CLMV OUTLOOK 2022

SCB
Economic Intelligence Center

Content

Kokiu
Nanning
(Port.)
Haikow
Hainan
Gulf of Tonking
Hanoi
Mekong
Bhamo
Laschio
Irrawaddy
Mandalay
Salween
MYANMAR (BURMA)
Akyab
Prome
Yangon
(Rangoon)
Bassein
Gulf of Martaban
Ye
Chiang Mai
Maulamyaing
Luang Prabang
Vientiane
LAOS
Vinh
VIETNAM
Hué
Da Nang
Qui Nhon
THAILAND
Ayutthaya
Bangkok
Krung Thep
Battambang
KAMPUCHEA (CAMBODIA)
Phnom Penh
Phan Rang
Ho Chi Minh
South China Sea
4350

2022

CLMV Outlook

After a sluggish recovery in 2021 pressured by the outbreak of the Delta variant, CLMV economies are expected to see a stronger recovery in 2022 supported by higher vaccination rates, resilient exports, and a gradual return of international tourists.

• On the domestic front, higher vaccination rates have allowed authorities to relax lockdown measures, supporting a gradual domestic demand recovery. Officially confirmed COVID-19 cases have declined in Cambodia, Laos, and Myanmar but rising in Vietnam; however, recent COVID-19 restrictions have been less stringent than in the past as CLMV economies adapt to living with COVID-19 and resort to partial lockdowns instead of nationwide lockdowns. Additional fiscal stimulus is expected to shore up domestic demand in Cambodia and Vietnam due to their adequate fiscal space, whereas Laos and Myanmar's space for fiscal stimulus are more limited. Nonetheless, scarring effects from the pandemic would remain a drag on economic activity particularly through elevated unemployment rates and weakening household incomes.

• On the external front, continued global economic growth and border reopening should underpin external demand recovery, supporting exports and foreign investment. CLMV exports are expected to see continued growth in 2022, albeit at a slower pace than 2021, as global demand for goods remains resilient especially for electronics and work-from-home products related to new lifestyles. With a lower economic uncertainty, FDI inflows should gradually return to the region aided by easing border restrictions and shortened quarantine requirements. Foreign trade and investment into the region would also benefit from RCEP which became effective in January. Despite that, the Omicron outbreak remains uncertain, and a prolonged spread would pose downside risks for external demand through possible supply chain disruptions.

• Border reopening would also allow tourists to return gradually, with stronger growth expected in the second half of 2022 as Omicron concerns abate. However, Chinese tourists, which constitute a dominant share of international tourism in the region, are still barred by tight border restrictions. With China's Zero-Covid policy and high transmissibility of the Omicron variant, EIC believes China's border reopening for international tourism will be delayed to late-2022 or may be put off until 2023.

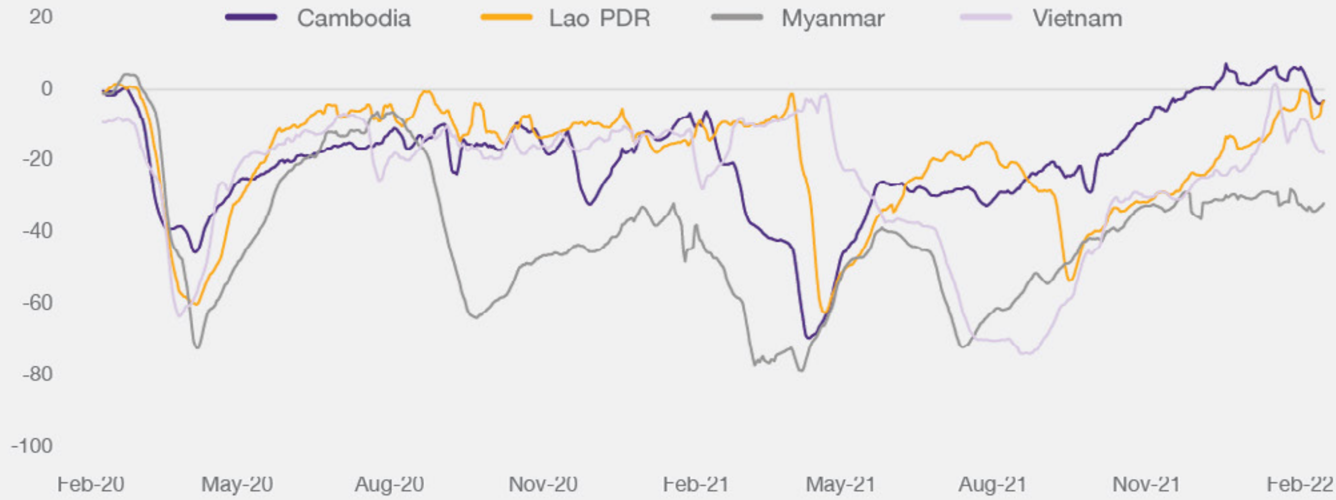
• Factors to watch for CLMV economies in 2022 include 1) the Omicron variant or other emerging variants and risks of additional outbreaks, 2) vaccination progress and plans to ease border and mobility restrictions, 3) higher energy prices from rising geopolitical tensions, particularly the Russia-Ukraine conflict, which could affect global economic growth and increase inflation; this would affect consumers' purchasing power amid the depreciation of CLMV currencies, and 4) fiscal and financial stability, particularly in Laos and Myanmar, amid higher public debt burden and monetary tightening in developed economies. **Country-specific factors are also important to monitor,** including the political situation in Myanmar and the recent opening of the Boten-Vientiane railway in Laos.

2022

CLMV Outlook

CLMV's Mobility Data (Retail and Recreation)

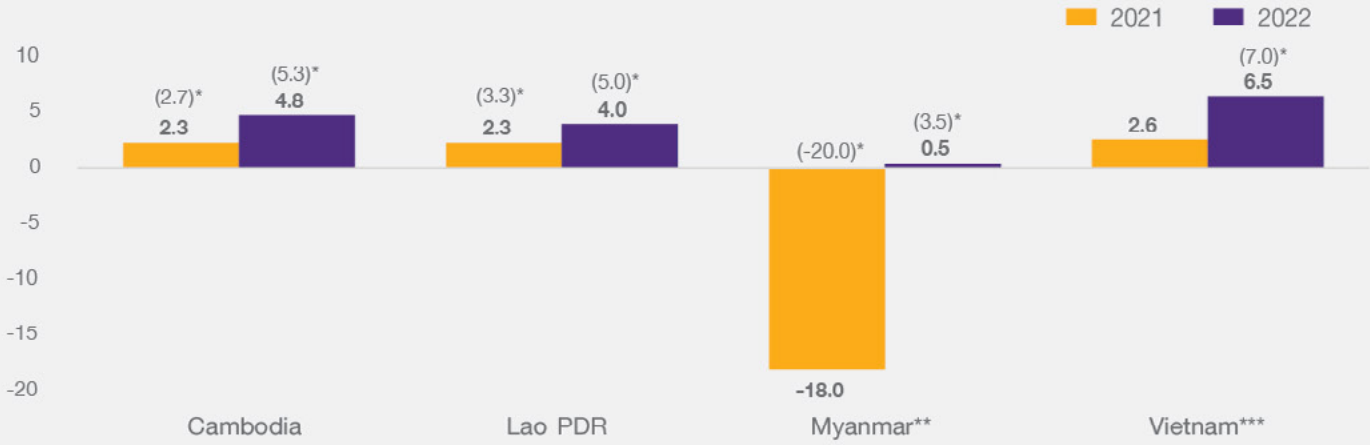
Unit: % change from baseline* (7 Day Moving Average)



Note: *Baseline period is the median value between Jan 3 – Feb 6, 2020
Source: EIC analysis based on data from Google

CLMV's Economic Growth Forecasts 2021-2022

Unit: %



Note: *() denotes EIC's previous forecast ** 2022 for Myanmar refers to FY2021/2022 ***Vietnam's 2021 growth is official
Source: EIC analysis based on data from the IMF, WB, ADB, and CLMV Authorities

