CLMV Monitor

Q4 I 2019

Growth to moderate; strong domestic demand to cushion the effects from global economic slowdown

SCB
Economic Intelligence Center

CLMV Monitor

Q4 2019

Headwinds from prolonged trade uncertainty and growth deceleration in major economies are affecting economic prospects in CLMV through slowing exports and tourist arrivals. Yet, adaptive regional production partially benefits CLMV, especially Vietnam at least in the short run, as Chinese manufacturers and some MNCs shift their production to CLMV countries to evade US tariffs. As a result, FDI interest in the CLMV economies in the coming years should continue. Moreover, CLMV consumption and growing consumer markets are expected to cushion negative effects from the external slowdown. Nevertheless, pockets of risks are mounting as each country currently faces individual risks stemming from both domestic and external sources. Cambodia and Myanmar are at risk of EBA withdrawal and might lose export competitiveness in the medium term. Laos is still at risk of sovereign debt stress while Vietnam may face additional US protectionist policy if labeled as a currency manipulator by the US Treasury.

Cambodia

Cambodia's growth is expected to moderate to 6.8% in 2020 due to slow global trade. Tourism and FDI grew at a slower rate, but fiscal stance and exports remained strong. However, the EBA withdrawal risk remains high and may affect exports to the EU, Cambodia's largest export market. Going forward, its fast-growing microfinance in household loans may also undermine its financial stability and consumption outlook.

Laos

Laos' economy is likely to recover to 6.5% in 2020. Economic activities slowed due to the effects of natural disasters in 2018, trade war, and China's slowdown. Meanwhile, Laos' short-term vulnerabilities include limited foreign reserves and fiscal stress from low revenue in tax collection. However, future infrastructure and hydro projects, and policy reforms should boost the economy in the medium term.

Myanmar

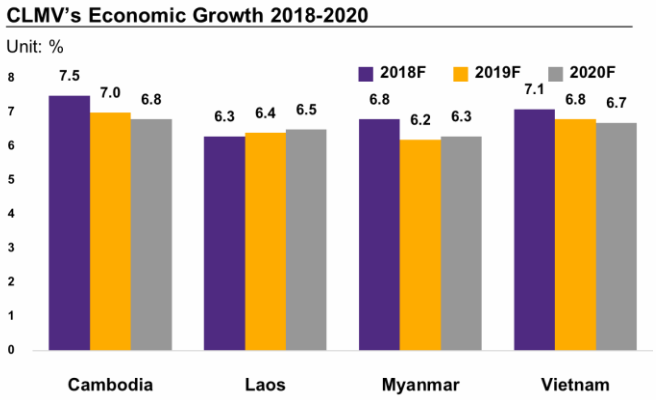
Myanmar's economy is expected to grow by 6.3% in 2020 amid domestic risks before the 2020 election. Recent FDI fell considerably, but ongoing policy reforms, continued financial liberalization, and foreign investment from Asian countries should support economic recovery. However, downside risks come from the unsolved Rohingya crisis as Myanmar is at risk from EBA withdrawal from the EU.

Vietnam

Vietnam is expected to grow at 6.7% in 2020 supported by both domestic demand and exports. With slowing exports and mounting external risks from US protectionist policies, private consumption should support growth from a strong labor market and moderate inflation. Continued structural reforms should help spur both private and foreign investment going forward.

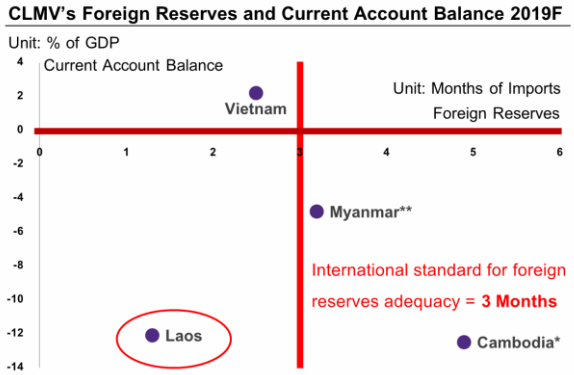
CLMV Highlight: Doing Business in CLMV – Across the board comparison for 2019 and 2020

Moderate growth is expected. Slow external demand should be cushioned by strong domestic demand.



Source: EIC analysis based on data from IMF WEO (Oct 2019) and ADB (Sep 2019)

External vulnerability from low reserves (3 months of imports) and current account deficit remains a key concern for Laos.



Source: EIC analysis based on data from IMF Article IV 2019 and IMF WEO October 2019 (*Cambodia's number from Article IV 2018). **Myanmar's 2019F is FY 18/19 (Oct 18 – Sep 19)

CAMBODIA

OVERALL ECONOMY

Facts and Figures

Population (2018)	16.24 million
Labor force (2018)	9.06 million
GDP (2018)	24.57 USD billion
GDP per capita (2018)	1,512 USD
GDP by sector (2018)	Agriculture: 22%, Industry: 32.3%, Services: 39.5%
Top exports (2018)	Textile 62%, Footwear 11%, Travel goods 4%

What to watch in 2020

The EBA withdrawal process from the EU

Growing concerns of microfinance risks for households

Macroeconomic Update

Economic Outlook

Cambodia's economic growth is expected to moderate to 7% in 2019 compared to 7.5% in 2018 due to global external pressures and slowing foreign direct investment. Cambodian exports continued to exhibit firm growth in the first seven months of 2019, with growth reaching 21%YOY. Yet, exports to the EU, Cambodia's largest trading partner, declined 1.5%YOY reflecting sluggish growth in the EU market. However, exports to other markets such as the US, China, and Japan offset the loss, achieving growth of 28.6%YOY, 23.1%YOY, and 7.4%YOY, respectively. Garments and footwear remained Cambodia's most important export category with growth of 15%YOY, taking up a 66.5% share of total exports. Foreign investors still showed interest in the Cambodian market as FDI in the first half of 2019 saw 9.4%YOY growth; nevertheless, it was a decline from growth of 25% exhibited in the first half of 2018 due to slowing Chinese investments. Even so, China remained the biggest source of FDI as it has been since 2013, with major inflows going into the construction and real estate industries. Tourism continued to grow steadily with over 4.36 million visitors, representing 10.4%YOY growth in the first eight months of the year but a slight drop from 11.7%YOY growth in the previous period. Chinese tourists represented the biggest market, with growth of 33.1%YOY taking up a 39% share. Neighboring countries such as Vietnam, Laos, and Thailand represented the next biggest markets. On the domestic front, private consumption is expected to grow around 4.8% this year according to the World Bank, while inflation remained subdued at 2.2% as of June 2019. **Looking forward, economic growth in 2020 is projected to dip slightly to 6.8% due to trade and global pressures according to the IMF.** Nevertheless, relatively firm domestic demand, continued strength in the tourism sector, and supportive fiscal fundamentals should help offset the decline.

With external risk to the growth outlook stemming from the possibility of EBA withdrawal from the EU, Cambodia looks to increase public investment to shore up growth and boost labor productivity. The EU is set to finalize a decision regarding the withdrawal of Cambodia's EBA (Everything But Arms) preferential trade scheme in February 2020. While the Cambodian government has made some progress in solving the country's human rights issue by releasing opposition activists from arrest, they have not been given full rights, and thus the risk of EBA withdrawal remains high, in our view. Therefore, Cambodia will likely need to use fiscal policy to maintain growth. The implementation of the Revenue Mobilization Strategy (RMS) 2014-2018 and the recent 2019-2023 plan has been ongoing and resulted in a fiscal surplus for the first eight months

of 2019, allowing the government to fulfill its goals of investing in human capital and infrastructure. Currently, a part of Cambodia's labor force still lacks access to necessary education, healthcare, and nourishment, preventing the economy from reaching its objective of becoming an upper middle-income economy. In support of the plan, the government passed the 2020 draft budget which outlined a 22% increase in the amount of government expenditure compared to last year's figure, with about 37% of the total amount going into social spending[1]. While the process is a long-term goal, its short-term effects should help soften the repercussions from increasingly negative external pressure. As a result, Cambodia's fiscal policy should become one of its main tools in stabilizing the economy in the short term and ensuring growth sustainability through structural reforms in the long term.

Financial Markets

Continuously high private credit growth highlights the need for strong regulations and transparency requirements in order to reduce microfinance risks. According to the Asian Development Bank (ADB), overall private credit continued to grow 26.4%YOY in June 2019, with banks' lending to real estate, mortgages, and construction each seeing an increase of over 30%. In addition, microfinancing continues to be an important source of funds, especially in rural areas where lending could see 25% growth according to the Cambodia Microfinance Association (CMA). Despite criticisms from non-governmental organizations (NGOs) about rising microfinance loan and household debt concerns[2], the National Bank of Cambodia (NBC) has come out in support of microfinance, saying that the NGO report did not consider the whole benefit of microfinance due to its small sample size. Nevertheless, authorities agree that strong regulations are necessary to contain the risk. According to the NBC, the new financial stability review was published earlier this year to ensure transparency and efforts have been made to increase financial literacy. EIC views that this is a step in the right direction; information provision and regulatory controls will be the keys to ensure financial stability in the market and allowing households to have access to sustainable sources of funds.

Law & Regulation

Cambodia's General Department of Taxation (GDT) has announced procedures regarding the payment of tax debt in instalments. According to Prakas No. 571, the GDT has allowed taxpayers to pay their tax debts in instalments of up to three years with varying interest rates should taxpayers require it. This process will depend on the GDT's approval based on the documents outlining the taxpayer's requests and capability of making payments. In the first year, no interest will be applied. In the second year, the interest rate will be based on the average market rate as per the GDT's calculations. In the third year, additional interest of 2% per month will be charged. Taxpayers unable to pay within the approved timeline will be subjected to charges and fines under Cambodian law.

[1] Reaksmey, Hul. (October 2019). VOACambodia. "Cambodia's Draft 2020 Budget Shows Significant Increase in Defense Spending". https://www.voacambodia.com/a/Cambodias-draft-2020-budget-shows-significant-increase-in-defense-spending/5143647.html

[2] 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

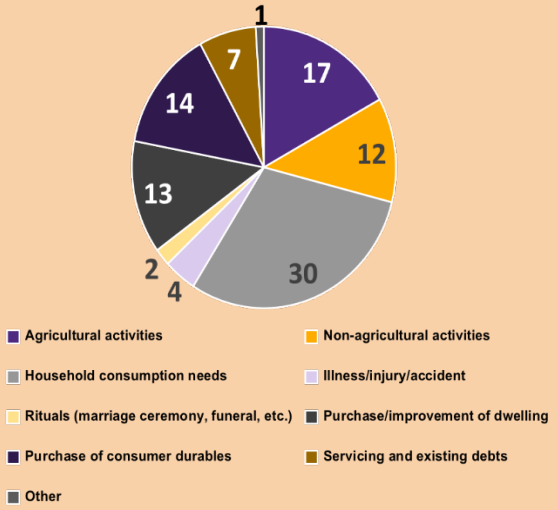
EIC's View

Cambodia's EBA withdrawal risk remains high, but opportunities are still present for businesses as Cambodia diversifies its economy. The loss of EBA preferential trade privileges from the EU will likely have significant consequences on exports to the EU, which currently represents a 31% share of all exports in the first seven months of 2019. Businesses are advised to remain cautious regarding the effects of EBA withdrawal and its impact on the nation's top export products to the EU under EBA schemes such as garments and footwear, bicycles, and other consumer products. To tackle this issue, the government has expressed interest in strengthening its ties to both the US and China, two important alternative markets for Cambodian exports with shares of 25% and 7% respectively. This could become an opportunity for businesses to take advantage of both the US' GSP scheme and proximity to China's large consumer market for export substitution in light of the trade war.

EIC believes that the garments and footwear sector in the near term should continue to be Cambodia's main exports, albeit with a lower share. Other sectors such as tourism, construction, and retail banking have growth potential due to government support, public investment plans in infrastructure, and structural reforms. It is expected that the government will use expansionary fiscal policy to stimulate domestic demand to offset negative effects from risks of slowing exports. Retail businesses should also benefit from steady domestic consumption growth. **Yet, concerns for microfinance problems are increasing**. Businesses are advised to continue monitoring any updates regarding financial regulations and household microfinance situations as there are growing concerns about systematic risks in the sector. This in turn may affect the country's consumption outlook going forward as micro-credit usage in Cambodia has seen a growing concentration in household consumption and the purchase of consumer durables.

