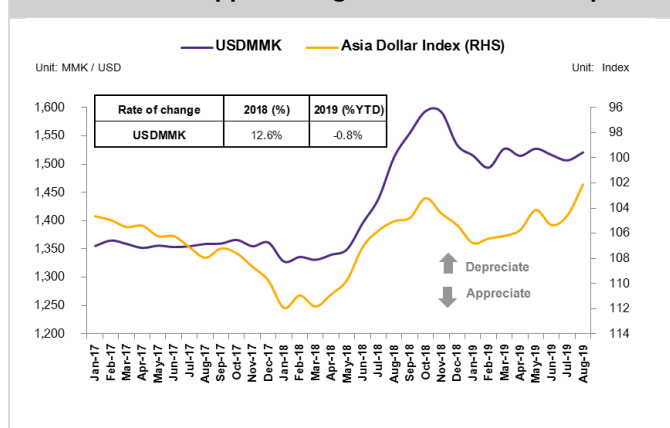
Sources: World Bank

Fast rising imports, compared with foreign reserves



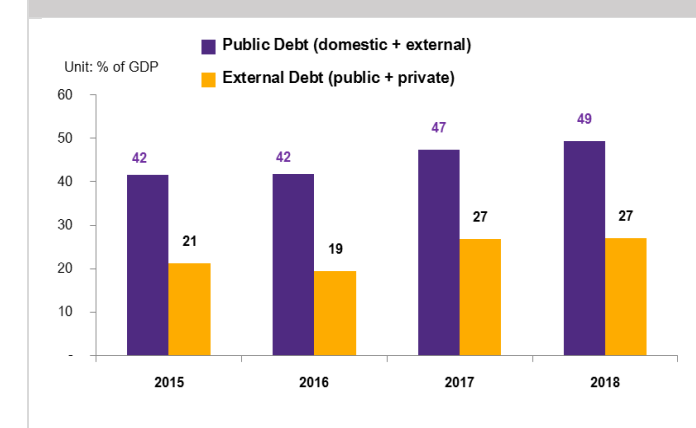
Sources: IMF

MMK turned to appreciating trend in line with its peers



Sources: Bloomberg

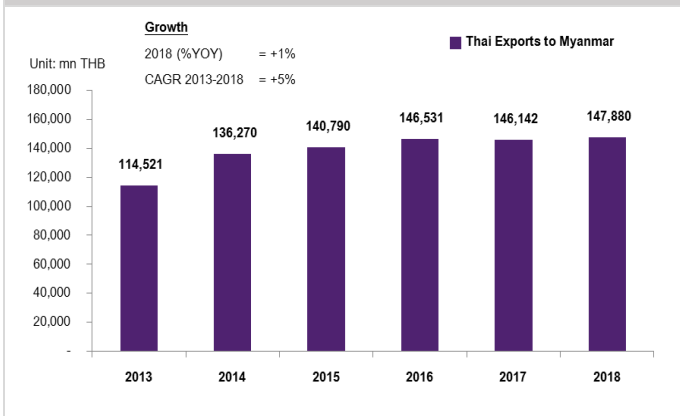
External debt remained low



Sources: International Monetary Fund (IMF) and CEIC

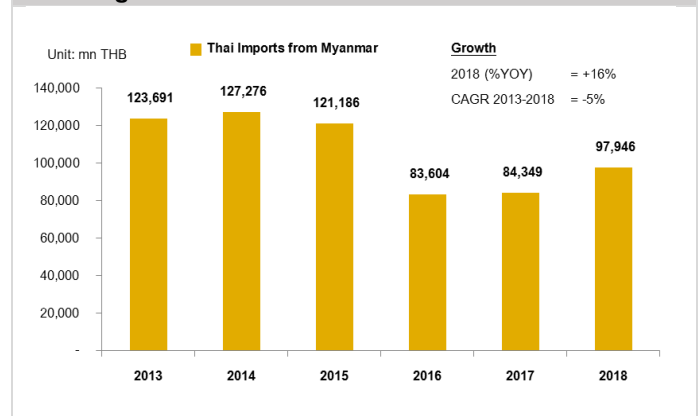
Links with the Thai Economy

Thai exports to Myanmar marginally increased in 2018, due to a weaker domestic demand



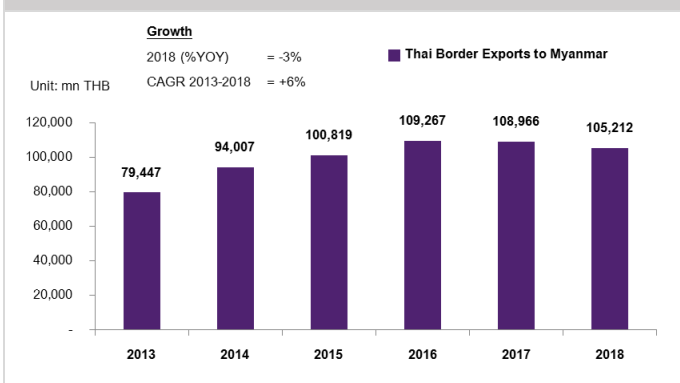
Sources: Thailand's Ministry of Commerce

A recent rebound in Thai imports was mainly driven by natural gas and raw materials