2022 CLMV Outlook

Cambodia

+ High vaccination rate and low COVID-19 cases have allowed most restrictions to be lifted including quarantine free reopening for fully vaccinated arrivals which would support tourism and FDI inflows
+ Exports to remain resilient with RCEP and the China-Cambodia FTA coming into effect this year
- Slower global economic growth, particularly China's, would slow the pace of the recovery
- Partial withdrawal of Everything But Arms (EBA) preferential trade arrangement with the EU since August 2020 will hinder main exports of garments, footwear, and travel goods to Europe

Laos

+ Opening of the China-Laos railway should improve trade and connectivity with China and ASEAN
+ Continued exports and FDI growth as key economic partners in the region recover
- High external public debt burden amid inadequate foreign reserves is a key risk to the economy
- Rapidly weakening Lao kip (LAK) will make foreign debt servicing more challenging and may contribute to rising inflation

Myanmar

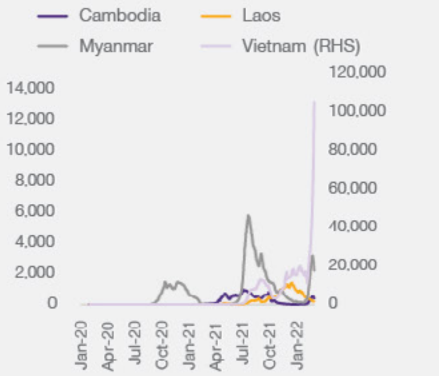
+ Gradual stabilization in economic activity is expected as official COVID-19 cases slow and political uncertainty somewhat eases
- Broad-based economic disruptions resulting in high unemployment, business closures, cash shortages, and logistical issues are likely to linger
- Foreign investors are likely to avoid or withdraw investing in Myanmar until the political situation has been resolved
- Risks to fiscal and financial stability from low government revenue collection and weakening Myanmar kyat (MMK)

Vietnam

+ Strong demand for Vietnamese electronics exports should resume after supply chain disruptions abate
+ FDI to expand with high foreign investor interests due to the country's location, a large pool of labor force, and various FTAs
+ Fresh stimulus package amounting to 4% of GDP should support domestic demand recovery
- COVID-19 cases remain high which could result in new lockdowns and supply chain disruptions

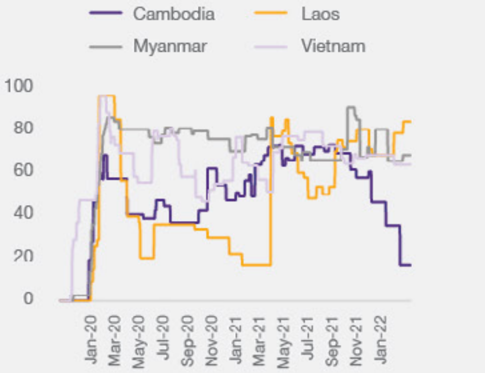
Daily New COVID-19 Cases

Unit: Cases (7 Day Moving Average)



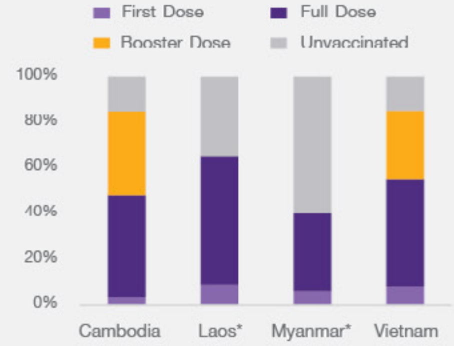
Government Stringency Index

Unit: Index (100 = Most Stringent)



Vaccination Progress

Unit: % of Total Population



Note: *Data for booster doses not available

Source: EIC analysis based on data from the WHO, Oxford, Our World in Data, and CLMV Health Ministries (as of March 3rd, 2022)

2022

CLMV Outlook

Links to
Thailand

Thai Exports to CLMV: After the robust growth of 14.5%YOY in 2021 despite the Delta variant outbreak, export growth is expected to moderate as the low base effect subsides. Nonetheless, it should remain positive from broadly stronger economic growth in the region this year. In addition, there are new supporting factors from additional border checkpoints reopening, the RCEP agreement which came into effect in January 2022, the weak Thai baht, and the opening of China-Laos railway. Risks to exports include the Omicron outbreak, lingering supply chain disruptions, and high shipping and input costs.

Thailand Direct Investment (TDI): After a sharp contraction in 2021 (latest data shows a contraction of -44.4%YOY in the third quarter) pressured by the regional COVID-19 outbreak and political uncertainty in Myanmar, TDI should recovery gradually in 2022 driven by borders reopening from higher vaccination rates, the RCEP agreement, and stronger regional economic growth. Vietnam is expected to be the standout due to the country's large and young labor pool, strategic location, and various signed FTAs. On the other hand, TDI to Myanmar is likely to remain very sluggish pressured by the country's political uncertainty, sanction risks, and reputation risks to the investor.

Tourist Arrivals to Thailand: A steady recovery throughout 2022, particularly in the second half of the year, is expected driven by higher vaccination rates in the region and the reinstatement of Test & Go programme in Thailand. A potential travel bubble with CLMV countries would be an upside for tourism especially for arrivals through land border channels. Nonetheless, various factors could limit the recovery including the Omicron variant outbreak, relatively slow vaccination progress in Laos and Myanmar, and high costs related with testing and insurance.

Employment of Foreign Workers in Thailand: Employment has stagnated since June 2021 at about 2.16 million workers, remaining below pre-pandemic levels of about 2.7 million workers. Going forward, as Thailand's economy recovers, higher foreign workers employment is expected while officially reported numbers could rise from policies to recognize and integrate informal workers into formal workers. However, there are downside risks through ongoing border restrictions, high quarantine costs, and low vaccination rates in some countries. If the foreign worker shortage persists, firms could face higher labor costs which would impact earnings.

Cambodia

OVERALL ECONOMY

Facts and Figures

Population (2020)	16.72 million
Labor force (2020)	9.16 million
GDP (2020)	USD 25.38 billion
GDP per capita (2020)	USD 1,570
GDP by sector (2020)	Agriculture: 22%, Industry: 35%, Services: 37%
Top exports (2020)	Textiles 42%, Gold 17%, Footwear 6%, Travel goods 6%

What to watch in 2022:

- Quarantine-free tourism reopening for vaccinated tourists
- Omicron COVID-19 variant and plans for booster doses

2021-2022F Outlook

EIC downgrades Cambodia's GDP growth for 2021F to 2.3% (from 2.7% previously), with growth in 2022F expected to strengthen to 4.8% supported by the easing of lockdowns and border reopening. External demand is expected to remain resilient in 2022, driven by a gradual return of foreign tourists after the country removed quarantine requirements for fully vaccinated travelers. Likewise, foreign direct investment would benefit from the country's reopening and the easing of COVID-19 restrictions, especially in the real estate and construction sectors which rely significantly on Chinese FDIs. Exports should continue to expand in 2022 driven by higher demand for garments and footwear, although at a slower rate as global economic growth moderates. In particular, exports of agricultural products are likely to benefit from the China-Cambodia FTA (CCFTA) agreement, which is scheduled to come into effect in 2022. With a high vaccination rate and relatively low COVID-19 cases, domestic demand is expected to recover gradually as businesses reopen and restrictions are eased. Domestic demand recovery would also be supported by fiscal stimulus measures such as cash handouts and income subsidies. Nonetheless, GDP growth in 2022 is expected to remain below pre-crisis levels (which averaged about 7%) since the number of tourist arrivals should remain substantially depressed. Scarring effects from the lockdowns imposed in 2020-2021 could also hinder domestic demand recovery as households remain cautious of their spending.