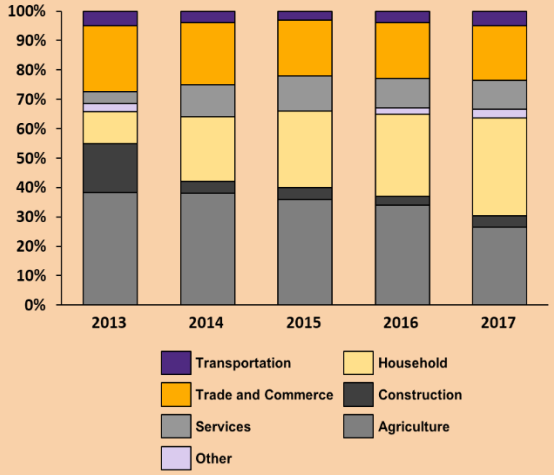
Microfinance Usage by Activities in Cambodia in 2017

Unit: % of total loans



Loan by Sector Reported by MFIs/MDIs*

Unit: % of total loans



*MFIs stands for microfinance institutions.
MDIs stands for microfinance deposit-taking institutions.

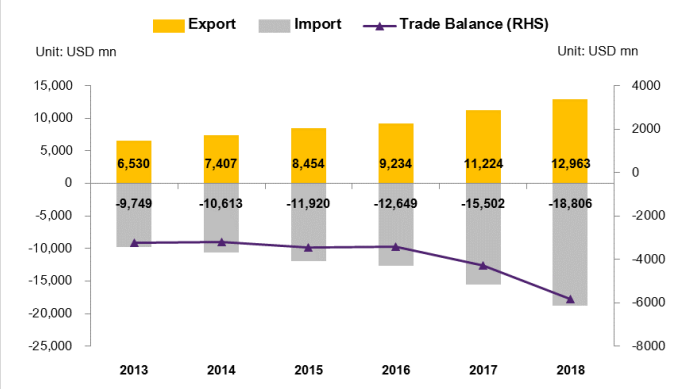
Source: World Bank's Microfinance and Household Welfare, Cambodia Policy Note (February 2019)

Cambodia's Key Indicators

Indicators	Unit	2014	2015	2016	2017	2018	2019F	2020F
Real GDP	% YOY	7.1	7.0	6.9	7.0	7.5	7.0	6.8
Consumer price index	%	3.9	1.2	3.0	2.9	2.4	2.2	2.5
Current account balance	% of GDP	-8.5	-8.7	-8.4	-7.9	-11.3	-12.5	-12.3
Policy rate (end of period)	%	1.4	1.4	1.4	1.4	1.4	-	-

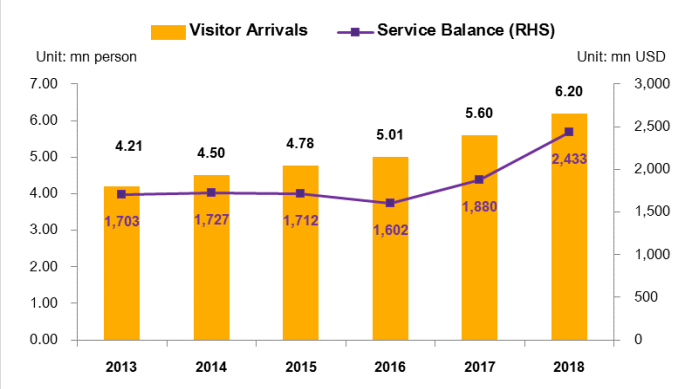
Sources: International Monetary Fund (IMF) and The National Bank of Cambodia

Trade deficits widened due to strong import demand



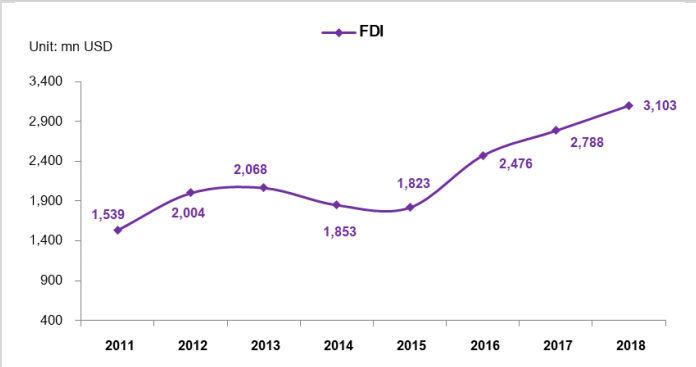
Sources: World Bank

Number of tourist visitors continued to rise



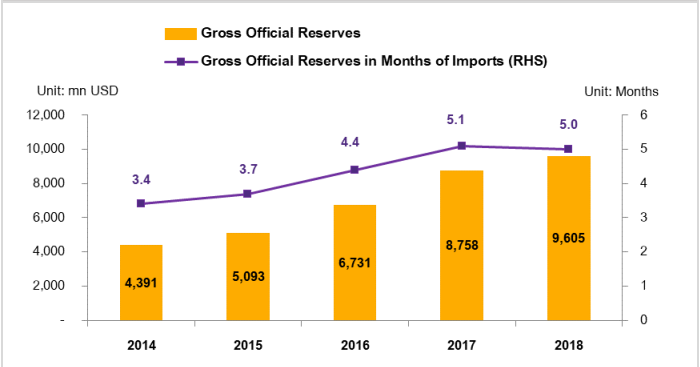
Sources: World Bank and CEIC

Cambodia's FDI inflows have trended upwards



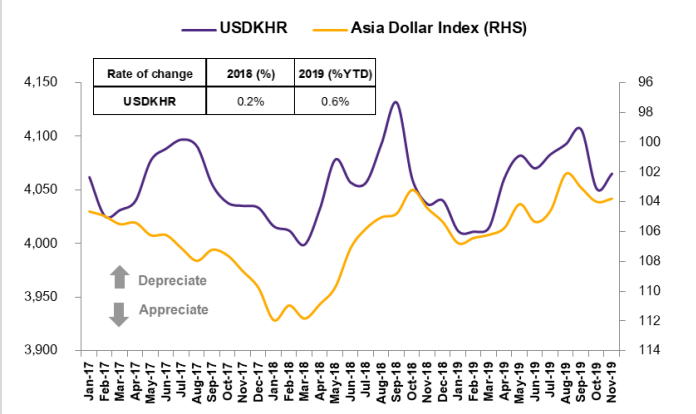
Sources: World Bank

Reserves buffers were higher than the 3-month standard



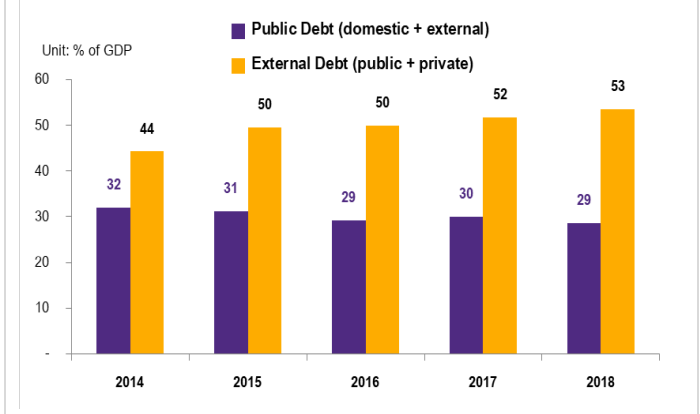
Sources: IMF

Against USD, KHR bounced back but still depreciates YTD



Sources: Bloomberg

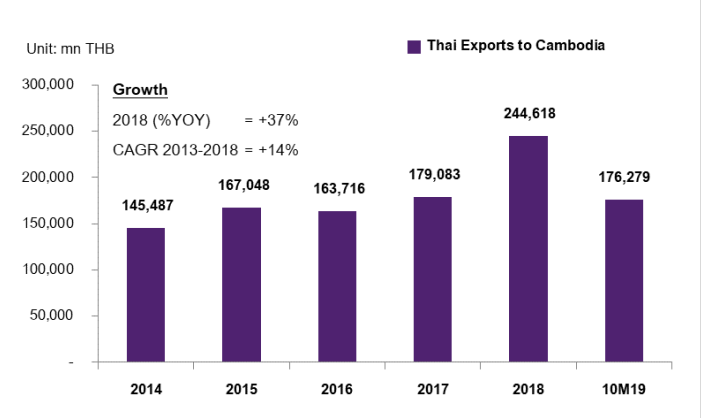
Manageable public debt level but rising external debt



Sources: IMF and CEIC

Links with the Thai Economy

Exports to Cambodia in 2019 is unlikely to reach 2018's peak but still solid compared to past trends



Sources: Thailand's Ministry of Commerce

Imports from Cambodia spiked in 2019 due to a rise in imports of precious metals, jewelry, and pearls

Sources: Thailand's Ministry of Commerce

Thai exports via borders in the first half of 2019 grew 20%YOY

Sources: Thailand's Department of Foreign Trade

Thai imports via borders in the first half of 2019 fell 13%YOY

Sources: Thailand's Department of Foreign Trade

TDI in Cambodia has been trending downwards

Sources: Bank of Thailand

Cambodia's tourist arrivals to Thailand in the first 10 months of 2019 slowed slightly compared to 2018

Sources: Thailand's Department of Tourism

LAOS

OVERALL ECONOMY

Facts and Figures

Population (2018)	7.06 million
Labor force (2018)	3.72 million
GDP (2018)	18.13 USD billion
GDP per capita (2018)	2,567.5 USD
GDP by sector (2018)	Agriculture: 15.7%, Industry: 31.5%, Services: 41.6%
Top exports (2018)	Electricity 25%, Copper & Ores 19%

What to watch in 2020

Progress of fiscal consolidation and risks of sovereign debt stress

Laos' Kip depreciation and low reserves

Macroeconomic Update

Economic Outlook

Amid China's economic slowdown, falling electricity exports, and slow tourism, Laos' economic recovery is likely to be slow at 6.4% in 2019 in comparison to 6.3% growth in 2018. Lingering effects from last year's natural disasters and the ongoing US-China trade war have affected overall economic activity in the first half of 2019. Exports of electricity, Lao's main export, fell 3% in the first half of 2019. This was a significant decline compared to 12%YOY growth in the first half of 2018. Nevertheless, total exports still expanded 9.3%YOY in the first six months, supported by a recovery in the agriculture and textile sectors in addition to 38.3%YOY export growth to the US and 5%YOY growth to China. However, foreign direct investment saw a decline in the first half of the year, significantly dipping 55.4%YOY owing to a slowdown in Chinese investment. Tourist arrivals expanded at a decelerating pace at a 5%YOY increase for the first half of the year, compared to 6.1%YOY expansion in 2018. Slowing growth in Laos' FDI and tourism largely stemmed from China's slowdown. China is Laos' main export market, with about one third of the country's total exports, the top FDI source in Laos, accounting for 79% of total foreign investment, and also ranks third in terms of foreign visitors. Domestic consumption remained subdued in the first five months of 2019, leading to lower imports and a slightly smaller current account deficit according to the Asian Development Bank. Softened demand may have contributed to Lao's low average inflation of 2.1% for the first seven months of the year despite pressures from rising food prices due to agricultural damage.

Going forward, Laos' slow economic recovery is likely to continue on the back of China's slowdown and Laos' sovereign debt stress. The economy is expected to continue its recovery and should benefit from the newly built railway connecting to China. **Growth in 2020 is expected to increase slightly to 6.5%,** mainly driven by (1) continued growth in the construction sector supported by strong investment inflows to large infrastructure projects, including the Laos-China railway, (2) expansion in the services sector led by wholesale and retail trade, and (3) growing electricity exports. Nevertheless, key risks to the near-term outlook come from the country's vulnerability to external financial shocks and sovereign debt stress, especially in light of increasing Chinese investments.

Due to high debt levels, Laos may lack adequate protection from external risks, especially considering the slower growth from its main economic partner, China. From the fiscal side, Laos' revenue collection is low. Government expenditure has outstripped revenue collection for the last four years, with public debt increasing every year. In 2018, public debt accounted for 57% of GDP and the fiscal deficit was 4.4% of GDP. This problem was exacerbated by severe flooding, which led to funds being used for disaster relief. Of its total external public debt, about 42% is owed to China, Lao's largest lender. This marks a significant vulnerability as both economies have been affected by the ongoing US-China trade war and economic slowdown, especially if Laos plans to issue more bonds to the Chinese market. On the monetary side, Laos also has low foreign reserves. At the end of the first quarter of 2019, Laos' foreign reserves were less than 2 months of its import value – lower than the IMF's suggested adequacy range of 4 to 6 months. In addition, as of October 31, the Lao kip has weakened 3.6%YTD and 10.9%YTD against the US dollar and Thai Baht respectively.