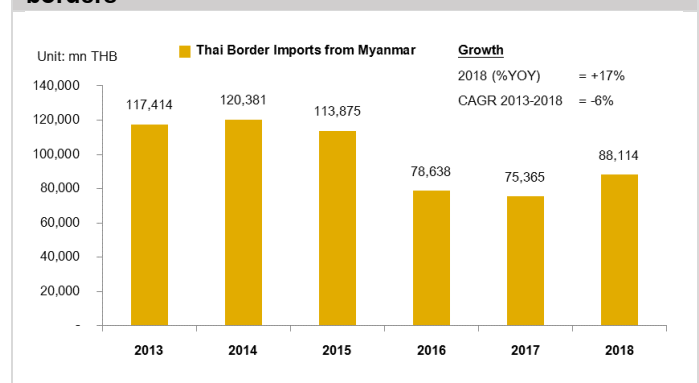
Sources: Thailand's Ministry of Commerce

Thai exports through 2 major borders dropped in 2018



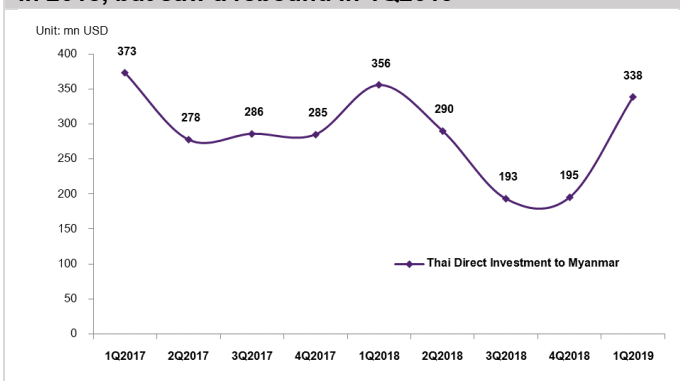
Sources: Thailand's Department of Foreign Trade

Thai import activities in 2018 improved in all Myanmar borders



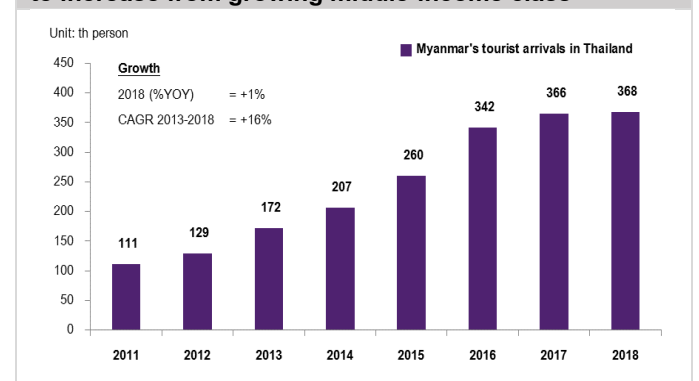
Sources: Thailand's Department of Foreign Trade

Thai direct investment in Myanmar dropped significantly in 2018, but saw a rebound in 1Q2019



Sources: Bank of Thailand

The number of Myanmar tourist arrivals has continued to increase from growing middle-income class



Sources: Thailand's Department of Tourism



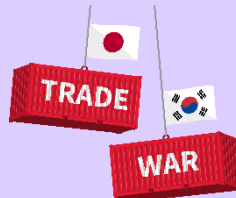
VIETNAM

OVERALL ECONOMY

Facts and Figures

Population (2018)	94.58 million
Labor force (2018)	55.35 million
GDP (2018)	241.27 USD billion
GDP per capita (2018)	2,551 USD
GDP by sector (2018)	Agriculture: 14%, Industry: 35%, Services: 39%
Top exports (2018)	Electronic products 32%, Garments and footwears 21%

Things to watch in 2019



Japan-South
Korea trade
frictions



Additional
import tariffs
imposed by
the US

Macroeconomic update



Economic Outlook

Vietnam's strong growth continued in the first half of 2019. The nation's economy expanded by 6.7%YOY in the second quarter, after 6.8%YOY growth over the previous three months. During January-July, registered FDI fell by 12%YOY, mainly from sluggish real estate and construction sectors, but FDI in manufacturing recorded 50%YOY growth – bolstered by a production base relocation trend from China to Vietnam. Industrial production rose 9.4%YOY during the first seven months while the PMI hovered above 50, indicating a robust manufacturing sector. Inflation climbed to 2.4%YOY in July led by higher pork and food prices, but remained below the 4% target. According to the IMF's Direction of Trade Statistics (DOTS), merchandise exports during January-May declined by 9%YOY¹, mainly from falling shipments to key trade partners, except for the US. Furthermore, economic growth in Vietnam will soften to 6.5% in 2019 and 2020 on the back of stricter credit growth controls and the global economic slowdown.

Key risks ahead to the Vietnamese economy are pressure from trade wars and slower economic growth in major trade partners. Based on the World Bank data, exports accounted for 95% of Vietnam's GDP in 2018. This figure indicates the country's high reliance on exports, and shows that reduced trade with its major partners would hinder Vietnam's economic growth. Apart from the US, Vietnam's largest export markets are China, South Korea, Japan, and Hong Kong – all at risk of weakening growth affected by global trade deceleration. In the first five months of 2019, Vietnamese shipments bound for those four countries contracted by 17%YOY, 6%YOY, 10%YOY, and 23%YOY, respectively. Moreover, recent trade friction between Japan and South Korea may weigh on the nation's electronics goods manufacturing as Vietnam relies on materials and parts imported from South Korea.