Key risk factors for the economy include a resurgence in COVID-19 cases, slower than expected global economic growth, and supply chain disruptions. Despite the country's high vaccination rate, vaccine efficacy may decline and potentially lead to an uptick in COVID-19 cases, especially since the Omicron variant has proven to be more infectious. Plans for booster doses have been made and would be a key determinant for the economic outlook. In addition, with high reliance on external demand, slower economic growth in the US (main trade partner) and China (main investor country) could affect Cambodia's economy. Persisting supply chain issues such as higher input and shipping costs could also hinder exports, affecting economic growth.

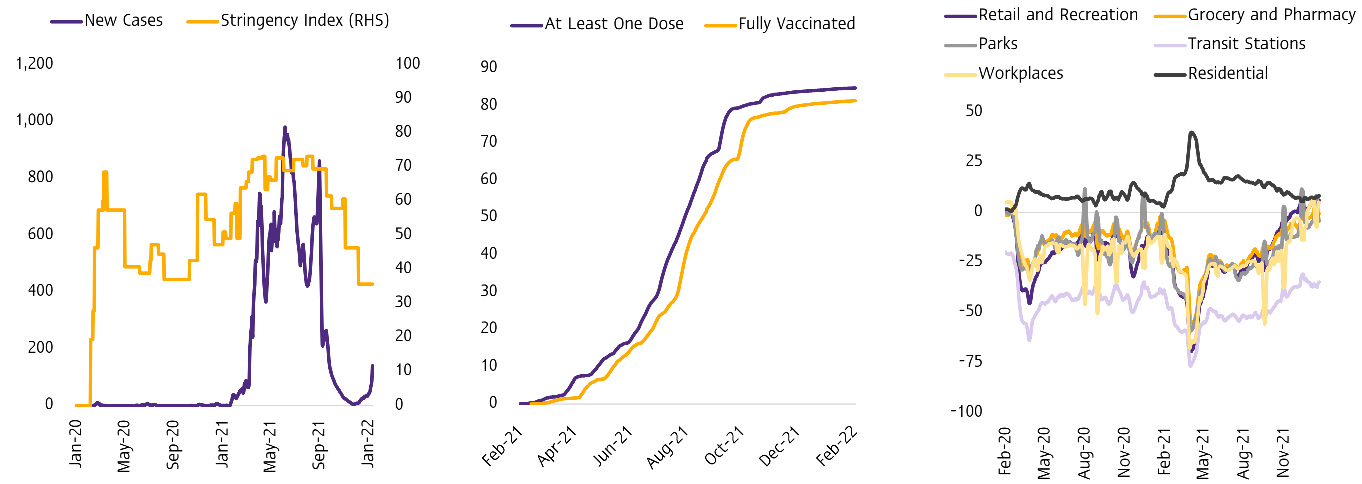
COVID-19 and Vaccination Update

As of February 14th, 2022, Cambodia confirmed 123,955 cases of COVID-19, 118,960 recoveries, and 3,015 deaths (Figure 1 LHS). 81% of the population have been fully vaccinated while 3% are vaccinated with the first dose (Figure 1 MID). New daily cases have dropped sharply since October due to the government's policy to reduce testing for asymptomatic and mild cases alongside widespread vaccination. However, the country is facing a resurgence caused by the Omicron variant in early February with new cases reaching 500 per day although the death toll has not risen. The vaccines used by the country are mostly Sinovac and Sinopharm, with shots permitted for those aged five and above. The government has also begun administering booster doses for those who have been vaccinated for at least four months since a second dose. Most of the lockdown restrictions have been lifted, including curfews, limits on gatherings, and closures of entertainment venues. In November, the country allowed fully vaccinated tourists to enter the country without quarantine if tested negative upon arrival. The easing of lockdown measures has led to a rebound in economic activity, as reflected by steadily rising mobility data (Figure 1 RHS). The reopening of the country would also be a significant growth driver for 2022 as international tourism accounts for 14% of Cambodia's GDP pre-pandemic, even if tourist arrivals remain substantially below 2019 levels.

Figure 1: Lower COVID-19 cases and a high vaccination rate have allowed lockdowns to ease and mobility to recover.

COVID-19 Daily Cases and Stringency Index | Vaccination Progress | Google Community Mobility Data

Unit: Cases (7DMA) Unit: Index (100 = Most Stringent) | Unit: % of Total Population | Unit: % Change from Baseline (7DMA)



Source: EIC analysis based on data from the WHO, Oxford, Our World in Data, and Google

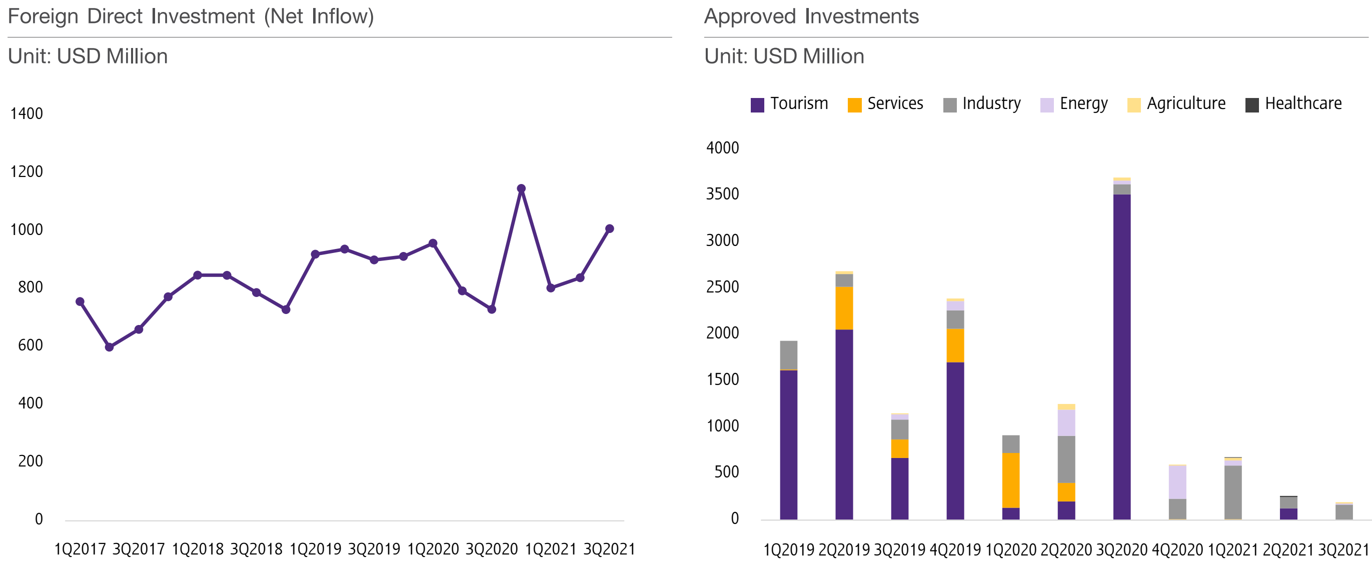
External Demand

Exports in 2022 are expected to see continued expansion as trade partners further reopen their economies, although growth should moderate in line with slower global economic growth. In the first eleven months of 2021, Cambodian exports rose 22.6%YOY (USD, excluding gold). After a sluggish start, the country's main exports of garments and footwear (54% share in the first ten months of 2021) have started to rebound since June. As trade partners speed up their vaccination rates and reopen their economies this year, demand for such goods is expected to strengthen. Additionally, Cambodia could benefit from increased orders due to the political uncertainty in Myanmar, another garment exporter in the region. New export drivers such as electronics and bicycles are also expected to remain robust, driven by changing consumer behaviors after the pandemic. Another factor supporting export growth in 2022 is newly ratified trade agreements. Both the China-Cambodia FTA (CCFTA) and Regional Comprehensive Economic Partnership (RCEP) are expected to come into effect January 1st, which should boost exports, especially to China. In particular, the CCFTA is expected to drive demand for Cambodian agricultural goods as the agreement removes tariffs on these products. A free trade agreement with South Korea has also been signed, although this would take some time before coming into effect.