To improve overall external stability and the government's creditworthiness, Laos has started fiscal consolidation efforts to strengthen revenue collection and contain public expenditure. Such efforts include implementing ICT to improve tax collection and management, amending the legal framework of VAT laws to improve administration, and limiting the hiring of new civil servants and the construction of new infrastructure projects. In addition, the country's central bank has also closely monitored the exchange rate to ensure stability. Nevertheless, as the Laos economy is still in the process of recovery, the effectiveness of these policies remains to be seen. As the efforts toward structural reforms may take some time before being effective, Laos may need to find foreign sources of funding in the short-term. Meanwhile, for overall fiscal consolidation efforts, the current pace seems to be appropriate on the tightening expenditure side, but revenue collection remains a challenge. The recently approved Public Debt Management Law states that infrastructure and service delivery projects that do not generate high economic returns should be financed by more concessional borrowing. The subsequent formulation of a public debt management strategy along with capacity building will be a step toward maintaining public debt sustainability in the longer term.

Financial Markets

The Bank of the Lao PDR has implemented measures to stop further depreciation of the kip. In an effort to maintain the currency's stability against the strong Thai Baht and US dollar, since October, the central bank has encouraged actions that will increase the amount of foreign currency in circulation, such as promoting investment in export and tourism businesses as these sectors generate a significant amount of foreign currency. The central bank has also been managing the money supply and the exchange rate to ensure the stability of the currency. The bank said one of the main reasons causing the Lao kip to fall in value is the appreciating trend in the US dollar and Thai baht in recent months.

Law & Regulation

Foreign exporters can now export products to Laos without a domestic business license, according to the Ministry of Industry and Commerce. Instead, foreign exporters will need to apply for trading rights from the import and export department by presenting the required documents including (1) certification of business registration, (2) crime-free record certification, and (3) a letter of authorization that has been certificed by the Laos' embassy in their country of registration. The business must also present evidence that they are registered in a member country of the World Trade Organization and comply with laws and regulations.

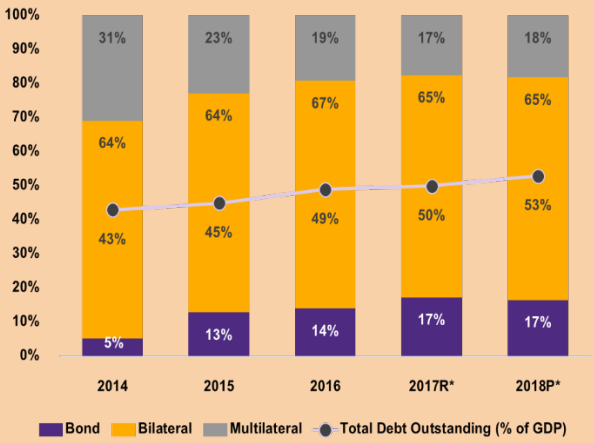
EIC's View

Laos will likely face a number of barriers to economic development in the short-term. Low foreign reserves and constraints on domestic revenue collection may limit the country's ability to combat negative shocks, such as the effects of the current trade war or natural disasters. As of 2018, Laos' total external public debt was around USD 9.7 billion or equivalent to 53% of GDP. Low fiscal space with high external public debt compared to regional peers means the Lao government will likely have limited funds for increasing domestic infrastructure investment, including the construction of hydropower plants. Looking forward, Laos will likely need to rely on foreign funding, increasing its reliance on neighboring countries such as China and exposing itself further to external risks. Businesses are advised to remain cautious.

Successful structural reforms should be a key factor for recovery in the medium term. Laos has made efforts to contain its weaknesses, including fiscal consolidation by strengthening tax collection and measures to control government's spending and exchange rate monitoring. EIC believes that these reforms are necessary steps. However, it may take a while for these efforts to stabilize the economy as the government still needs to use these funds to aid recovery and construction. The China-Laos railway should also boost the economy through improving logistics and trade. This will be an opportunity for businesses operating in Laos to connect to the Chinese market, especially China's Yunnan province, and other regional markets as the railway expands. The tourism, logistics, and manufacturing sectors are likely to benefit from the railway. As these structural reforms take effect, Laos will be able to gradually stabilize its economy and resume its plans to become a land-linked country and the battery of Southeast Asia.

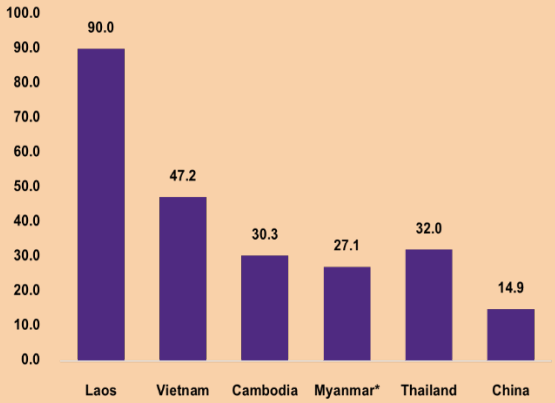
Laos' Outstanding External Public Debt

Unit: % of total debt



CLMVT + China Total External Debt (2019P)

Unit: % of GDP



*Myanmar's data is based on FY18/19 (October 2018 – September 2019)

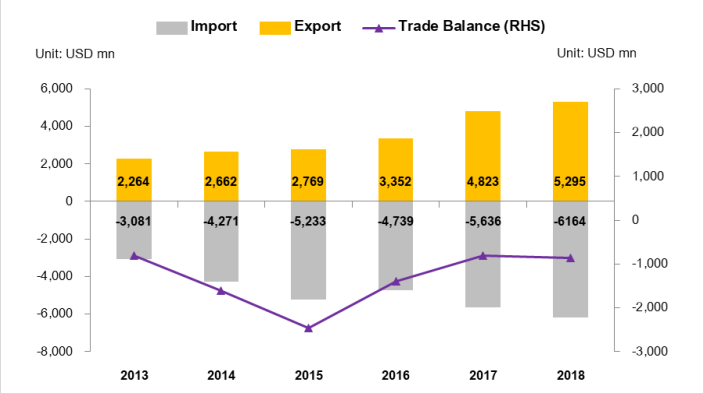
Source: EIC analysis based on data from the Bank of Lao PDR and IMF

Laos' Key Indicators

Domestic Demand	Unit	2014	2015	2016	2017	2018	2019F	2020F
Real GDP	% YOY	7.6	7.3	7	6.8	6.3	6.4	6.5
Consumer price index	%	4.1	1.3	1.8	0.7	2.0	3.1	3.3
Current account balance	% of GDP	-23.3	-22.4	-11.0	-10.6	-12.0	-12.1	-12
Policy rate (end of period)	%	5.0	4.5	4.3	4.0	4.0	-	-

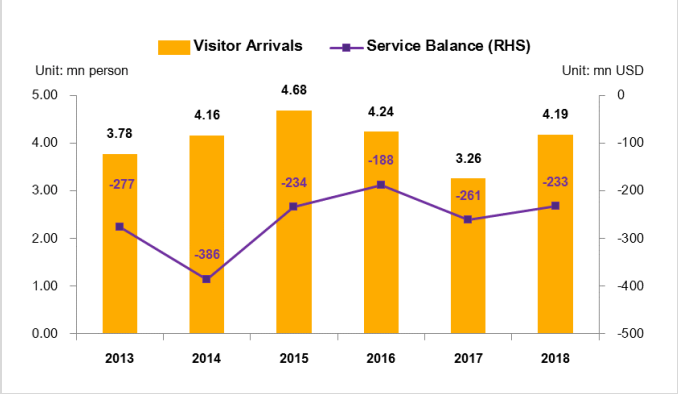
Sources: International Monetary Fund (IMF) and Bank of the Lao PDR

Trade balance fell slightly in 2018



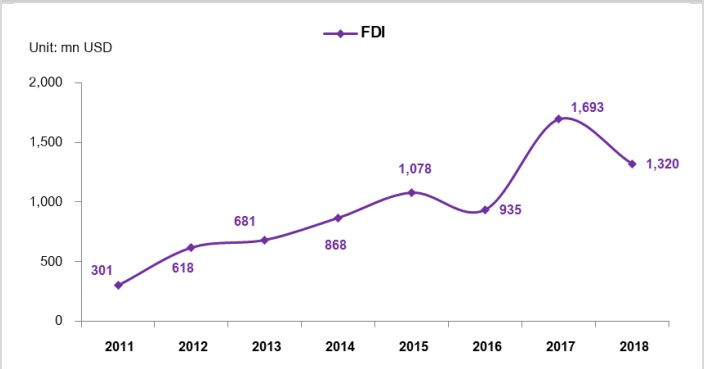
Sources: World Bank

Tourist visitors recovered after 2 years of decline



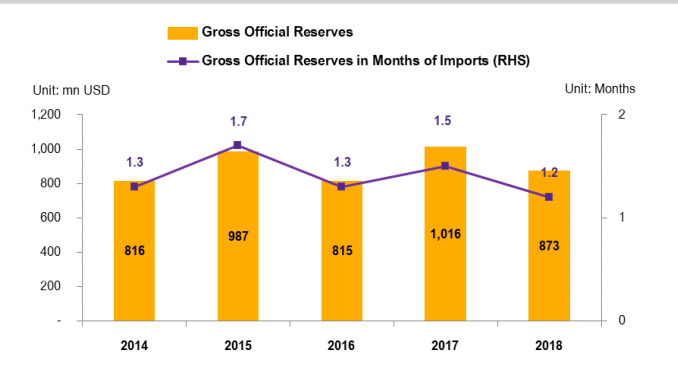
Sources: World Bank, Lao Tourism Development Department, CEIC

FDI fell in 2018 but still its second highest year since 2011



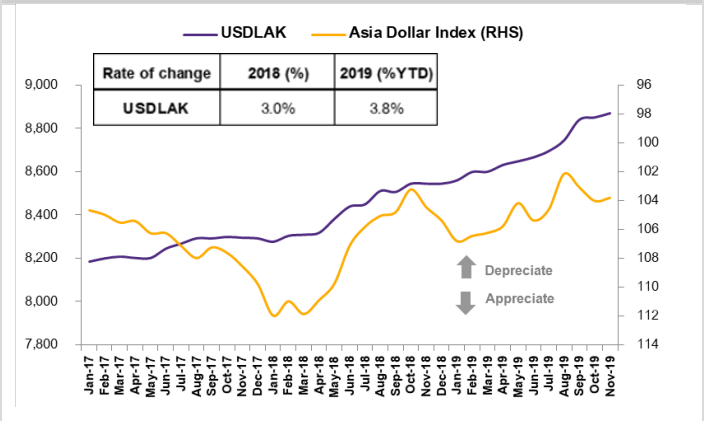
Sources: World Bank

Low foreign reserves intensified external vulnerability



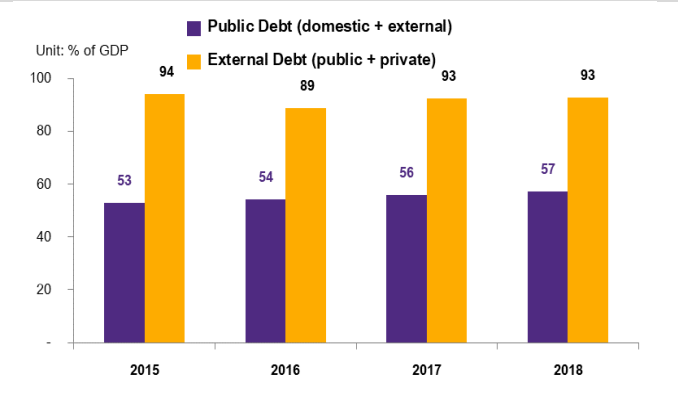
Sources: IMF

LAK continues its depreciation against the US dollar



Sources: Bloomberg

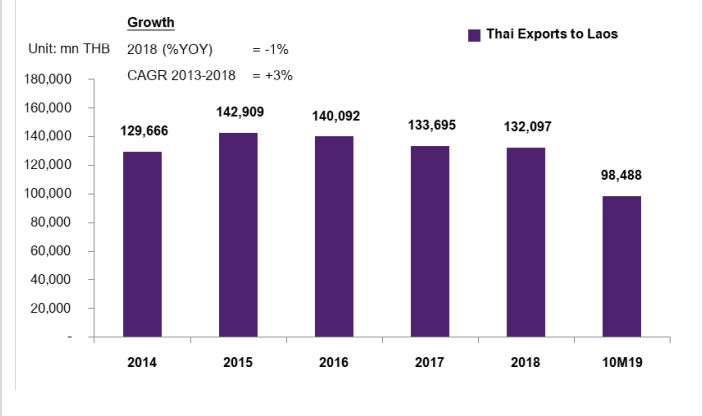
High external debt level is a major risk to Laos



Sources: IMF

Links with the Thai Economy

Exports to Laos slowed in the first 10 months of 2019 from lower mineral fuels, cars, and steels export



Sources: Thailand's Ministry of Commerce

Imports from Laos saw a slight contraction in the first 10 months of 2019 but should outpace 2017 by year end

Sources: Thailand's Ministry of Commerce

Border exports in the first 6 months of 2019 fell 10%YOY

Sources: Thailand's Department of Foreign Trade

Border imports fell 3%YOY in the first 6 months of 2019

Sources: Thailand's Department of Foreign Trade

TDI to Laos is gradually increasing mainly to financial services and electricity sectors

Sources: Bank of Thailand

Lao tourists arrivals in Thailand have been rising due to more route connections between the two countries

Sources: Thailand's Department of Tourism

BOX

A Look into the Future of Laos' Strategy in the Hydropower Sector

Laos' hydropower sector forms a core part of the country's economy. Even though the country's terrain is mountainous and land-locked, it is blessed with plentiful water resources, allowing the country to become a major electricity producer in the region. Currently, Laos produces about two-thirds of its electricity via hydropower, while the rest is mainly produced by coal. Its small domestic market also means that Laos has a large capability to export its production, in line with the country's goal of becoming the "battery of Southeast Asia". The plan involves an expansion of its hydropower production, with Laos aiming to operate 100 hydropower plants by 2020, making it the dominant source of electricity. In 2017, Laos produced more than 31,000 Gigawatt hours (GWh) of electricity while only consuming about 5,000 GWh (Figure 1). This led to the export of over USD 1.3 billion worth of electricity in 2018 (Figure 2). With multiple agreements to sell electricity made with neighboring countries, Laos has incredible potential to achieve its goals.