Financial markets

The State Bank of Vietnam (SBV) continued curbing credit growth and dollarization. The SBV targets 14% credit growth in 2019 and set a credit growth ceiling for each commercial bank based on their financial soundness, using Basel II adoption as an incentive. Banks that meet Basel II standards before SBV's 2020 deadline will enjoy a higher credit growth ceiling of 15%, while the rate for others will be set below 12%. The SBV has also implemented foreign-currency lending controls to downsize dollarization. Beginning 1 October 2019, the SBV will cut off mid- to long-term lending in foreign currencies for offshore payments of imported goods and services.

¹The national data from General Statistics Office Of Vietnam reported that export growth still increased 7.3%YTD (As of 30 August 2019).





Law & Regulation

A new Tax Administration Law will take effect in July 2020. In June 2019, Vietnam's National Assembly passed legal reforms to help ease tax filing and collection processes. Key changes include; (1) speeding tax registration certificate issuance to 3 days from the previous 10 days, (2) extending the duration of personal income tax returns from 90 to 120 days, and (3) adding regulations related to e-commerce activities which will be enforced later in July 2022. Under the new law, foreign businesses that trade goods with the country via online platforms – with or without establishment in Vietnam, are all subject to tax registration. Once enforced, the law is expected to increase Vietnam's ease of doing business and improve tax collection procedures.



EIC's view

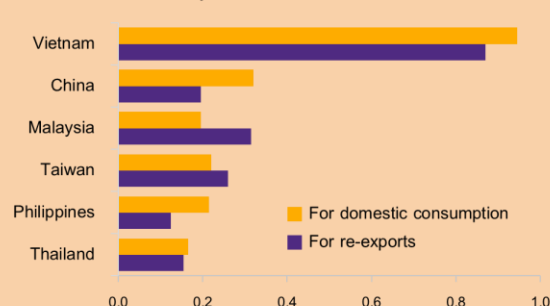
Current global trade tensions present both opportunities and threats to Vietnam. The US-China trade war has increased Vietnamese exports to the US as substitutes for Chinese products. **Trade tensions also accelerate a production relocation trend to Vietnam**, especially among China-based manufacturers seeking to avoid higher US import duties. **Yet, such boons also put Vietnam at risk as the next target for US trade protectionism.** On July 2, the US imposed tariffs of over 400% on steel products imported from Vietnam originating from South Korea or Taiwan, accusing both Asian nations of exporting products from Vietnam to circumvent US anti-dumping duties. The new tariff may not directly relate to the current trade war, but it fuels risks that the US could slap further tariffs on Vietnamese goods.

In response to rising threats from the US, **Vietnam's government plans a "Made in Vietnam" scheme to crack down on these types of circumventive activities.** Under the draft circular, Made-in-Vietnam products must originate, be wholly produced, or have a localization rate of at least 30% in Vietnam. This means that shipments from other countries that undergo minor processing in Vietnam for re-export will not be labelled as Vietnamese products, and hence not eligible for preferential treatment granted to Vietnam.

Meanwhile, recent Japan-South Korea trade war may adversely affect Vietnam's manufacturing sector through slower material supply from South Korea. On July 4, Japan imposed an export control measure on three electronic materials bound for South Korea. The measure would delay the export process of such materials to South Korea and result in slower semiconductor production since that industry heavily relies on key materials imported from Japan. This will likely later affect Vietnam – a major production base for South Korean electronic goods. South Korean tech products consumed and re-exported amount to 1.8% of Vietnam's GDP. Mizuho Research Institute also found that Vietnam's reliance on South Korean imports for some tech components was the highest among Asian countries. With such substantial dependence, uncertainties arising from Japan-South Korea conflicts could undermine Vietnam's export outlook ahead.

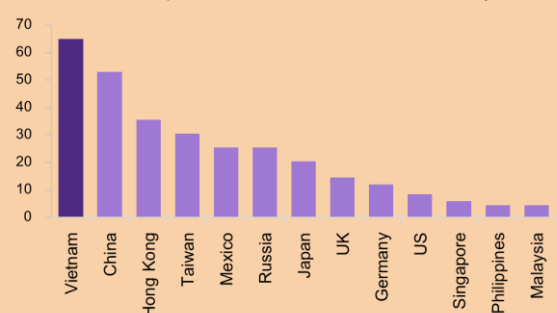
Tech imports from S.Korea, 2015

Unit: % of each country's GDP



S. Korean share in imports of tech materials, 2018

Unit: % of total imports of tech materials in each country



Source: Goldman Sachs (July 2019) and Mizuho Research Institute (July 2019)

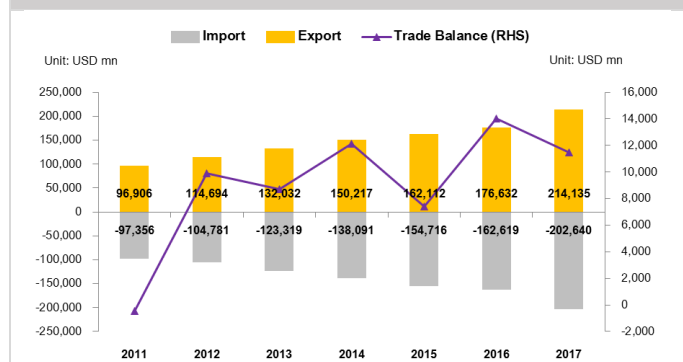
Remark: For further analysis, see the article "Macro implications of Japan's tightening of export controls on shipments to Korea" (Goldman Sachs, July 2019)