Nonetheless, risks to exports remain. First, slower than expected global economic growth caused by supply shortages and high inflation could depress Cambodian exports. Second, a resurgence in COVID-19 domestically may lead to factory closures. In addition, shipping and logistics costs may remain elevated in the near term, affecting exporters. Last, the partial Everything But Arms trade privilege withdrawal by the EU in August 2020 due to human rights concerns may reduce Cambodia's export competitiveness in the medium term. As Cambodia is unlikely to make major political changes, the suspension is expected to remain in place for the foreseeable future. Exports to the EU (accounting for 17.3% of total exports in the first ten months of 2021) have taken a hit, contracting -5.8%YOY in the same time period, although this could be partly attributed to the effects from the COVID-19 pandemic.

Foreign direct investment should benefit from COVID-19 containment and border reopening in 2022 after a slow recovery in 2021. In the first nine months of 2021, FDI rose 6.9%YOY. On a quarterly basis, FDI in the third quarter grew 20.2%QOQ, recovering from a sluggish first semester. On the other hand, the amount of approved investment projects (both foreign and domestic) plummeted -80.6%YOY in the first three quarters of 2021, reflecting a limited number of planned investments before the country reopened (Figure 2). Nonetheless, the bottom has likely passed, and various supporting factors should bolster a recovery in 2022. First, the COVID-19 situation has been manageable and quarantine-free reopening for fully vaccinated travelers should improve the confidence of foreign investors. Second, Cambodia has passed a new draft law on investment which aims to improve incentives for foreign businesses to invest in Cambodia while streamlining the process. Third, the ratification of RCEP could also further integrate Cambodia into the regional supply chain. Risks to the outlook include slower economic growth in China, the country's largest foreign investor, which could depress the return of FDI inflows.

Figure 2: FDI is set to recover in 2022 after quarantine-free border reopening and containment of COVID-19



Source: EIC analysis based on data from the National Bank of Cambodia

The outlook for tourism has brightened after Cambodia allowed quarantine-free entry for fully vaccinated tourists, but arrivals are likely to remain substantially below pre-pandemic levels. Starting in November, fully vaccinated travelers arriving in Cambodia will no longer need to enter quarantine if they are tested negative upon arrival, in addition to presenting a negative pre-arrival test result certificate and a vaccination certificate (no deposits required). Travelers not fully vaccinated will still require quarantining for 14 days and must pay deposits. Although this signals a gradual recovery for the tourism sector, a full recovery is unlikely to be achieved in 2022. First, a number of countries, especially China, still impose strict border controls on their citizens, which would limit the number of tourists for Cambodia. Second, many airlines are still operating under capacity with limited flights to Cambodia. Lastly, concerns regarding the Omicron variant of COVID-19 remains a significant downside risk and may cause potential tourists to hesitate and cancel travel plans. Nonetheless, even if tourist arrivals are below pre-pandemic levels, a gradual return of tourism would remain one of the key growth drivers for the economy in 2022.

Domestic Demand

Domestic demand is poised for a gradual recovery in 2022 supported by the country's widespread vaccination, easing of lockdown measures, and fiscal support. Mobility data suggests a broad-based recovery in economic activity close to pre-pandemic levels after a period of low COVID-19 cases and the lifting of lockdown measures. A high vaccination rate should strengthen consumer confidence, improving the outlook for domestic economic activity going into 2022. In addition, cash handouts, wage subsidies, and tax exemption programs by the government are likely to support domestic demand recovery. As border restrictions ease, migrant workers could return to work abroad, which would increase remittance income. Nonetheless, scarring effects from the pandemic are likely to persist and could slow the pace of any rebound. First, Cambodia's unemployment rate could remain elevated given the large reliance on the tourism sector, which is projected to have a slow recovery. The World Bank reported that Cambodia's employment level fell close to 3% in 2020, worse than the Emerging Asia Pacific Region average of 2%, attributed to both a higher unemployment rate and lower labor force participation. Thus, consumer purchasing power could remain weak for some time. Next, rapidly rising household debt could result in some households conserving their spending to manage finances. Although the country's household debt to GDP ratio is comparatively low at about 30% of GDP, it has risen rapidly at an average rate of close to 40%YOY in 2021. Last, some fiscal and monetary measures may be wind down, which could cause a disruption to demand recovery if they are not continued.

Fiscal Policy and Monetary Policy

Fiscal and monetary stimulus measures are likely to continue given the economy's slow recovery, although it is possible that some programs may wind down. Cambodia announced its tenth round of stimulus measures, extending its wage subsidies measures and tax exemptions between October-December 2021 (Figure 3). The cash handout program was also renewed for a new round scheduled to last until September 2022. According to IMF calculations as of October 2021, Cambodia has implemented measures worth 5% of GDP, which is significant compared to most other low-income developing countries. Given the sluggish economic recovery pressured by low tourist arrivals, fiscal stimulus measures are likely to continue in 2022, benefitting domestic demand recovery. In addition, Cambodia has the fiscal space to implement further measures. The draft budget bill for 2022 has been approved by the government and shows a 6.8%YOY increase in expenditures. Furthermore, the IMF projects public debt at 38.5% of GDP in 2022, which is relatively low compared to the regional average and allows room for additional spending if necessary. In the longer term, the public debt ratio could rise due to slower economic growth but should stabilize once the economy fully rebounds. However, it is possible that authorities may choose to withdraw some support measures as the economy strengthens, such as the loan restructuring program, but such withdrawal would likely be gradual and subject to economic conditions.

Figure 3: Cambodia's Fiscal and Monetary Policies

Policy	Description
Fiscal	**Tax breaks:** 1) Tax exemption for aviation companies and tourism sector in key cities (March 2020 – December 2021) 2) Exempting payment to National Social Security Fund for suspended tourism businesses 3) Exemption of renewal fee for tourism licenses in 2021 4) Reducing withholding tax for lenders to 5% (2021) and 10% (2022) for new loans; 10% in 2021 for existing loans 5) 50% annual tax cut for factories with 20-39% of products affected by EBA withdrawal and 100% annual tax cut for factories with more than 40% of products affected **Loans:** 1) Establishing a credit guarantee fund worth USD 200 million 2) USD 50 million special financing plan through ARDB and cutting interest rates to 5% for working capital loans and 5.5% for investment capital loans 3) USD 100 million special financing plan between SMEs and financial institutions (fully subscribed) **Income:** 1) Laid off workers in the garments and footwear sector will receive monthly payment of USD 70 (40 from government and 30 from employer), laid off workers in the tourism sector will receive monthly payment of USD 30 from the government (optional payment for employer) – Extended to December 2021 2) Implementing "cash-for-work" program with budget of USD 100 million 3) USD 20 and US 30 monthly cash handout for poor rural and urban households, with additional payment for each family member and sick citizens (To September 2022) 4) USD 39-78 payment for vulnerable households affected by the lockdown, USD 40 payment for factory workers, and USD 75 payment for families that have lost members due to COVID-19
Monetary	1) Postponing the use of the Capital Conservation Buffer to 2021 2) Lowering the interest rate on the Liquidity-Providing Collateralized Operation up to 0.5% 3) Lowering the interest rate on Negotiable Certificates of Deposits 4) Cutting the reserve requirement to 7% for both Riel and foreign currencies deposits 5) Encouraging financial institutions to restructure loans, especially for affected sectors (to end 2021). A new round of forbearance was launched between January – June 2022.