Nevertheless, the major dam collapse in 2018 dimmed its outlook. The collapsed dam, which was under construction, led to many deaths and the destruction of residential and agricultural land in the area. The incident led to protests against Laos' aggressive hydropower plant construction programs, with critics noting that safety standards and environmental concerns may not have been upheld in dams both currently operating and in the planning stage. It has also exposed multiple weaknesses in the plan that need to be addressed, including infrastructural problems and environmental issues. Despite a temporary suspension of new projects, the government is still determined to continue its plan of constructing multiple large-scale dams. However, it must now tread carefully in balancing economic growth while managing safety standards and protests from the people affected. The future of the industry will depend on how effective the Laos government can play to its advantages while containing its drawbacks.

Figure 1: Laos produces much more electricity than its domestic needs.

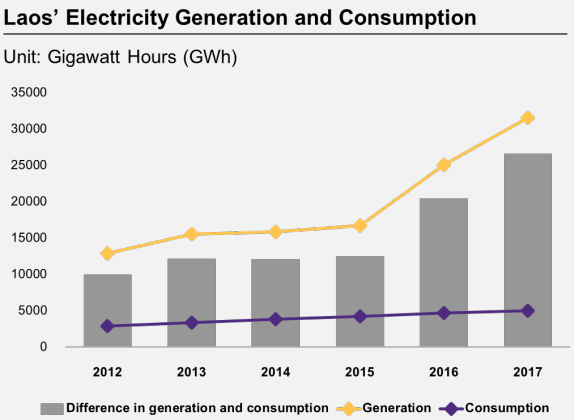
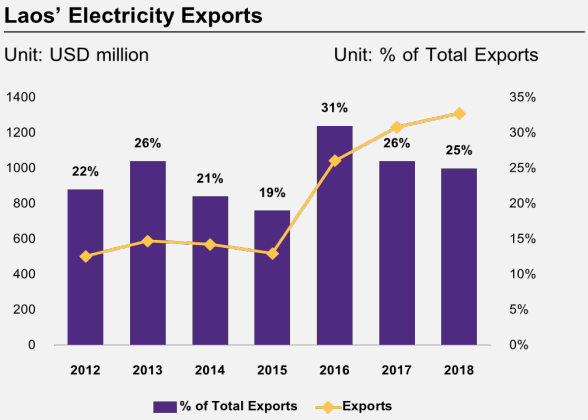


Figure 2: Laos' electricity has become its major export.



Source: EIC analysis based on data from Laos Statistics Bureau, Electricite du Laos, and the Bank of the Lao PDR

Laos has many advantages in becoming the battery of Southeast Asia due to its geographical position. In terms of physical geography, the Mekong river offers Laos plentiful opportunities for constructing hydropower plants. Even though the river runs through a total of six countries, Laos contributes the largest amount of water that flows through it. According to Fitch Solutions, it is estimated that in 2020 Laos' hydropower has the potential to generate as much as 7.8 Gigawatt (GW) of electricity, much higher than its domestic needs. Furthermore, all of Laos' neighboring countries have relatively large populations and electricity demands, giving Laos a prime opportunity as an exporter. Currently, Laos has a deal to sell up to 9,000 megawatt (MW) of electricity to Thailand, while smaller deals have been made with Vietnam (5,000 MW) and Cambodia (2,400 MW). In addition, Laos has also signed a deal with Thailand to sell electricity to Malaysia via the Thai national grid. This is the beginning of Laos' plan to export to more markets, and the amount exported should grow substantially by 2030. Another benefit of Laos' position is its proximity to China, which is its main source of FDI. As part of China's belt and road initiative, China has spent about USD 11 billion in Laos' infrastructure and hydropower plants, becoming an important source of funding for Laos' expansion plans. Other important sources of funds include Thailand and the recently formed Asian Infrastructure Investment Bank (AIIB), from which Laos has taken out loans to improve the country's infrastructure. If managed effectively, Laos still has ample room to expand in the sector.

However, Laos also faces significant hindrances. First, hydropower generation is highly susceptible to weather conditions, especially as they become more severe and unpredictable. Lack of rainfall could lead to drought in some years, resulting in lower electricity generation. On the other hand, too much rainfall could result in flooding and damage to the dams and powerlines, cutting electricity production. In severe cases, natural disasters could lead to catastrophes such as the 2018 dam collapse if safety measures are not carefully implemented. Second, Laos' political institutions may not accommodate the rapid construction of hydropower plants, thus undermining the efficiency and safety of future construction programs. Third, Laos' electrical grids are still not fully developed, resulting in a loss of about 10% of total electricity generation according to Fitch Solutions. Due to its limited fiscal space, Laos may lack funds to develop its infrastructure and construction in the short term. Lastly, Laos is facing a lot of external pressures as downstream residents in other countries have protested against further dam expansion. This is partly due to the dam collapse, but on-going concerns have been expressed regarding the loss of water for agriculture and fisheries in Cambodia and Vietnam and the destruction of biodiversity in the area. The Laos government must address these issues in order to enjoy sustainable growth in the hydropower sector.

EIC's View

Despite notable obstacles, the overall outlook remains promising for the hydropower sector in the longer term. Electricity production and exports should continue to grow due to the construction of new plants and rising demand in neighboring countries. Laos' infrastructural problems should see improvements as safety standards are wholly strengthened after the disaster last year. However, the government must come up with solutions to the problems and must assure affected parties that they will not be affected by the construction. One possible solution is to diversify electricity production via the use of other renewable sources such as solar and wind energy, which would help reduce heavy reliance on hydroelectricity. Nevertheless, hydropower will likely remain the key focus for the Laos' government in the foreseeable future.

Facts and Figures

Population (2018)	53.7 million
Labor force (2018)	24.5 million
GDP (2018)	71.22 USD billion
GDP per capita (2018)	1,326 USD
GDP by sector (2018)	Agriculture: 23.3%, Industry: 36.3%, Services: 40.4%
Top exports (2018)	Oil & Gas 22%, Textile 20%, Cereal 7%

What to watch in 2020

Myanmar 2020 election and implications for domestic reforms

Financial sector liberalization via foreign bank licensing

Macroeconomic Update

Economic Outlook

Myanmar's economic growth is expected to slow down to 6.2% in 2019 compared to 6.8% in 2018 as a result of falling foreign direct investment. FDI plummeted 37% in the period between April 2018 – March 2019 when compared to April 2017 – March 2018*, extending its downward trend to three consecutive periods. FDI mainly fell from its second largest investor, China (down 61%), along with Japan (down 71%), and South Korea (down 43%), reflecting sluggish growth in these regions. In addition, western countries have maintained the wait-and-see stance for Myanmar since the Rohingya crisis in Rakhine state started in 2017, with their investments representing less than 10% of total FDI in the aforementioned period. Nevertheless, Myanmar still saw strong investment inflows from Singapore and Hong Kong, its biggest and third biggest investors respectively. Combined with China, these three countries were responsible for around 75% of all FDI mainly into transport and communication and manufacturing industries. While foreign investment fell, foreign tourist arrivals to Myanmar grew by 17.9% for the first seven months of the new fiscal year (October 2018 – September 2019), totaling about 2.5 million visitors.

Despite heightened external uncertainties and regional economic slowdown, Myanmar's manufacturing purchasing managers' index still reflected a firm outlook, landing at 53 for the month of October. The number represents the highest peak in four months owing to continued growth and declining inflation. According to the Ministry of Planning and Finance, during October 2018 – June 2019, exports were up by 8.9%, compared to the same period in the previous fiscal year. Inflation remained high at 7.8% as a result of rising food prices due to decreased agricultural yields and disruption of food supplies from transportation limitations. However, inflation is expected to decline over the medium term as logistical conditions improve and output increases. Looking forward, Myanmar's economy should continue to maintain its moderate growth over the next few years, although internal pressures from humanitarian issues and international sanctions from western countries will need to be monitored. **According to the IMF, GDP is expected to grow by 6.3% in 2020**, driven by a rebound in agricultural production, increased tourist arrivals, investment in infrastructure development and construction, and domestic policy reforms leading up to the 2020 general election.

* The old fiscal year is from April 1 to March 31, up to 2017/18. From 2018/19 onwards the fiscal year is from October 1 to September 30. Transition period is during April to September 2018. FDI comparisons are made by keeping time period consistent.

Myanmar remains under heavy scrutiny for EBA withdrawal from the EU, but no official timeline of the withdrawal review has been confirmed. In September 2019, the European Parliament agreed on a resolution regarding the situation of the Rohingya people living in Myanmar's Rakhine state, and condemned any human rights violations in the area. However, the resolution also stated that while the parliament expects an official inquiry for EBA withdrawal review to be launched, no actions have been taken so far. Earlier discussions stated that the EU will need to see improvements from Myanmar, especially on its adoption of the reforms suggested by the advisory commission on Rakhine State. The EU represented a 17% share of Myanmar's total exports in the first half of the year. Thus, the risk of losing the preferential trade scheme could have negative consequences on its exports to the EU, especially the country's textile industry as nearly 60% of Myanmar's textile exports went to the EU in 2018. Nevertheless, the investigation and the subsequent withdrawal, if it were to happen, could take up to two years for the whole process to be completed. The policies leading up to and after the 2020 general election could partly determine how this issue will be resolved in the future, especially since political campaigns could lead to intensified ethnic tensions.

Minorites and ethnic tensions are likely to be the key issues in the 2020 Myanmar general election. Myanmar is heading towards the country's general election for both the lower and upper houses around November 2020 after the last election in 2015. As outlined by the 2008 constitution, Myanmar has two legislative bodies: the lower house (House of Representatives) and the upper house (House of Nationalities). In each of the houses, elected members make up 75% of the total while military representatives take up the other 25%. In detail, the lower house consists of 440 members, with 330 of them elected and the other 110 military representatives. The elected members are voted by constituencies, determined on the basis of population or township. The upper house consists of 224 members, with 168 of them elected and the other 56 from military representatives. The elected members consist of twelve representatives from each state and region. Ultimately, the elected members of the lower house, upper house, and the military representatives from both houses each nominate a presidential nominee, while the Union Parliament decides from the three choices. This system has been criticized by some outside observers that it may underrepresents the various ethnic groups. For economic implications, this may pose a risk on the EU evaluation of Myanmar's EBA withdrawal as the EU expects the Myanmar government to make significant improvements to the situation regarding its minorities. Failure to do so may result in possible further sanctions. Furthermore, the worsening political situation could lead to lower support for Myanmar's current ruling party, the National League for Democracy (NLD), making reforms harder to pass and putting the legitimacy of the government at risk.

Financial Markets

The Securities and Exchange Commission of Myanmar (SECM) published a notification allowing foreigners to trade on the Yangon Stock Exchange (YSX), although no exact timeline has been publicized. Announced in July in Notification 1/2019, foreign individuals and entities will be allowed to invest in up to 35% of the shares in Myanmar companies listed on the YSX. The limitation aligns with the classification of any company with greater than 35% foreign shareholding as a foreign company under the 2017 Myanmar Companies Law. The scheme is expected to slowly take shape in several steps with foreigners living in Myanmar being able to trade first, followed by foreigners living abroad. As of November 2019, no specific dates have been announced regarding when trading will be allowed.