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	-	-

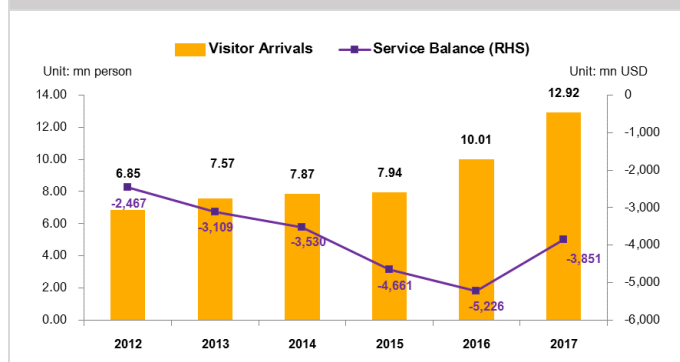
Sources: International Monetary Fund (IMF) and The State Bank of Vietnam

Trade surplus continued with rising export demand



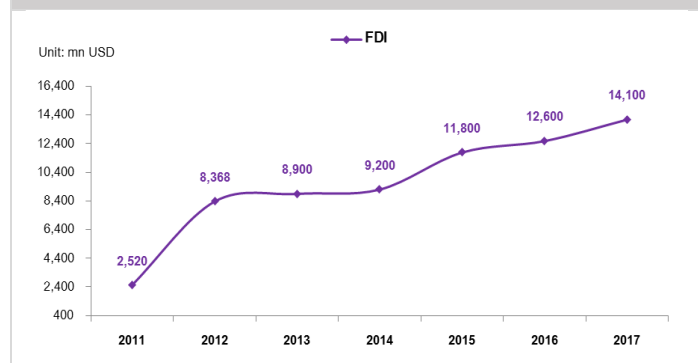
Sources: World Bank

Tourism helped lifting service balance



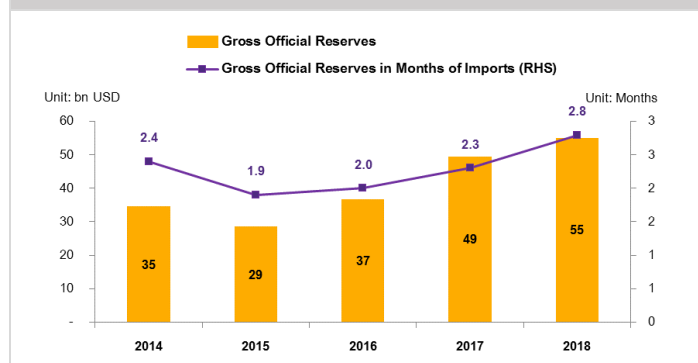
Sources: World Bank and CEIC

FDI is on the rise, concentrated in manufacturing



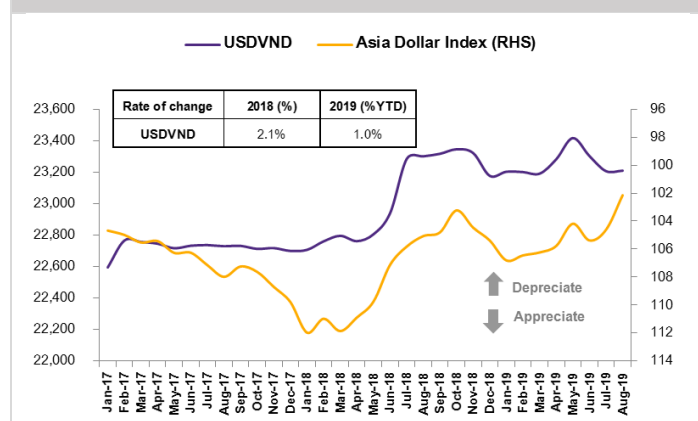
Sources: World Bank

Reserves buffers remain lower than a 3-month standard



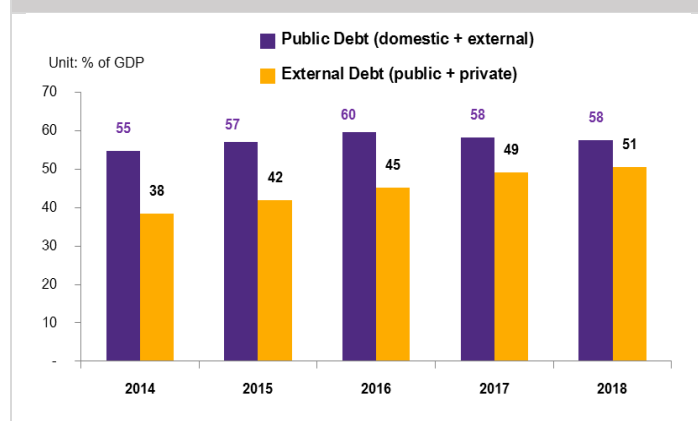
Sources: IMF

VND moves in line with Asian currencies



Sources: Bloomberg

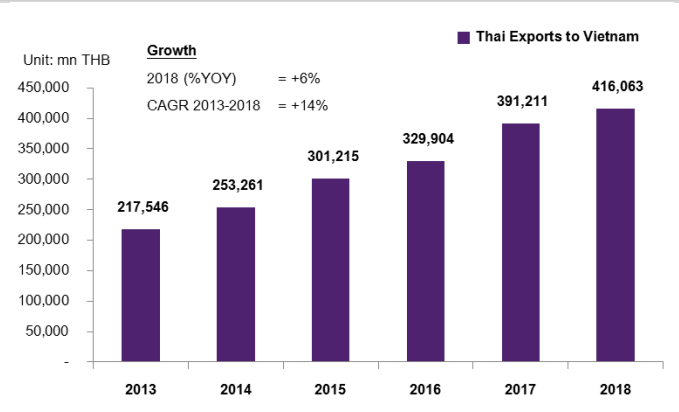
Public debt level has been stable around 58%