Source: EIC analysis based on data from local and foreign press

Financial Markets

Credit demand slowed slightly in the fourth quarter, but credit quality improved substantially. According to the Credit Bureau of Cambodia (CBC), applications for consumer credit in the fourth quarter (which includes personal loans, credit cards, and mortgages) fell -2%QOQ after rising 38%QOQ in the third quarter. On the other hand, credit quality as measured by the percentage of consumer loans overdue by more than 30 days declined to 2.03% compared to 2.56% in the third quarter, suggesting improving economic conditions after the lockdown peak. Overall, this implies that demand recovery has been gradual although more borrowers are able to make payments. In line with data from the CBC, the Cambodian Microfinance Association reported that demand for loan restructuring fell significantly during August-October compared to May-June, suggesting a positive outlook for the economy as borrowers are able to resume making payments. One factor to watch in 2022 is whether the National Bank of Cambodia would decide to extend its loan restructuring program, which could affect credit quality and domestic demand recovery.

Cambodia's Key Indicators

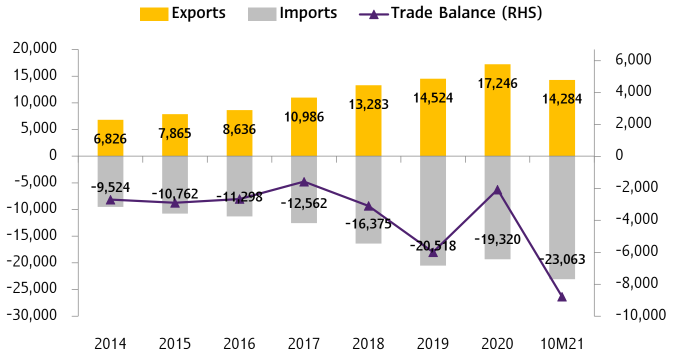
Indicators	Unit	2016	2017	2018	2019	2020	2021F	2022F
Real GDP	% YOY	6.9	7.0	7.5	7.1	-3.1	2.3	4.8
Consumer price index (average)	%	3.0	2.9	2.4	2.0	2.9	2.5	3.2
Current account balance	% of GDP	-8.5	-7.9	-11.8	-15.0	-12.1	-21.3	-16.1
Deposit Rate (end of period)	%	1.4	1.5	1.4	1.4	1.5	1.4	-

Sources : International Monetary Fund (IMF) and Cambodian Authorities, EIC Analysis

Exports (excluding gold) was robust in 2021 and is expected to see continued growth in 2022.

Foreign Trade

Unit: USD million

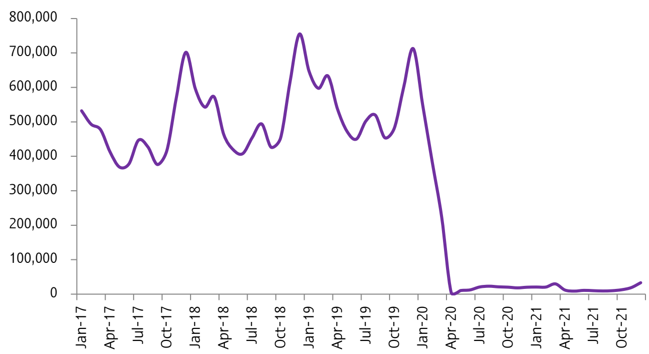


Sources: National Bank of Cambodia

Visitor arrivals should recover gradually this year after Cambodia reopened its borders to tourists in November.

Visitor Arrivals

Unit: Persons

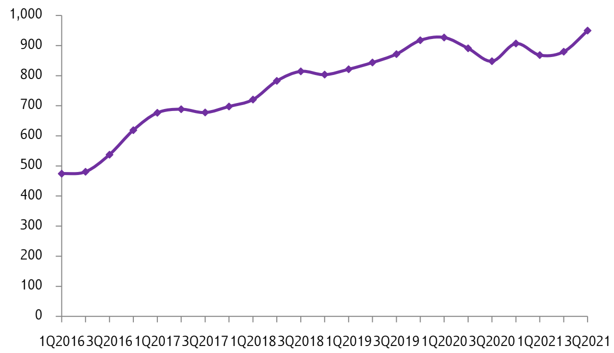


Sources: Ministry of Tourism

FDI recovery is likely to continue in 2022 supported by border reopening and higher investors' confidence.

Foreign Direct Investment

Unit: USD million (4 Quarter Moving Average)

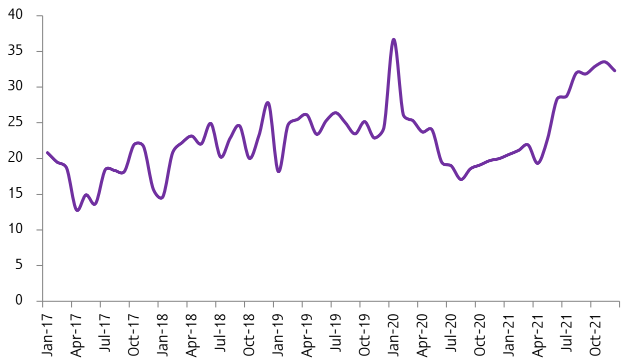


Sources: National Bank of Cambodia

Domestic credit growth rebounded strongly after lockdown measures were relaxed.

Domestic Credit Growth

Unit: %YOY

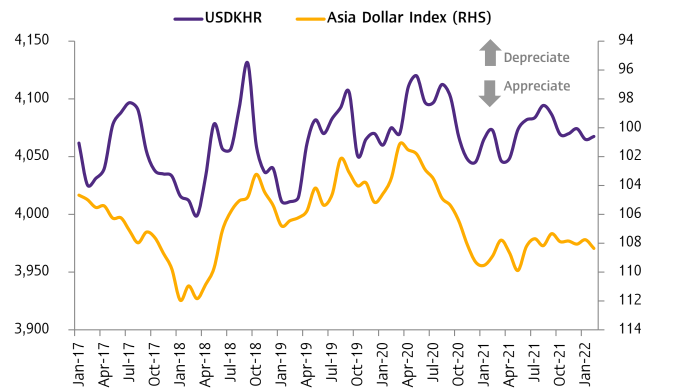


Sources: National Bank of Cambodia

The Riel was stable against the USD year to date.

USDKHR and ADXY

Unit: USD / KHR Unit: Index

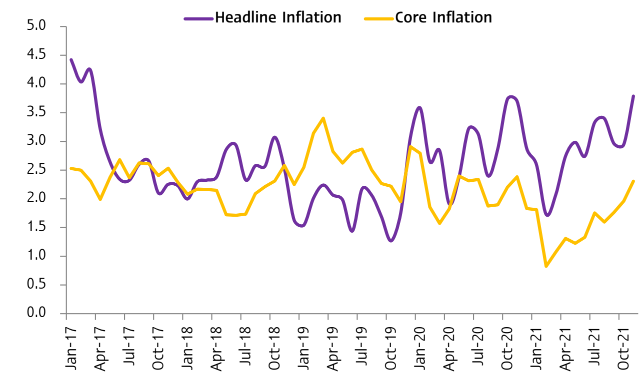


Sources: Bloomberg (as of February 21st, 2022)

Inflation picked up as economic activity recovered.

Inflation Rate

Unit: %YOY



Sources: National Bank of Cambodia

Laos

OVERALL ECONOMY

Facts and Figures

Population (2020)	7.28 million
Labor force (2020)	3.83 million
GDP (2020)	USD 19.1 billion
GDP per capita (2020)	USD 2,643
GDP by sector (2020)	Agriculture: 16.5%, Industry: 33.2%, Services: 39.5%
Top exports (2020)	Electricity 29%, Copper & Other Ores 7%

What to watch in 2022:

- Opening of the China-Laos Railway
- Impacts of weakening Kip on external debt servicing

2021-2022F Outlook

EIC has revised Laos' GDP growth forecast for 2021F downward to 2.3% from 3.3% previously, pressured by rising COVID-19 cases and prolonged lockdown measures. Growth is expected to strengthen to 4.0% in 2022F as restrictions ease, but downside risks remain. Domestic demand is expected to remain subdued in the short term due to extended lockdown measures and low vaccination rates. Domestic demand should rebound when the country expands its vaccination program in 2022, but only gradually as elevated unemployment and limited fiscal stimulus pressure the recovery. For external demand, exports are likely to moderate from slower economic growth in China but will continue to be supported by resilient demand for electricity in the region. Foreign direct investment would also benefit from growing hydroelectric power demand and various dam projects currently in the pipeline. Chinese investment as part of the Belt and Road Initiative should also support FDI inflows, and the China-Laos railway starting operations in December 2021 could strengthen Laos' trade and logistics with China going forward. A gradual tourism recovery is expected in 2022 when the country plans to reopen its borders to fully vaccinated tourists, but arrivals are likely to remain subdued. Note that although growth is expected to increase in 2022, scarring effects from the pandemic have exposed structural weaknesses in the economy which could affect its long term potential.