Depreciation risks for the kyat is likely to remain in the near term from a weak external position despite its recent strengthening. On the external front, ongoing trade tensions between the US and China may strengthen the US dollar due to its safe-haven status, possibly weakening the kyat over time. On the domestic front, the high inflation rate, trade and current account deficits, and low foreign reserves are factors that could contribute to the depreciation of the kyat in the coming quarters.

Law & Regulation

In November, the Central Bank of Myanmar (CBM) announced a new round of licensing to foreign banks with representative offices in Myanmar. The licensing, in its third round, will be given out to 5-10 banks as part of the country's effort to liberalize the financial sector. The branch license will allow foreign banks to conduct wholesale banking, with a minimum paid-in capital of USD 75 million (with USD 40 million locked up for 2 years with the CBM) in one location. The subsidiary license will allow foreign banks to operate both wholesale and retail banking (starting Jan 1, 2021), with a minimum paid-in capital of USD 100 million in up to ten branches/ATMs. The announcement also includes an allowance for foreign banks to own more than a 35% share in domestic banks and the transformation of foreign bank branches to subsidiaries will be subject to further regulations.

EIC's View

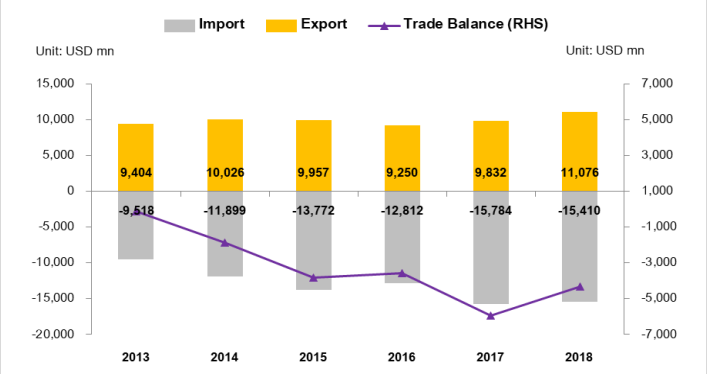
Myanmar is likely to see progressive economic changes leading up to the 2020 general election, but obstacles are still present. Continued efforts toward financial liberalization should offer businesses more opportunities to invest and expand into the Myanmar markets, especially in the banking sector and the stock market. The move should also improve the access to credit in Myanmar. Investments in infrastructure and construction could also improve logistical conditions in Myanmar, resulting in trade growth, decreased food prices, and tourism opportunities. **Nevertheless, the main issue facing Myanmar will be its treatment of the Rohingya people and pressure from western countries**. Businesses should remain vigilant as domestic political tensions could heighten. Moreover, even though Myanmar is currently supported by Chinese and ASEAN investment, high reliance on these countries could expose Myanmar to higher risks from the ongoing trade war and global economic slowdown. Myanmar's opportunities in the future will likely come from its continuous economic reforms, and changes in laws and regulations to improve the overall ease of doing business. However, it remains to be seen whether these reforms can be implemented successfully both before and especially after the 2020 election.

Myanmar's Key Indicators

Domestic Demand	Unit	2014	2015	2016	2017	2018	2019F	2020F
Real GDP	% YOY	8.2	7.5	5.2	6.3	6.8	6.2	6.3
Consumer price index	%	5.1	7.3	9.1	4.6	5.9	7.8	6.7
Current account balance	% of GDP	-4.2	-3.1	-4.0	-6.5	-4.2	-4.8	-4.9
Policy rate (end of period)	%	10	10	10	10	10	-	-

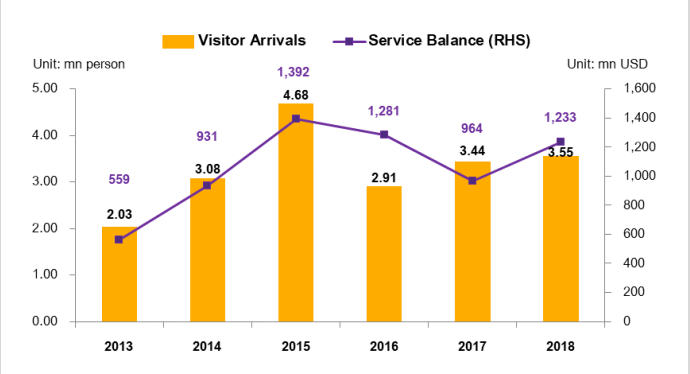
Sources: International Monetary Fund (IMF) and The Central Bank of Myanmar

Trade deficits narrowed due to export rebound



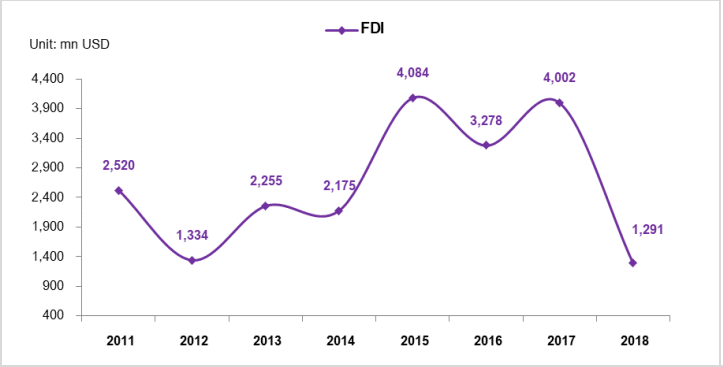
Sources: World Bank

Tourist arrivals recovered but growth remained slow



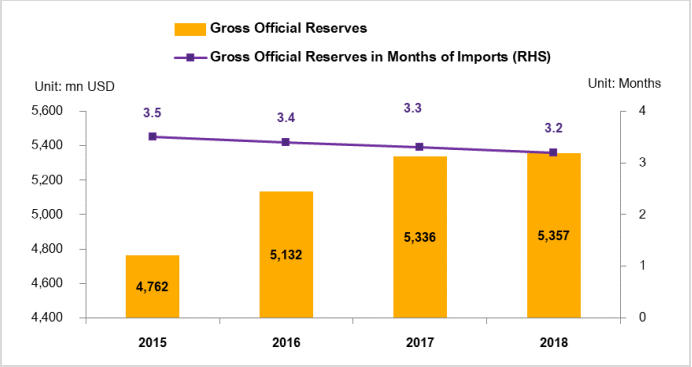
Sources: World Bank and CEIC

FDI plummeted from slower Chinese and western inflows



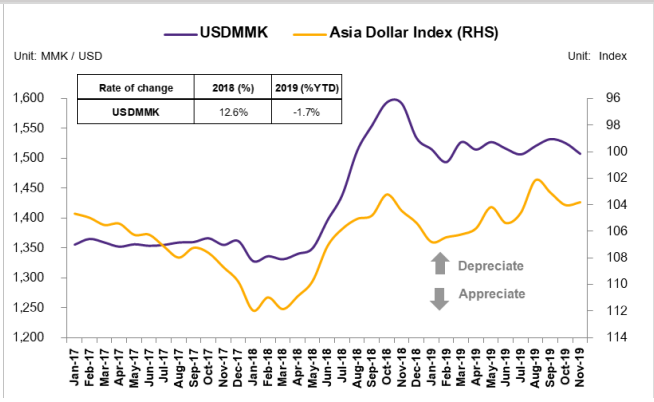
Sources: World Bank

Fast rising imports, compared to foreign reserves



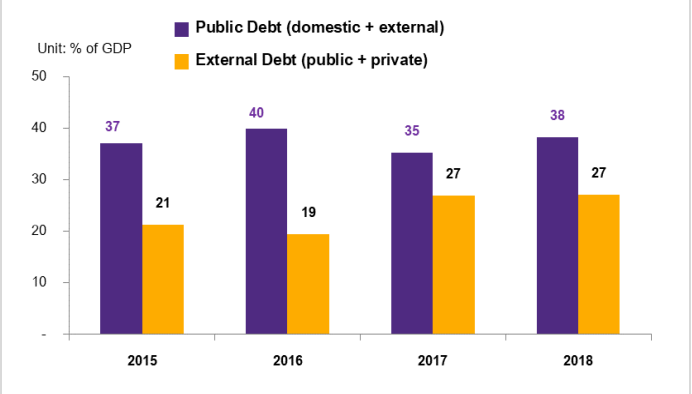
Sources: IMF

MMK appreciated against the USD year-to-date



Sources: Bloomberg

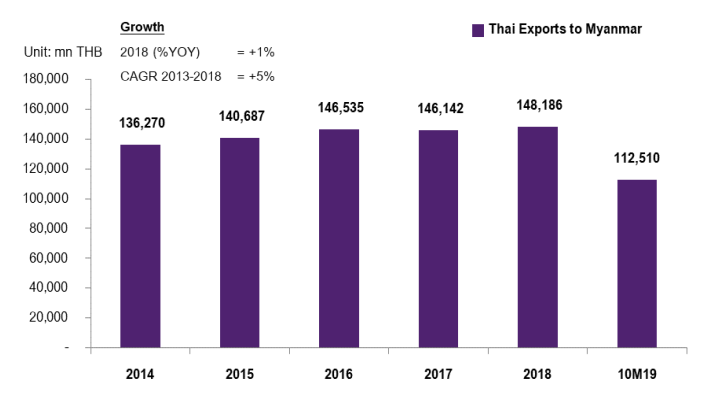
External debt remained low



Sources: IMF and CEIC

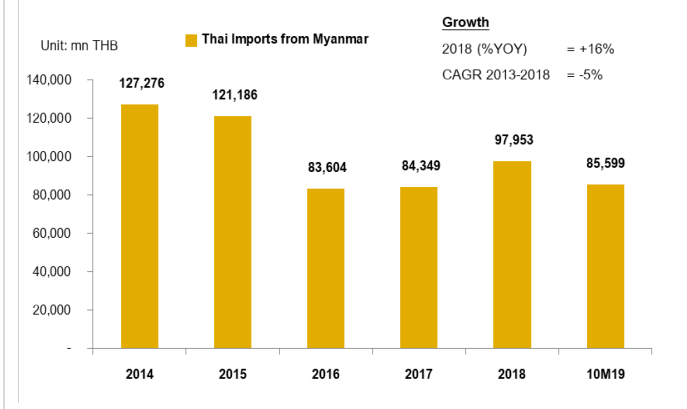
Links with the Thai Economy

Thai exports to Myanmar in the first 10 months of 2019 slowed from lower machinery and chemicals export



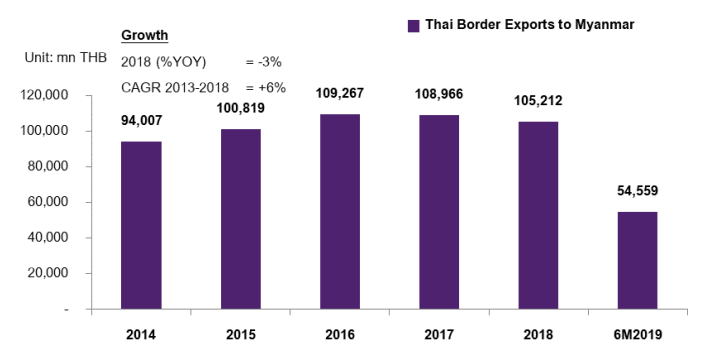
Sources: Thailand's Ministry of Commerce

Thai imports from Myanmar should continue its rebound in 2019, driven by natural gas and plant products



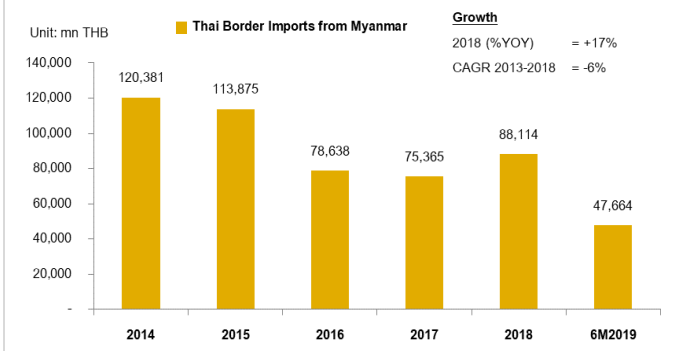
Sources: Thailand's Ministry of Commerce