Sources: International Monetary Fund (IMF)

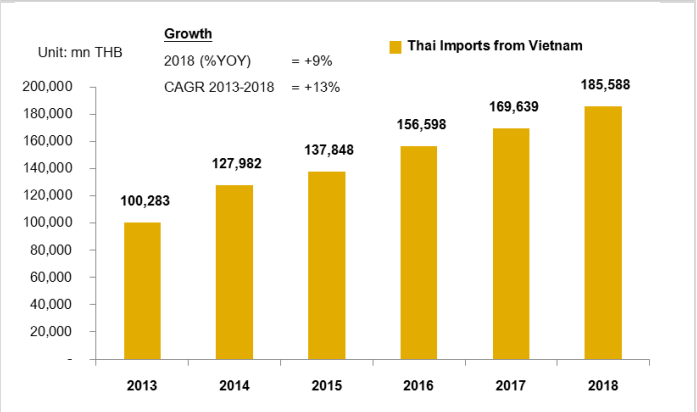
Links with the Thai Economy

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



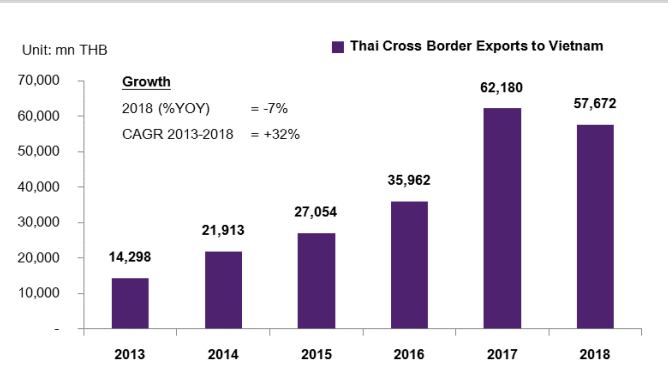
Sources: Thailand's Ministry of Commerce

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



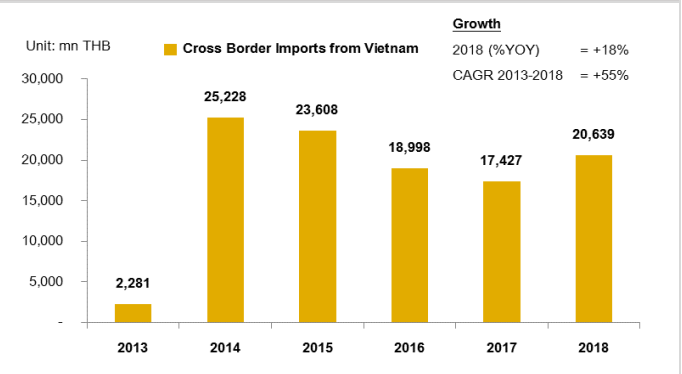
Sources: Thailand's Ministry of Commerce

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



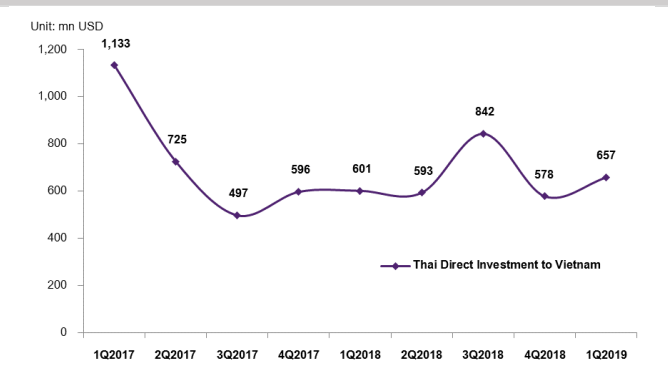
Sources: Thailand's Department of Foreign Trade

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



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

CLMV Highlight

A Look into Consumer Spending in Cambodia and Vietnam

In this issue, EIC looks closely into consumer spending in Cambodia and Vietnam, extracting insights in terms of growth and changing patterns. Over the past decade, rapid economic growth has led to job creation and higher urbanization in CLMV economies. Growth has bolstered incomes and increased the purchasing power of the local people. Household consumption in CLMV countries is expected to further increase in the coming years, especially in Cambodia and Vietnam, where economic activities are thriving.

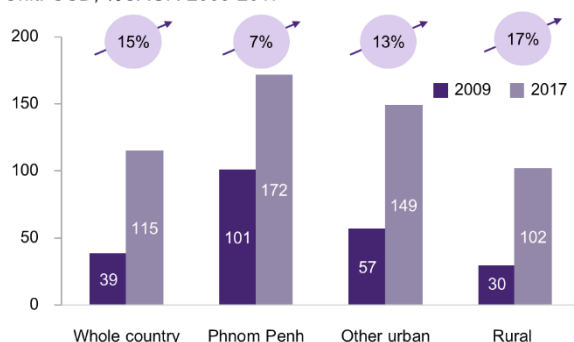
Cambodia

Rapid wage growth has been driven by minimum wage hikes. Based on the Socio-Economic Survey, Cambodia's labor force consists of almost 9 million workers and is considered young, with a median age of 25 years. Around half (51%) of them are paid employees, who mostly work in Phnom Penh and urban areas where manufacturing factories are located. Their average monthly salary has been higher than the return from agricultural activities of own account/self-employed workers (44.5%) in rural areas. The rapid growth of the Kingdom's average monthly wage at 15% per year was largely a result of continued minimum wage hikes from USD 50 in 2009 to USD 153 in 2017 (USD 182 in 2019). During the same period, consumption spending has also grown 8% annually on average. **Cambodians spent more than they earned.** In 2009, consumption expenditure was around 1.5 times higher than income. Even though that number has gradually gone down over time, Cambodians still spent most of their income (97%) for consumption in 2017. This, therefore, could imply that demand for Cambodian household consumption will grow in the years ahead (Figure 1) if the country continues to expand at a reasonable pace.