Laos' faces key downside risks from COVID-19 resurgences, a slowing Chinese economy, and a high external debt burden. With the country's slow vaccination progress, delayed containment of the outbreak (especially as the Omicron variant has proven to be more transmissible) would further pressure domestic demand. This could exacerbate economic scarring through high unemployment and business closures. Next, with high reliance on the Chinese economy through trade and investment, lower Chinese economic growth could affect recovery in these sectors as external demand declines. Lastly, the pandemic has intensified Laos' high public debt burden which had risen due to large infrastructure projects. With limited foreign reserves and a weakening Kip, the country faces high risks regarding its ability to repay debts.

COVID-19 Update and Vaccination Progress

As of February 14th, 2022, Laos confirmed 139,244 cases of COVID-19, 134,847 recoveries, and 597 deaths (Figure 1 LHS). The country has fully vaccinated 58% of its population, with another 8% vaccinated with a first dose (Figure 1 MID). Since July, Laos has seen a continuous increase in daily new COVID-19 cases, with most of the recent cases spreading through domestic transmission, although cases have started to come down since January. The country has continued to use partial lockdowns, with gatherings limited to no more than 50 people and entertainment venues suspended. Businesses that are allowed to remain open must strictly follow health protocols by fully vaccinating their staff and implementing social distancing measures. Nonetheless, with COVID-19 cases coming down, authorities have eased some restrictions in designated zones with limited spread, resulting in rising mobility data to near pre-pandemic levels (Figure 1 RHS). The country's vaccination rate has been relatively slow, restricted by a lack of available vaccines, and remains short of achieving herd immunity (when approximately 70% of the population has been vaccinated). This suggests that some restrictions could remain in place in the short term. Laos should be able to gradually ease its lockdown as more vaccines are received in 2022 and vaccinations of children aged 6 and above gain progress. A rebound in economic activity should follow, subject to impacts from economic scarring on the economy.

Figure 1: With slowing COVID-19 cases, lockdown restrictions have eased allowing mobility to recover close to pre-pandemic levels

COVID-19 Daily Cases and Stringency Index

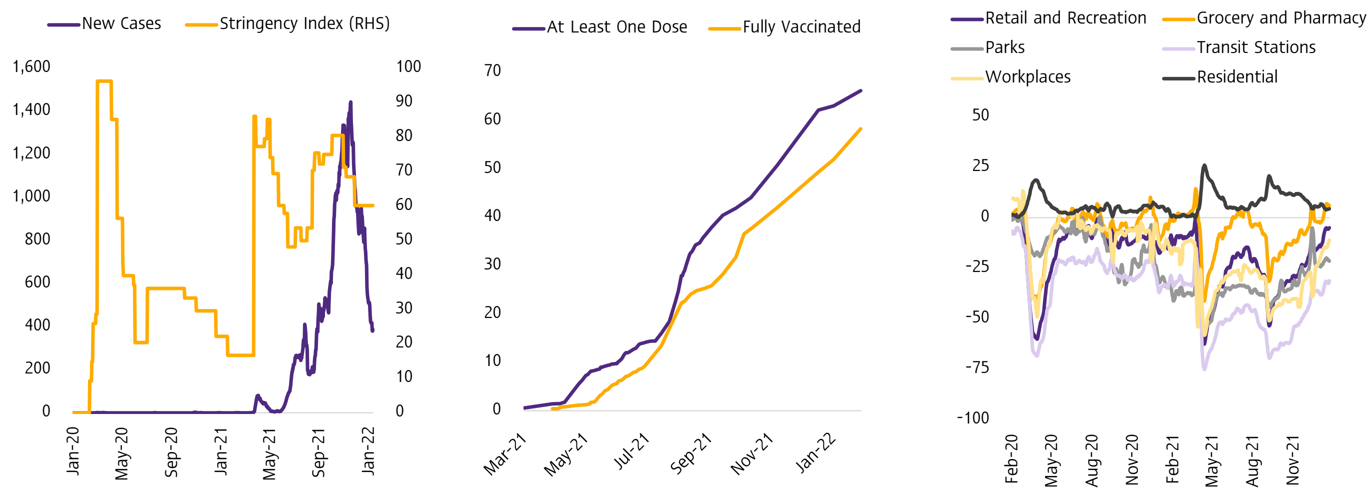
Unit: Cases (7DMA) Unit: Index (100 = Most Stringent

Vaccination Progress

Unit: % of Total Population

Google Community Mobility Data

Unit: % Change from Baseline (7DMA)



Source: EIC analysis based on data from the WHO, Oxford, Our World in Data, and Google

External Demand

Exports are expected to moderate in line with the slowing Chinese economy but should see continued growth supported by electricity exports and recovering demand from Thailand and Vietnam. In the first three quarters of 2021, exports grew 32.0%YOY (USD, BOP basis). Laos' exports to China are likely to weaken as the Chinese economy slows. A potential upside is the opening of the China-Laos railway, which should aid logistics between the two countries. Meanwhile, exports to Thailand and Vietnam are expected to see resilient growth as both countries recover from Delta variant-induced lockdowns in 2021. By product, electricity exports are expected to remain resilient due to growing demand in the region, while exports of raw materials for manufacturing and electrical appliances should rebound after economic activity resumes in trade partners. Nonetheless, there are risks to exports that could delay recovery. First, rising COVID-19 cases could lead to slower re-openings of border checkpoints, hindering the transport of goods across borders. Second, rising fuel prices would increase the costs of logistics for exporters, impacting profitability.

Foreign direct investment is expected to gradually recover in 2022, driven by Chinese Belt and Road infrastructure projects and investments in the power sector. However, there are key downside risks to monitor. The opening of the China-Laos railway in December 2021 should boost Laos' attractiveness to foreign investors, both through additional Chinese infrastructure investment (such as the Vientiane-Boten Expressway) and through foreign companies wishing to take advantage of the connection to China. As part of the government's plan to increase connectivity with neighboring countries, further infrastructure projects are likely to continue. Apart from this, Laos' power sector should remain attractive to foreign investors due to growing demand for electricity in the region. As the government plans to increase electricity exports, including to new markets such as Singapore, more hydroelectric, solar, and wind farms have been planned and are likely to be partially funded by foreign investors. Nonetheless, several factors could impact the pace of the recovery. First, a slower Chinese economy could reduce investments from China – the country's major investor. Second, if the COVID-19 outbreak is not contained promptly and travel restrictions persist, foreign investors could remain hesitant to commit to new investment projects. Third, Laos' speculative credit rating (Caa2 by Moody's and CCC by Fitch Ratings) could deter some investors from investing in Laos due to the high risk. Lastly, the construction of some hydropower dams has raised concerns about their impact on the environment, which could lead to a delay in construction plans.