Thai exports via borders to Myanmar fell 3%YOY in the first half of 2019



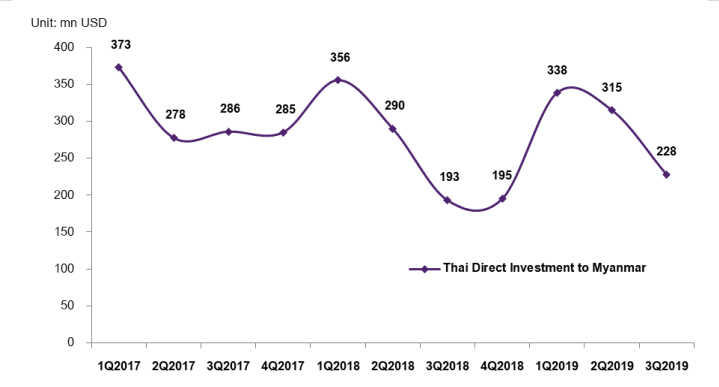
Sources: Thailand's Department of Foreign Trade

Thai imports via borders from Myanmar grew 16%YOY in the first half of 2019



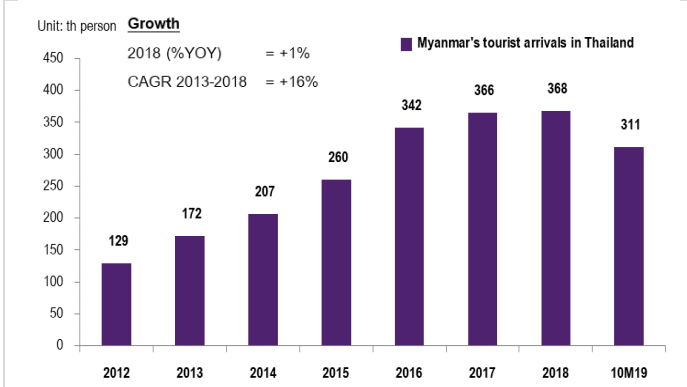
Sources: Thailand's Department of Foreign Trade

TDI in Myanmar fell for 2 consecutive quarters after a rebound in Q1 of 2019



Sources: Bank of Thailand

The number of Myanmar tourist arrivals has been growing since 2012 from tighter cross-border connection



Sources: Thailand's Department of Tourism

VIETNAM

OVERALL ECONOMY

Facts and Figures

Population (2018)	95.54 million
Labor force (2018)	56.83 million
GDP (2018)	244.94 USD billion
GDP per capita (2018)	2,563.8 USD
GDP by sector (2018)	Agriculture: 14%, Industry: 35%, Services: 39%
Top exports (2018)	Electronic products 36%, Garments and footwears 19%

What to watch in 2020

Risks of being labeled a currency manipulator by the US

Sovereign downgrade review by Moody's

Macroeconomic Update

Economic Outlook

Vietnam's economy grew 7.31%YOY in 3Q19 compared to 6.73% in 2Q19, supported by continued expansion in exports and manufacturing and strong domestic demand. EIC upgrades 2019 GDP growth to 6.8% from 6.5% previously. In the first three quarters through September, data from Vietnam's general statistical office showed that the economy expanded 6.98%YOY. In the first ten months of 2019, exports and imports grew 8.3% and 7.7%, respectively. Though Vietnam's export growth is slowing compared to double-digit growth in the past, the adverse effects of an export slowdown are still well-cushioned, at least in the short term. This is due to the trade diversion, which Vietnamese exports, including phones and parts, apparel and clothing, furniture and rubber, substituted some Chinese exports to the US. For the first eight months, FDI disbursement is estimated to have increased by 7%YOY, nearing USD 12 billion despite a slight decrease in new FDI registered in Vietnam, according to the Ministry of Planning and Investment. The manufacturing and processing and real estate sectors are the two largest recipients of foreign investment, partly as a result of production relocation trends from China. On the domestic front, in the first half of the year, private consumption remained strong and increased by 7.2%YOY. Domestic investment also exhibited a firm 7.1%YOY expansion as supported by an improved business environment and investor confidence, according to the Asian Development Bank (ADB). Average inflation slowed from 3.6% in the first ten months of 2018 to 2.5% in 2019. Subdued oil prices, slower credit growth, and a stable exchange rate offset inflationary pressure from increases in electricity and food prices.

Going forward, Vietnam's economy is expected to expand at around 6.7% in 2020 (vs 6.5% previously). Slowing external demand on the back of global slowdown is expected to be cushioned by resilient domestic demand. Private consumption should benefit from solid employment and moderate inflation conditions. Continued efforts by the government to improve the ease of doing business and structural reforms should help spur both private and foreign investment. In addition, according to the ADB, recent amendments to the law governing public investment should improve public investment by accelerating processes and enabling quicker disbursement of public investment. The outlook for industry and services in general continues to be supportive as more regional manufacturers may consider Vietnam as their new production base. Nevertheless, external risks are still tilted to the downside on the back of ongoing global trade tensions and global economic slowdown.

After a surprise policy rate cut in September, EIC expects a pause by the SBV in coming months. The State Bank of Vietnam (SBV) surprisingly delivered a 25-basis point interest rate cut on 13 September to support growth and increase liquidity. The refinancing and discount rates were cut to 6.00% and 4.00%, from 6.25% and 4.25% respectively, effective September 16. The SBV said the rate cuts, the first since October 2017, would help increase liquidity for banks in order to provide credit, stabilize the economy and the foreign exchange market, and boost economic growth amid external uncertainties. The rate move was made on the basis of having assessed low inflation and could marginally stimulate credit growth, which is targeted at 18% in 2019 by the government. Despite concerns over excess lending in some sectors such as real estate, authorities said higher credit growth might be reasonable in Vietnam as alternative sources of business funding such as bond markets are not well developed. Looking forward, EIC expects the SBV to remain on hold over the coming months to observe the impact of its rate cut on the economy before making further adjustments.

Vietnam is one of the key beneficiary countries from the US-China trade war through trade diversion and FDI from production relocation. While the US-China trade war is weighing on global growth and hurting exports in many Asian countries, Vietnam seems to have gained from trade and investment diversion following the escalation of US-China tariffs. Specifically, Vietnam is gaining from the current trade war in at least in two ways. **First, Vietnam has emerged as one of the top destinations for FDI and production relocation, especially in the manufacturing sector.** Amid the ongoing trade war, many China-based manufacturers eye factory relocation to Vietnam as the country has exhibited key advantages as a new production and regional export base due to a large labor force and expansive FTA network apart from AFTA (ASEAN FTA). These additional FTAs include 1) bilateral FTA with Chile, Japan, South Korea, 2) mega FTA with the European Union (EVFTA) and CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) and 3) many other potential FTAs under negotiation such as RCEP (Regional Comprehensive Economic Partnership) and Vietnam-EFTA (European Free Trade Association. **Second, Vietnam benefits from increased exports to the US in substitution to Chinese products with higher US import tariffs.** Comparing trade with the US between 2018 and 2019, US import value from Vietnam rose 11.2%YOY during the first ten months of 2019. Vietnam's key export products to the US market include consumer goods such as garments and footwear, phones, furniture, travel goods, and seafood, which have seen their share of US imports gradually increased.

Vietnam faces downgrade risks by Moody's Investors Service. Moody's on 9 October put Vietnam under review for possible rating downgrade because of delayed payments on an obligation by the government. Moody's has placed the Ba3 local and foreign currency issuer and senior unsecured ratings of the government of Vietnam under review for downgrade and consider Vietnam's current rating improper. **The decision to place the rating under review is driven by institutional deficiencies and weakness, reflected by deficient coordination and planning among various arms of the government.** According to Moody's, while the information available thus far has pointed to no or minimal losses for creditors, **complex bureaucratic processes can obstruct the timely and smooth payment of government obligations, and the coordination gaps within the administration resulting in delayed payments may point to creditworthiness that may no longer be consistent with the Ba3 rating.** During the 3-month review period, Moody's will evaluate the practice and system the government has in order to confirm reliable and timely payment of all obligations. In response to Moody's action, the Ministry of Finance (MoF) of Vietnam stated that Moody's decision was inappropriate since it was based on

just a single incident, emphasizing that Moody's needed to evidently classify provisional and direct payments of government obligation as the MoF explained that the delayed payment was guaranteed by the government and it was a provisional obligation, not a direct obligation. Nevertheless, while Vietnam's modest government financing requirements and ongoing public debt deleveraging from the peak at 59.7% of GDP in 2016 to 55.6% of GDP in 2018 denote moderate capacity to meet debt obligations, the review period would allow Moody's to determine if the revealed institutional weakness raises the risk of future delayed or missed payments that Moody's has warned about.

Financial Markets

Vietnam has been put on a monitoring list by US Treasury in a May 2019 report[1] and could be at risk of being labelled a currency manipulator in the next report. Vietnam has a high possibility of being named a currency manipulator for meeting the three evaluation criteria. First, the country has already had a consistent bilateral trade surplus with the US, exceeding USD 20 billion. Second, the country has also exhibited a large current account surplus, exceeding 2% of GDP. Third, Vietnam might be investigated by the US if the country is engaging in currency interventions to cap the value of its currency. The persistent one-sided FX intervention criteria requires that net FX purchases exceeding 2% of GDP over the last four quarters and positive net purchases carried out more than 6 of the 12 months under consideration. **According to EIC preliminary estimates from Vietnam's monthly reserves data, Vietnam's net FX purchases have already reached 2.6% of GDP for 7 months and meet the condition.** Should this number be lowered by the US Treasury as different assumptions are made (e.g. on the valuation adjustment or interpretation that Vietnam's FX intervention were made in both directions for rebuilding inadequate reserves), then Vietnam might be spared the unwanted label. However, if it is assumed that Vietnam will be labelled a currency manipulator, the norm suggests that the US government would likely engage in negotiations before taking and triggering retaliatory actions such as tariffs.

Tightening regulations over commercial banks' use of short-term deposits to finance medium- and long-term loans. The State Bank of Vietnam (SBV) has taken measures to tighten regulations over banks' use of short-term deposits, planning to reduce its ratio used to finance medium to long-term loans from the current 60% to 40% by September 2020. The central bank's policy aims to reduce risk, tightens control and to channel capital into priority sectors and small- and medium-sized enterprises. With rising concerns over bad loans, in 3Q19 the SBV reported total bad loans of 23 banks across the country at VND 94 trillion (around 4.05 billion USD), up 16% since the beginning of the year. NPLs have also been on the rise at 2.02% at the end of 1Q19.

Vietnam's local currency (LCY) government bond yields in Vietnam trended lower, leading the entire yield curve to shift downward since June 2019. The Asian Development Bank revealed in its latest Asia Bond Monitor report in November that Vietnam's outstanding bonds registered at USD 55.1 billion at the end of September. The report said that overall growth of the LCY bond market accelerated to 3.4% quarter-on-quarter in the third quarter of this year from 2.6% in the previous quarter. On a year-on-year basis, total bonds outstanding grew by 1.9%. The increase was driven by government bonds as corporate bonds posted a quarter-on-quarter decline. Treasury bonds remained the largest contributor to the stock of government bonds, accounting for an 80.2% share at the end of September. The further downward yield movement was mainly driven by a policy rate cut by the SBV on September 13.

[1] US Treasury report to Congress: Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States, May 2019

Law & Regulation

Vietnam announces new regulation regarding control of foreign exchange for FDI through the use of direct investment capital accounts (DICA)[2] effective September 6, 2019. Under this new circular, both FDI enterprises (new definition) and foreign investors in business cooperation contracts (BCC) and public private partnership (PPP) shall open a DICA in a foreign currency (VND is optional) at an authorized bank in Vietnam for each of their BCC and PPP projects. Most payment transactions involving a transfer between foreigners and domestic residents shall be made through DICA unless the transaction involved is made through another currency other than the one registered with DICA. In that case, a new bank account can be opened at an authorized bank. Payments for capital transfer transactions in FDI enterprises between a foreign seller and a foreign purchaser, and between a local seller and a local purchaser, are not required to be routed via DICA.

Vietnam amended its law on intellectual property and insurance business[3] effective November 1, 2019. The amendment introduced "insurance auxiliary services" as 1) insurance consultancy, 2) insurance risk assessment, 3) insurance calculation, 4) insurance loss assessment, and 5) insurance indemnity settlement support. The amendment outlined the qualifications necessary to provide these services and service providers must ensure that customer data remains confidential and that they have the necessary professional indemnity insurance for the service they provide.

Regional minimum wages will be increased from January 1, 2020 in accordance with Decree 90/2019[4] issued by the government on November 15, 2019. Authorities set different minimum wage levels for the four regions to reflect the cost of living in each area. Minimum wages will be increased as follows.