Figure 1: Rapid growth in Cambodia's household income and expenditure was largely a result of continued minimum wage hikes.

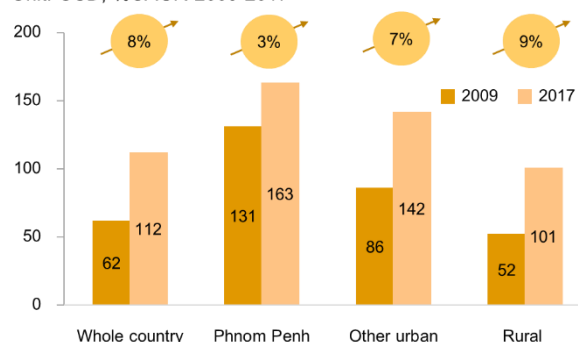
Cambodia's average monthly income per capita

Unit: USD, %CAGR 2009-2017



Cambodia's Monthly consumption expense per capita

Unit: USD, %CAGR 2009-2017



Source: EIC analysis based on data from Cambodia Socio-Economic Survey

Cambodians spent a large proportion of their income on household basic needs, but consumer behavior is about to change. Food and non-alcoholic beverages accounted for almost half of total expenditures. Consumption for housing, including utilities, rental and so on, was the second highest category, staying at 20% of total expenditures from 2009 to 2017, partly due to high electricity costs. EIC has observed some changes in Cambodian consumption patterns during 2009-2017 (Figure 2). Over the past eight years shares of transportation and other goods have increased. A significant improvement in transportation consumption from 5% to 10% was boosted by the purchase of vehicles in Phnom Penh in recent years. The consumption of miscellaneous goods has also increased, indicating that there is rising demand for other consumer goods beyond basic needs.

Figure 2: Cambodian households spent a large proportion of total expenses on basic household consumption and a growing share of more varied goods.

Cambodia's monthly consumption expenditure by composition

Composition	% of total expenditure	
	2009	2017
Food & drink	51%	45%
Housing, water & electricity	20%	20%
Clothing & footwear	3%	3%
Healthcare	8%	7%
Transportation	5%	10%
Communication	2%	2%
Education	2%	1%
Culture and recreation	1%	2%
Others	8%	11%

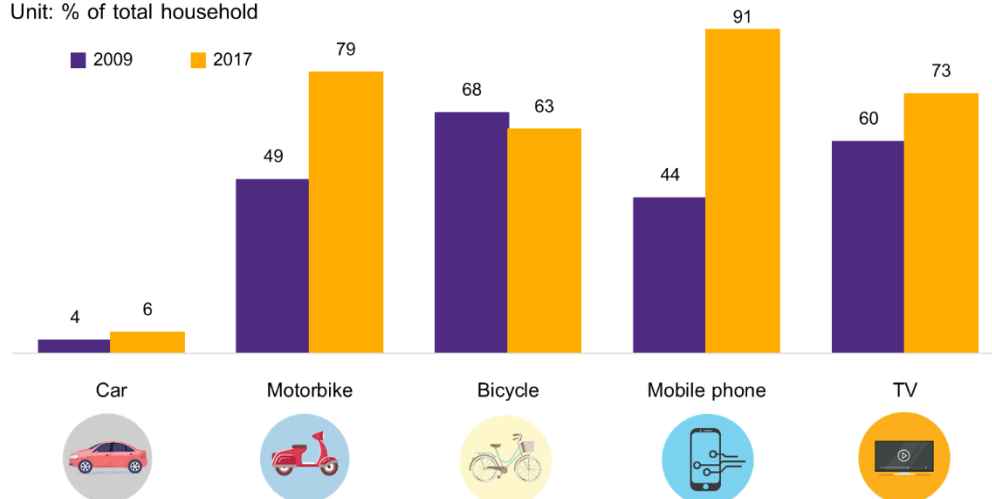
Source: EIC analysis based on data from Cambodia Socio-Economic Survey

In 2017, the most common durable goods owned by Cambodian households were mobile phones at 91% of total households, an impressive jump from 44% in 2009 (Figure 3). An increase in mobile phone ownership was observed across the Kingdom, which was especially high in rural areas. Motorcycles, ranked second, also saw a notable increase in 2017 due to increased domestic motorcycle production. This could explain a slight drop in bicycle ownership in recent years. Similarly, radio and video players were replaced by televisions with high ownership of 73% in 2017 as televisions became an affordable home entertainment item. Though small in share, EIC expects to see potential growth of car ownership in Cambodia going forward. **Growing demand for greater variety of consumer products throughout the Kingdom has become more evident,** signaled by a higher share of consumer durables purchases to outstanding household debt from 5.4% in 2013 to 13% in 2017.

Figure 3: The growing demand for durable goods in Cambodia has become more evident.