Laos plans to reopen the country to fully vaccinated tourists in 2022, but tourist arrivals are likely to remain significantly below pre-pandemic levels and the tourism industry will likely be slow to recover. Currently, travelers must be fully vaccinated, provide a negative PCR test taken within 72 hours before arrival, test negative for COVID-19 upon arrival, and have adequate insurance of at least USD 50,000. As reported by the Vientiane Times, travelers may also need to cooperate with contact tracing and book hotels and transportation approved by authorities. Even if the reopening signals a brighter outlook for the sector, a full recovery would be unlikely in the short term due to various limiting factors. Vaccination coverage remains an issue as Laos has vaccinated only about 60% of its population and has not yet reached adequate levels for herd immunity. Tourists are also currently restricted to a few areas with high vaccination rates (green zones) such as Vientiane and Luang Prabang and are not allowed to travel elsewhere in the first phase. In addition, travelers may be hesitant due to fears of the Omicron variant, particularly Chinese travelers, as the country continues to implement strict border controls. In the longer term, the tourism sector is likely to benefit from the China-Laos railway increasing connectivity in the region.

Domestic Demand

Domestic demand is expected to see a gradual recovery in 2022 but will be pressured by economic scarring from the prolonged lockdown. Laos should be able to relax some restrictive measures as the vaccination rate increases throughout 2022, especially as the country prepares to reopen for fully vaccinated tourists. This should support a rebound in domestic demand through higher consumer confidence and employment. In addition, the recently announced VAT cut to 7% from 10% should also support domestic demand. Nonetheless, a recovery may face downside risks that could stall its pace. First, a delay in the vaccination program or a prolonged outbreak caused by the Omicron variant leading to renewed lockdowns would hamper the recovery. Second, the unemployment rate is likely to remain elevated as economic activity may only rebound slowly. The Lao Ministry of Labor reported that close to 500,000 workers are unemployed, which accounts for about 13% of the labor force. Migrant workers may also face mobility issues if borders are shut due to fears of the Omicron variant, reducing remittance income. Third, given the country's very limited fiscal space, fiscal support has been negligible. This is likely to intensify economic scarring due to a lack of support for businesses to help them stay afloat and support for consumers with reduced incomes. Lastly, inflation could become another factor pressuring domestic demand. Although weak consumer purchasing power has kept inflation manageable, inflationary pressures are increasing due to a rapid weakening of the local currency. This leads to higher import prices, which when combined with rising energy and food prices globally and shortages of materials could cause higher inflation and stall the recovery.

Fiscal Policy and Monetary Policy

Laos' high external debt burden and limited financing options are key risks to the fiscal policy and economic outlook. With a tight fiscal space, fiscal support during the pandemic has been negligible at just about 0.1% of GDP according to the IMF as of October 2021 (Figure 2). The measures which are in place, such as unemployment benefits for workers registered with social security, are likely inadequate in both size (budget constraints) and coverage (large informal sector). In November, the government announced a USD 100 million (about 0.5% of GDP) package to stimulate domestic production funded through foreign borrowing. The country also announced a VAT cut to 7% starting January 2022. Additional measures, if any, are likely to remain small as the country finds itself with more limited financing options. A speculative sovereign credit rating suggests high borrowing costs while the domestic financial market is underdeveloped; therefore, Laos is likely to rely further on China for additional financing. The IMF forecasts Laos' public debt in 2022 at 71.6% of GDP, the highest among CLMV countries. This is partly due to large infrastructure investments, such as the USD 5.9 billion China-Laos railway, in which Laos is expected to bear a cost of above USD 1 billion from the project according to AidData. If the railway's profitability is lower than expected, the country may need to bear additional costs in the future. Going forward, Laos plans to reduce its debt burden by investing in high return projects, reforming state-owned enterprises, and increasing revenue from various sectors – which could be challenging given the tax cuts. Nonetheless, the very small fiscal support is likely to be a factor impeding recovery, while additional fiscal tightening could pressure an economy already in a weak condition due to the pandemic and lockdowns.

Figure 2: Laos' Fiscal and Monetary Policies

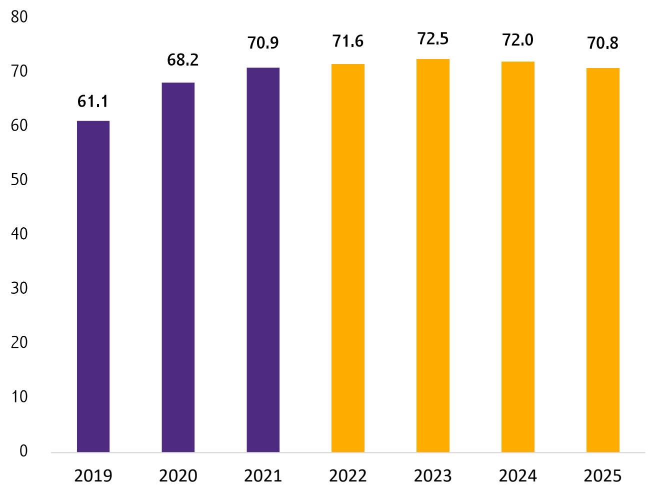
Policy	Description
Fiscal	1) Workers (both private and public sector) with income under LAK 5 million per month are exempted from taxation between April-June 2020 2) Businesses earning LAK 50 – 400 million are exempted from profit tax between April-June 2020 3) Tax deferral for the tourism sector for three months (2020) 4) Deferring annual road tax payment to June 30, 2020 5) Postponing mandatory contribution to social security by businesses for three months (2020) 6) Extending deadline for businesses to submit annual financial report to April 30, 2020 7) Exempting duty fee for imported goods that are used for the containment of COVID-19 8) LAK 500,000 allowance for unemployed workers in the social security program 9) Providing soft loans worth LAK 200 billion to SMEs through commercial banks, with an additional LAK 1,800 billion planned to support post COVID-19 recovery 10) USD 100 million package to stimulate domestic production 11) VAT cut to 7% from 10%
Monetary	1) Reducing reserve requirement to 8% for foreign currencies and 4% for the Kip 2) Encouraging banks to restructure loans for affected businesses. In May 2021, the central bank ordered banks and microfinance institutions to extend deadlines for 3 months (May-July) 3) Policy rate cut by 1% each, the first cut since 2017 (New rates: 3% for <1-week loans, 4% for >1-week loans, 9% for 2 weeks – 1-year loans)

Source: EIC analysis based on data from the local and foreign press

Figure 3: Laos' public debt is expected to remain elevated in the medium-term, while fiscal deficits are also expected to persist.

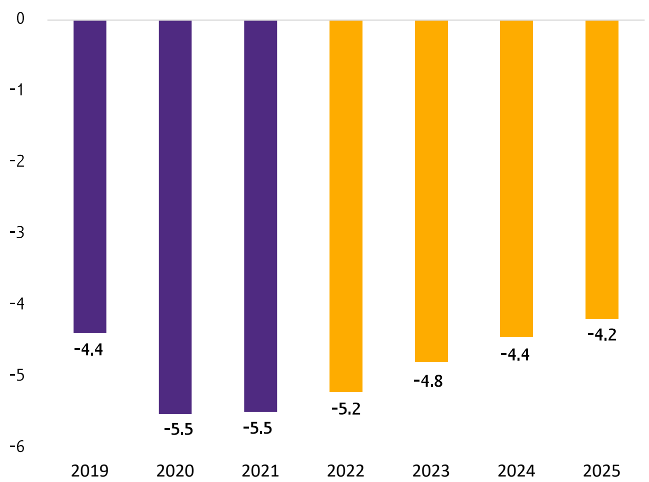
IMF's Public Debt Projection (General Government)

Unit: % of GDP



IMF's Fiscal Deficit Projection

Unit: % of GDP



Source: EIC analysis based on data from the IMF

Financial Markets

The Kip has weakened as much as 21.1% against the USD over the past year (as of February 16th), posing significant risks to external debt repayment and inflation. Reasons for the decline include Laos' sluggish economic growth due to the prolonged lockdown, a current account deficit, the country's speculative credit rating and high external debt servicing burden, and monetary policy tightening in the US. Although economic growth is expected to strengthen in 2022, the other three factors are likely to persist, which is expected to cause the Kip to weaken further. In particular, the US federal reserve has signaled that multiple interest rate hikes are likely this year. A weaker Kip would increase Laos' external debt servicing costs in local currency terms, increasing repayment risks especially with low foreign reserves (at about 2.2 months of imports as of August 2021) and a budget deficit with limited channels for raising funding. In addition, a weaker kip would also increase import costs and exacerbate inflation caused by rising global energy and food prices. High inflation would impede domestic demand recovery, especially with weak employment. Furthermore, it could lead the Bank of the Lao PDR to tighten monetary policy earlier, affecting an economy which has yet to fully recover from the effects of the lockdown.