Region 1: VND 4,420,000 (an increase of 5.7% from VND 4,180,000)
Region 2: VND 3,920,000 (an increase of 5.7% from VND 3,710,000)
Region 3: VND 3,430,000 (an increase of 5.5% from VND 3,250,000)
Region 4: VND 3,070,000 (an increase of 5.1% from VND 2,920,000).

In detail, Region 1 covers urban Hanoi and Ho Chi Minh City. Region 2 covers rural Hanoi and Ho Chi Minh City along with Da Nang. Region 3 includes provincial cities and the districts of Bac Ninh, Bac Giang, Hai Duong, Phu Tho, Vinh Phuc and other provinces not listed in Region 1 and Region 2. Lastly, Region 4 includes the remaining localities. **As a result, overall minimum wages in Vietnam are expected to increase by around 5.5% in 2020. The increase varies from USD 6-10 depending on living expense in a specific region.** It is important to note that businesses cannot reduce overtime, night shift, or other hardship allowances that are provided to employees when applying the new minimum wages as per the labor law. Vietnam's regional minimum wages have increased for three consecutive years, with the wage hikes of 7.3% in 2017, 6.5% in 2018, and 5.3% in 2019.

[2] For further details, see https://www.pwc.com/vn/en/publications/legal-news-brief/190823-circular-06.html

[3] For further details, see https://www.pwc.com/vn/en/publications/legal-news-brief/190812-ip.html

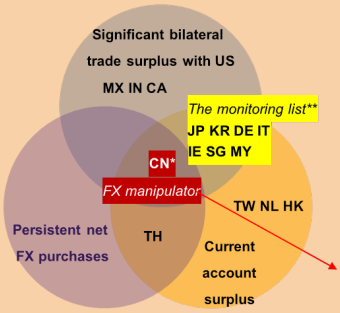
[4] For further details, see https://www.pwc.com/vn/en/publications/2019/pwc-vietnam-legal-newsbrief-decree-90.pdf

EIC's View

Despite risks still leaning to the downside, Vietnam is likely to remain one of the fast-growing emerging markets supported by FDI inflows, industry diversification, and solid domestic demand. Moreover, Vietnam's domestic plans for private investment and FDI that introduce efficient technologies and induce greater value-added investment would help integrate the country's industries into the global supply chain going forward. EIC sees Vietnam remaining a strong contender for business investment when considered against regional peers, with a growing middle-income class and hence expect 2020 GDP to grow by 6.7%.

However, for immediate risk, Vietnam is one of the countries placed on a currency manipulation watch list by the US Treasury in May, with the risk of being labeled a currency manipulator and further punitive tariffs. One of the largest risks to look for is that a surge in Vietnamese exports to the US and a rapid increase in the bilateral trade surplus with the US may prompt a drastic response from the US. In July 2019, the Vietnamese steel export industry saw the US department of Commerce imposed steel import duties of more than 400% as certain steel products forged in South Korea and Taiwan were being shipped to Vietnam in an attempt to evade US tariffs. If punitive tariffs are implemented broadly on Vietnam, exports are likely to be hit hard as the value-added component in Vietnam's exports to the US is equivalent to around 5.5% of GDP and the share of Vietnamese exports to the US is around 20% in 2018. As a result, the government has already planned to make it more difficult for Chinese companies to re-route their goods via Vietnam to bypass US tariffs through strengthening the rules of origin as written in draft regulations on "Made in Vietnam"[1]. Nevertheless, EIC views that the US may not look to significantly escalate tensions with Vietnam right away as Vietnam has already pledged to increase imports from the US by purchasing more liquefied natural gas (LNG) as well as aircraft to reduce the trade surplus with the US. Having said that, businesses are still advised to keep an eye on the progress and changes in business conditions that may be affected as a result of all the aforementioned external risks.

3 criteria for currency manipulation



UST evaluation criteria	Criteria	China	Vietnam
1. Significant bilateral trade surplus with US	> USD 20 billion	USD 401 bn	USD 47 bn
2. Current account surplus	> 2% of GDP	+1.2	+3.0
3. Persistent, one-sided intervention in FX market	Net FX purchase > 2% of GDP over the last 4 quarters and	+0.1	+2.6
	Positive net FX purchase > 6 of 12 months	Yes	Yes

Vietnam has been put on a monitoring list by US Treasury in May 2019 report and could be at risk to be labelled as a currency manipulator in the next report.

*Despite not meeting all 3 criteria. **The expected monitoring list including Japan, Korea, Germany, Italy, Ireland, Singapore and Malaysia.

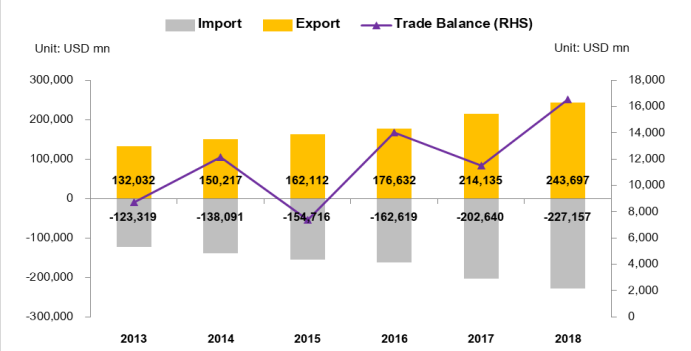
Source: EIC analysis based on data from ING and Bloomberg
Note: [1] For further details, see https://www.vietnam-briefing.com/news/made-in-vietnam-draft-regulations-rules-of-origin.html/

Vietnam's Key Indicators

Domestic Demand	Unit	2014	2015	2016	2017	2018	2019F	2020F
Real GDP	% YOY	6.0	6.7	6.2	6.8	7.1	6.5	6.5
Consumer price index	%	4.1	0.6	2.7	3.5	3.5	3.6	3.7
Current account balance	% of GDP	4.9	-0.1	2.9	2.1	2.4	2.2	1.9
Policy rate (end of period)	%	6.5	6.5	6.5	6.25	6.25	-	-

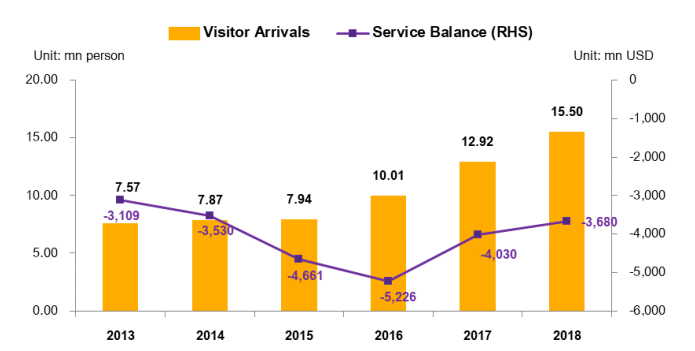
Sources: International Monetary Fund (IMF) and The State Bank of Vietnam

Trade surplus continued with rising export



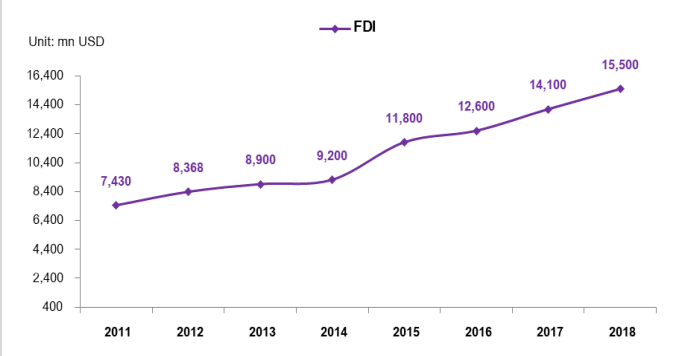
Sources: World Bank

Strong tourism helped service balance recovery



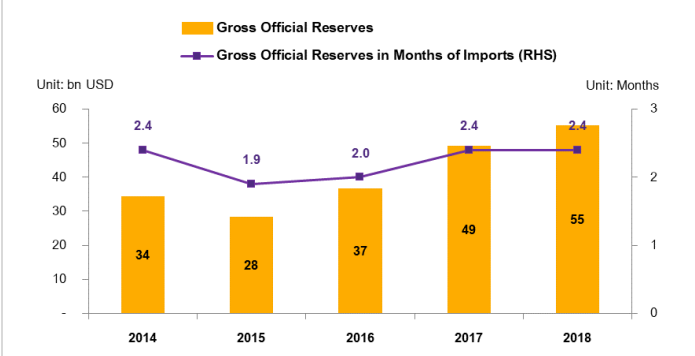
Sources: World Bank and CEIC

FDI is on the rise, concentrated in manufacturing



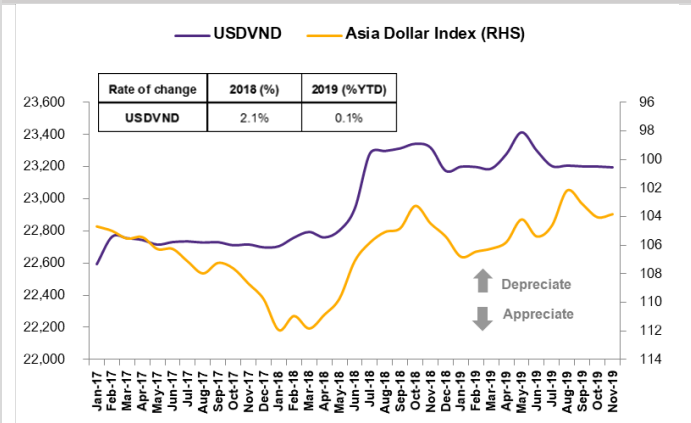
Sources: World Bank

Reserves buffers remained lower than a 3-month standard



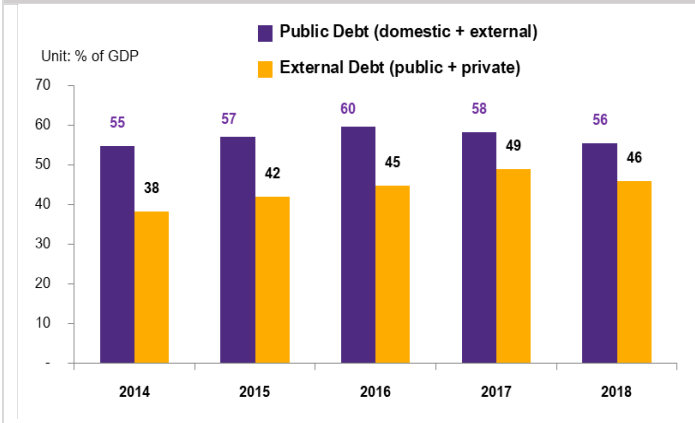
Sources: IMF

VND saw minimal change against the USD year-to-date



Sources: Bloomberg

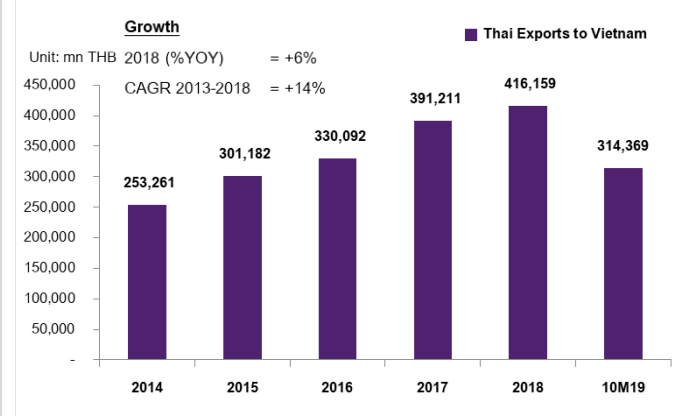
Public debt level has been stable around 56%



Sources: IMF

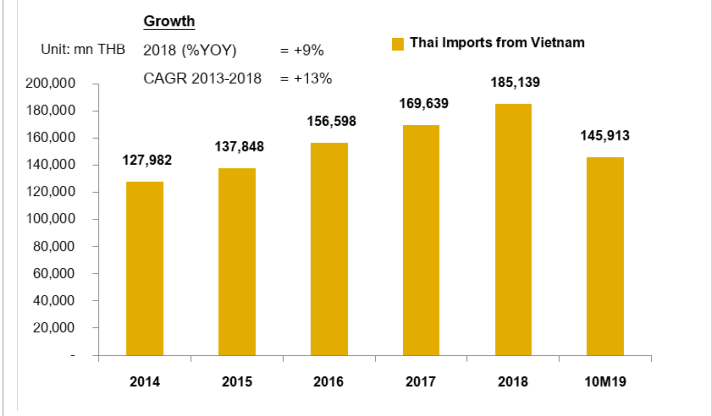
Links with the Thai Economy

Exports to Vietnam in the first 10 months of 2019 fell slightly due to lower plastic and oil exports