Cambodia's selected durable goods owned by household

Unit: % of total household



Source: EIC analysis based on data from Cambodia Socio-Economic Survey

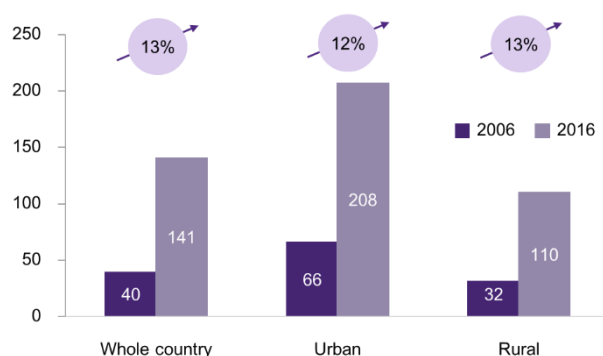
Vietnam

Double-digit income and consumption growth have been observed and 70% of Vietnamese income is spent on consumption. These figures are based on a Vietnam Household Living Standard survey conducted every two years by the General Statistics Office (GSO), with the latest available data from 2016. Robust economic growth during the past three decades has contributed to higher employment and thus increased earnings among local people. From 2006 to 2016 monthly income per head of Vietnamese household rose an average of 13% annually, with urban families' earning about two times higher than rural families' earning. Consumption expenditure also shared a similar yearly growth rate of 12% on average during 2006-2016. Urban households expended around 67% of their income for daily living while rural families used up 72% (Figure 4).

Figure 4: Vietnam's household income and expenditure have been growing thanks to robust economic growth over the past three decades.

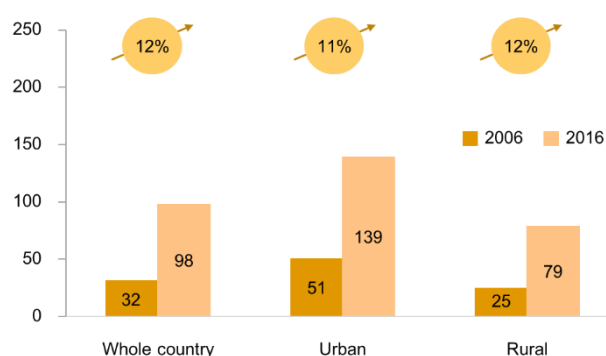
Vietnam's monthly income per capita

Unit: USD, %CAGR 2006-2016



Vietnam's monthly consumption expense per capita

Unit: USD, %CAGR 2006-2016



Source: EIC analysis based on data from Vietnam Household Living standard Survey, GSO, and CEIC

Food and beverages exhibited the largest share of consumption expenditure for Vietnamese households. The table below illustrates the expenditure composition of the three different income groups corresponding to the GSO household survey (Figure 5). The low-income group represents households in the first income quintile, while middle- and high-income groups make up the third and fifth brackets. All three income groups share a similar spending pattern, with **food and drink making up the largest share followed by housing and travel.** Over ten years, the food expense share slightly dropped by 5-7% while shares of other three categories – outdoor dining, housing, and travel – experienced an upturn. These categories indeed can be classified as extravagant spending, since people tend to spend more on them when their earnings improve. In 2016, low-income groups paid around 6% of their monthly income on outdoor dining, but the figure for high-income groups was almost double, at 14%.

Figure 5: Food and drink accounted for the largest share of consumption expenditure, while shares of extravagant spending also increased over time.

Vietnam's monthly consumption expenditure

Unit: % of total consumption expenditure

Composition	Low income		Middle income		High income	
	2006	2016	2006	2016	2006	2016
Food & drink	58%	52%	48%	41%	35%	30%
Outdoor meals	3%	6%	6%	11%	9%	14%
Housing & electricity	9%	11%	12%	14%	16%	16%
Clothing & footwear	5%	4%	5%	4%	4%	4%
Healthcare	7%	6%	7%	7%	6%	5%
Fuels	5%	4%	3%	2%	2%	1%
Travel & communication	6%	9%	9%	12%	16%	17%
Education	5%	4%	7%	6%	6%	6%
Culture and recreation	0%	0%	0%	0%	3%	3%
Others	2%	4%	3%	4%	4%	4%

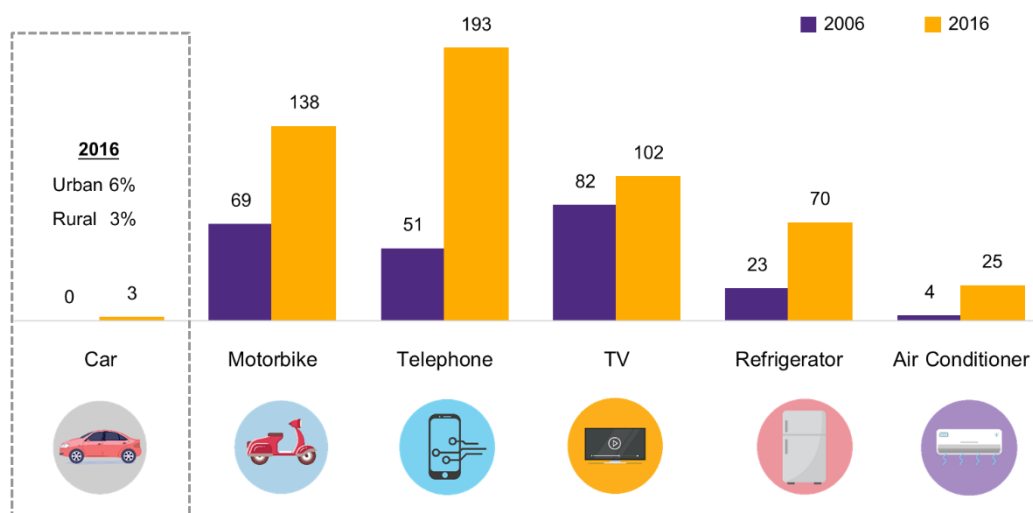
Source: EIC analysis based on data from Vietnam Household Living standard Survey, GSO, and CEIC

Shares of travel and communication spending also increased over time, signifying higher demand for greater variety of goods and services among Vietnamese consumers. This is in line with rising durable goods ownership, especially home and electrical appliances. From 2006 to 2016, the number of refrigerators and air conditioners owned by Vietnamese households surged by 12% and 20% per year on average (CAGR) (Figure 6). Telephones were another product seeing a rapid increase. Back in 2006, only half of households owned such a device, but by 2016 the number had risen to 193% of total households. This implied that most households now have more than one phone device at home. High telephone ownership is not surprising, given high mobile phone penetration in the country. World Bank data shows that Vietnam's mobile cellular subscription rate was 126% in 2017, compared to 176% in Thailand and 116% in Cambodia. Mobile phones are also a key gadget that supports expanded internet access in Vietnam.

Figure 6: Rising durable goods ownership signified higher demand for more product variety.

Vietnam's selected durable goods owned by household

Unit: % of total household

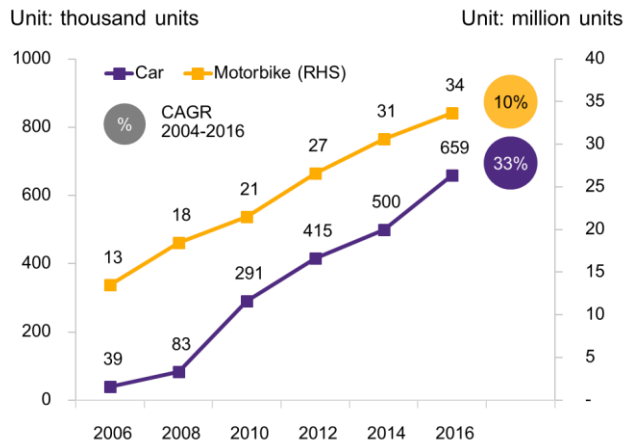


Source: EIC analysis based on data from Vietnam Household Living standard Survey, GSO, and CEIC

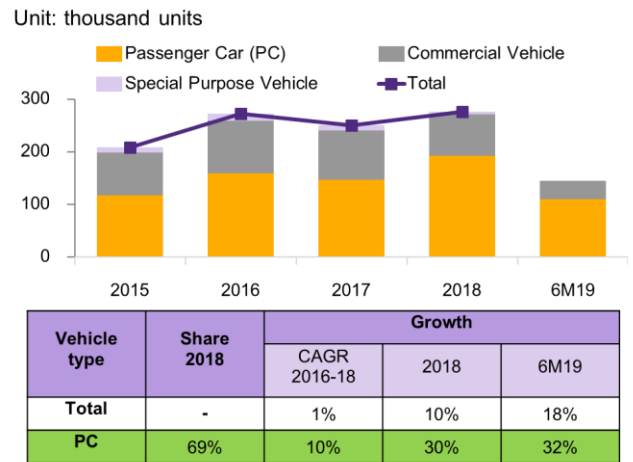
Motorbikes remain the major transport vehicle for Vietnamese households, but car ownership is expected to surge in coming years. Household surveys report that only 3% of families owned a car in 2016, comparing to 138% for motorbikes, but the growth of car ownership was staggering. In just over ten years, the number of cars owned by Vietnamese households rose 33% per year on average (Figure 7). This was driven by passenger car sales, which recorded double-digit growth. Government support also helps prospects for car sales in the country. Automobiles are among the spearhead sectors backed by the government. In 2018, Vietnam imposed stricter rules on imported cars in order to promote domestic players, both foreign firms having production plants in Vietnam and local manufacturers. VinFast, a leading local auto manufacturer, has just launched its own car model in June 2019, and plans to expand car production. The primary target for VinFast is the domestic market, seeing potential from rising income per head, but its ultimate goal is to turn the country into a regional automobile hub. Still, obstacles to Vietnam's domestic car sales include a preference for motorbikes and the high cost of car ownership. Car owners in Vietnam are subject to dozens of taxes and fees, such as vehicle registration fees, number plate issuance fees, road maintenance fees, and luxury tax. In some cases, these levies can be over 50% of the sticker price. Nevertheless, despite these obstacles the car market in Vietnam is still expected to deliver decent growth in the foreseeable future.

Figure 7: Motorbikes are a major vehicle for Vietnamese households, but car ownership saw a recent surge, driven by passenger car sales.

Car and motorbike ownership



Vietnam's motor & vehicle sales



Source: EIC analysis based on data from Vietnam Household Living standard Survey, GSO, and CEIC

Summary

Cambodia and Vietnam share similar household socio-economic conditions. Both income and expenditures have been growing on the back of improved wages. This has led to higher demand for durable products and services, such as vehicles, electrical appliances, and travel experiences. As these economies continue to expand, household spending on such consumer products is expected to increase over time. **With currently low ownership in some particular items and a considerable gap between urban and rural households, businesses should grasp opportunities to offer a greater variety of consumer products, both durable and non-durable goods, to these growing consumer markets.** One obvious advantage for Thai products is the perception among CLMV consumers that Thai products are high-quality goods with affordable prices compared to products from competitor countries.

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