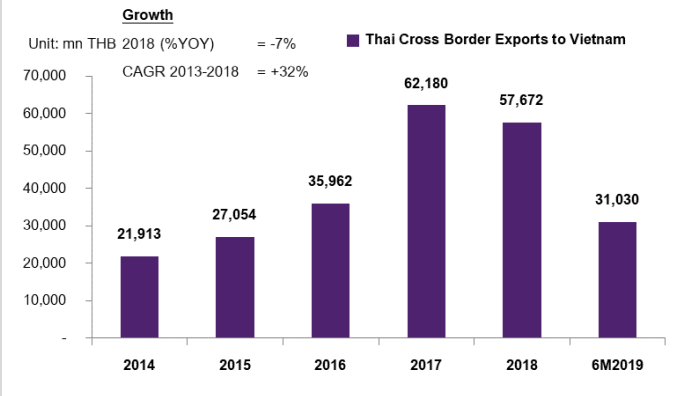
Sources: Thailand's Ministry of Commerce

Imports from Vietnam in the first 10 months of 2019 slowed due to lower electronic appliances and crude oil import



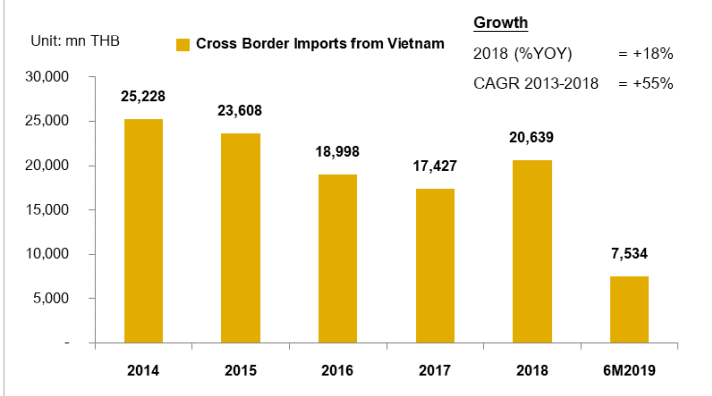
Sources: Thailand's Ministry of Commerce

Border exports increased 11%YOY in the first half of 2019 from exports of dried fruits



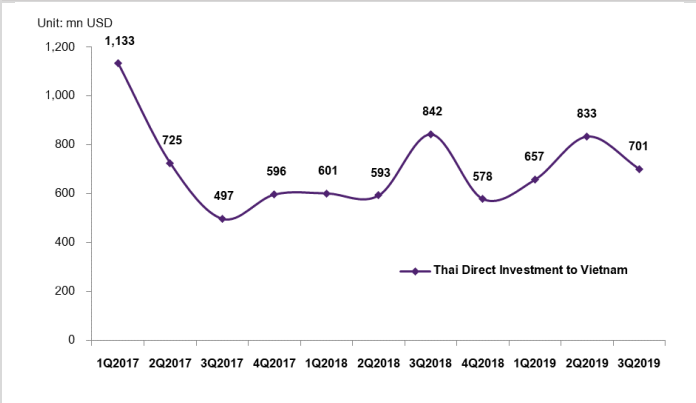
Sources: Thailand's Department of Foreign Trade

Border imports fell 45%YOY in the first half of 2019 from a significant reduction in imports of electrical appliances



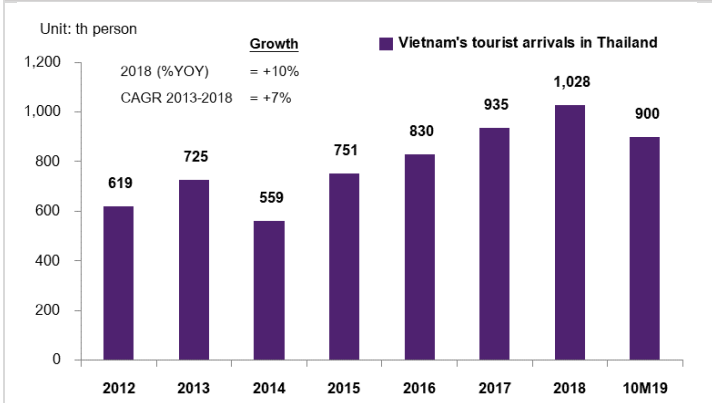
Sources: Thailand's Department of Foreign Trade

TDI to Vietnam has been concentrated in manufacturing and financial services with some fluctuation



Sources: Bank of Thailand

Tourists from Vietnam has been rising steadily since 2014 and should continue to grow in 2019



Sources: Thailand's Department of Tourism

CLMV Highlight

Doing Business in CLMV:
Across the board comparison for 2019 and 2020

Despite the current global and regional economic slowdown, CLMV economies still offer alternative and untapped opportunities in terms of both growing consumer markets and a rising middle-income class. In order to achieve successful investment results within the region, businesses must be aware of the laws, regulations, and prerequisites in CLMV countries for starting up a business, such as the ease of setting up a business, construction permits, access to credit, electricity conditions, taxation laws, and so on. This is one of the most important steps in assessing the risks and returns for investment in CLMV markets. **Investors would do well to explore the ease of doing business by looking at the "Doing Business" report published by the World Bank Group.** The latest CLMV doing business issues and conditions can be summarized according to ranking and scoring in 2019 and 2020 as follows (Figure 1).

Figure 1: CLMV Doing Business and comparison with Thailand

CLMVT Doing business 2020 [VS 2019]

Country	Ranking* (/190)	Score* (/100)	Best Ranked Areas	Worst Ranked Areas
Thailand	21 ↑	80.1	Protecting minority investors** Getting electricity**	Paying taxes Registering property**
	[27]	[78.45]		
Vietnam	70 ↓	69.8	Construction permits** Getting credit	Resolving Insolvency** Starting a business
	[69]	[68.36]		
Cambodia	144 ↓	53.8	Getting credit** Resolving Insolvency**	Starting a business** Enforcing Contracts**
	[138]	[54.80]		
Laos	154	50.8	Trading across borders** Getting credit**	Starting a business** Protecting minority investors**
	[154]	[51.26]		
Myanmar	165 ↑	46.8	Construction permits** Starting a business	Enforcing Contracts** Getting credit
	[171]	[44.72]		

Source: EIC analysis based on data from the World Bank

Notes: *Ranking – the lower number denotes better ranking, and *score – the higher score the better. Higher scores reflect higher efficiency of the institutions in place and the quality and transparency of data disclosure. Specifically, efficiency means having the necessary regulations in place, but not so bureaucratic that the process becomes a burden to business owners. **means the category ranked within the top/bottom 2 in the 2019 report.

The Doing Business 2020 report measures how accommodating existing regulations are to the process of setting up and running a business. Various aspects of business operations are scored, starting from the initial set-up process to getting a location, finance, and the conduct of business operations. In total, there are 10 scored topics (Figure 2): 1) starting a business, 2) dealing with construction permits, 3) getting electricity, 4) registering property, 5) getting credit, 6) protecting minority investors, 7) paying taxes, 8) trading across borders, 9) enforcing contracts, and 10) resolving insolvency. Key issues for CLMV countries can be analyzed as follows.

Vietnam remained the top performer, despite slipping one rank from the previous year (Figure 2.1). However, in terms of raw score, the country saw an increase from last year, with almost all individual categories improving. Nevertheless, these improvements were relatively minor compared to other economies, resulting in a slight decline in the country's rank. The country's efforts to spread credit information and streamline tax payment proved successful as the "getting credit" and "paying taxes" categories showed significant improvement. **Vietnam's strengths include its ease of getting credit and construction permits, where quality is high while procedures and costs involved are limited**. For its weaknesses, the ease of resolving insolvency is hindered by high costs and long durations, while the rate of recovery is low. The number of procedures required to start a business is also above the East Asia & Pacific regional average, although the time and costs needed to start a business are rather business-friendly, staying below regional average.

Cambodia came in second place among CLMV countries, but its overall ranking fell 6 spots from the previous year (Figure 2.2). Cambodia's scores were lower than the previous year, and the overall trend was slightly downward. Business reforms were minimal in terms of major changes, while the cost of business registration increased during the period. This is one of the main factors resulting in a slight decrease in the nation's overall doing business score in 2020. **Cambodia's best ranked area was in "getting credit" due to its above average credit coverage of adults and more access to credit information.** This is in line with the National Bank of Cambodia's support for microfinance and regulatory procedures. Cambodia's worst ranked area was in "starting a business" due to the expensive cost and time involved. The process requires a lot of paperwork, some of which must be submitted in person, resulting in inefficiency.

Figure 2.1: Vietnam's ranking fell slightly in 2020.

Vietnam's Doing Business Rank 2019-2020

Unit: Rank (out of 190 countries) — Improved rank / Worsen rank

	2019	2020	
Overall	**69**	**70**	↑
Starting a Business	104	115	↑
Getting Electricity	27	27	—
Dealing with Construction Permits	21	25	↑
Registering Property	60	64	↑
Protecting Minority Investors	89	97	↑
Getting Credit	32	25	↓
Paying Taxes	131	109	↓
Trading across Borders	100	104	↑
Enforcing Contracts	62	68	↑
Resolving Insolvency	133	122	↓

Figure 2.2: Cambodia's rank trended downward in 2020.

Cambodia's Doing Business Rank 2019-2020

* Unit: Rank (out of 190 countries) — Improved rank / Worsen rank

	2019	2020	
Overall	**138**	**144**	↑
Starting a Business	185	187	↑
Getting Electricity	141	146	↑
Dealing with Construction Permits	179	178	↓
Registering Property	124	129	↑
Protecting Minority Investors	110	128	↑
Getting Credit	22	25	↑
Paying Taxes	137	138	↑
Trading across Borders	115	118	↑
Enforcing Contracts	182	182	—
Resolving Insolvency	79	82	↑

Source: EIC analysis based on data from the World Bank

Laos ranked third among CLMV countries, remaining stagnant in terms of overall ranking (Figure 2.3). The raw score dipped slightly owing to a decline in "protecting minority investors", but most of the other individual categories did not deviate much from the previous year. The two exceptions were "starting a business" and "getting electricity", which saw positive improvements albeit with a low ranking. Laos removed the need for businesses to acquire a proof of business location, simplifying the process. Nevertheless, it remains Lao's weakest area due to the duration required to complete the whole process being almost 7 times longer than the East Asia & Pacific regional average of 173 days. In terms of getting electricity, Laos has made significant progress in ensuring the reliability of electrical access. This in part is due to the progress of Laos' infrastructural reforms in becoming the major electricity producer and exporter in the region. **Lao's main strength comes from its ease of trading across borders as the country streamlined the process in line with its goal of becoming "land-linked" to bordering countries**, although it still requires excessive paperwork.

Myanmar came in last among CLMV countries but showed the most improvement, jumping 6 spots (Figure 2.4). The country's raw score increased by approximately two points fueled by a **significant increase in the "starting a business" category. The number of procedures, times, and costs required to start a business were effectively reduced by about 50% due to new regulations allowing online registration of companies and lower fees.** Apart from this, Myanmar also made positive changes to other areas in doing business, including improved utilities infrastructure and quality control, publishing measurements and informative reports on the registration of property, and enforcement of contracts. However, despite these improvements, Myanmar still meaningfully lags behind other CLMV countries. Enforcing contracts take about twice the regional average at 1,160 days, with the quality of the judicial process being low. In addition, there is no credit coverage of adults in Myanmar. Nevertheless, Myanmar's future will likely be more encouraging as reforms continue to be implemented.

Figure 2.3: Laos' ranking in 2020 remained stagnant.

Figure 2.4: Myanmar's ranking increased 6 spots in 2020.

Source: EIC analysis based on data from the World Bank

In conclusion, the ease of doing business ranking for CLMV countries in 2020 fell slightly, but certain areas show promise. For the 2020 issue, unaccommodating regulations and bureaucratic processes continued to be significant barriers faced by CLMV countries in starting a business. Business regulations showed a wide discrepancy, with some being rather restrictive (e.g. the increased cost of business registration in Cambodia) and others being almost non-existent (e.g. no efficient measures for resolving insolvency in Laos). However, CLMV countries generally performed well in getting finance due to continued expansion and liberalization of the financial market, especially in microfinance. Construction infrastructures also performed well, in addition to electricity and trade. On the other hand, procedures to start a business could be more streamlined and institutions related to business operations are not as effective as they could be. With that said, **continued efforts in structural reforms have resulted in constant improvements, and the outlook is still favorable in the medium term given the right support from the government and ongoing amended and improved laws and regulations.**

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