Laos' Key Indicators

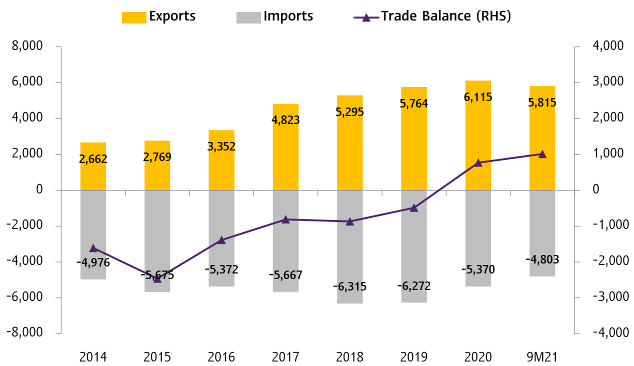
Domestic Demand	Unit	2016	2017	2018	2019	2020P	2021F	2022F
Real GDP	% YOY	7.0	6.8	6.3	5.5	-0.5	2.3	4.0
Consumer price index (average)	%	1.6	0.8	2.0	3.3	5.1	4.9	3.7
Current account balance	% of GDP	-11.0	-11.1	-13.0	-9.1	-4.4	-6.2	-6.9
Policy rate (end of period)	%	4.3	4.0	4.0	4.0	3.0	3.0	-

Sources: International Monetary Fund (IMF) and Lao Authorities, EIC Analysis

Exports rose sharply in 2021 and should continue to grow in 2022 albeit at a slower pace.

Foreign Trade

Unit: USD million

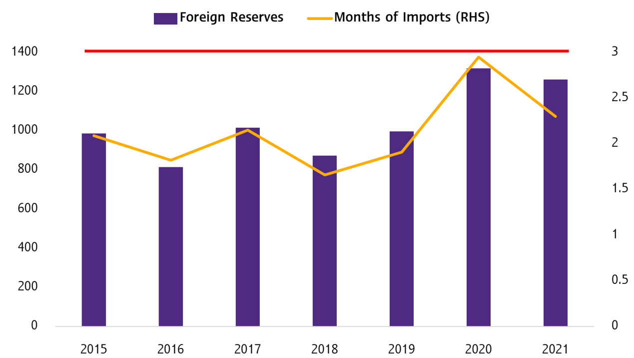


Sources: Bank of the Lao PDR and Lao Trade Portal

Laos' low foreign reserves is a key risk to the country's external debt servicing especially as the Kip weakens.

Foreign Reserves

Unit: USD million Unit: Months

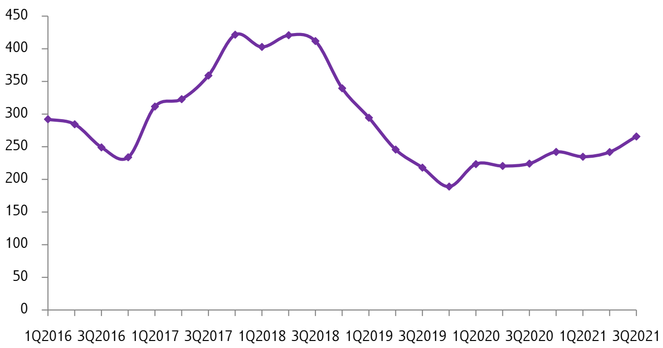


Sources: IMF

FDI continues to rebound steadily supported by Chinese infrastructure projects and renewable power investments.

Foreign Direct Investment

Unit: USD million (4 Quarter Moving Average)

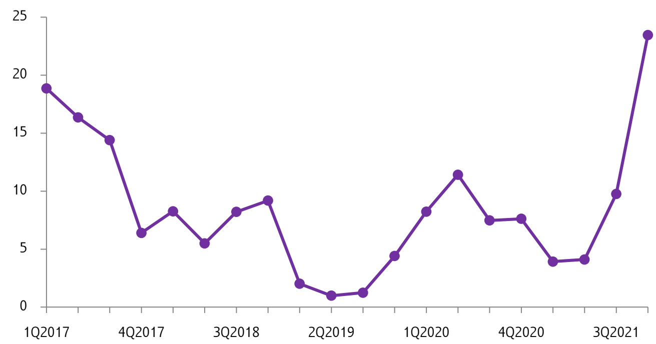


Sources: Bank of the Lao PDR

Domestic credit growth rebounded sharply in the the last quarter of 2021 as lockdown measures were eased.

Domestic Credit Growth (Quarterly)

Unit: %YOY

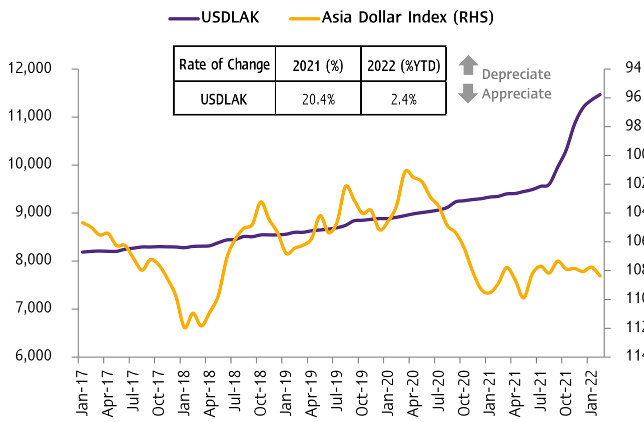


Sources: Bank of the Lao PDR

The Kip weakened sharply against the USD, which poses risks to external debt servicing and inflation.

USDLAK and ADXY

Unit: USD / LAK Unit: Index

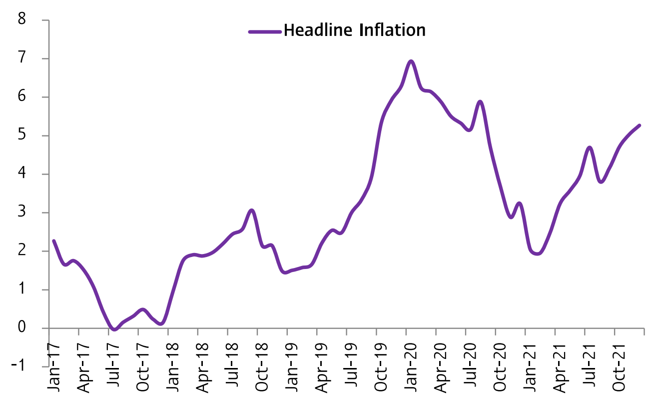


Sources: Bloomberg (as of February 21st, 2022)

Headline inflation rose, driven by recovering economic activity, higher energy prices, and Kip depreciation.

Inflation Rate

Unit: %YOY



Sources: Lao Statistics Bureau

Myanmar

OVERALL ECONOMY

Facts and Figures

Population (2020)	54.41 million
Labor force (2020)	22.95 million
GDP (2020)	USD 78.92 billion
GDP per capita (2020)	USD 1,450.47
GDP by sector (2020)	Agriculture: 20.9%, Industry: 38.6%, Services: 40.5%
Top exports (2020)	Textiles 27%, Natural Gas 20%

What to watch in 2022:

- Civil disobedience movements and political situation developments
- Fiscal and financial stability amid a sharp economic contraction

FY2021/2022F (October 2021 – September 2022) Outlook

EIC expects Myanmar's economy to recovery slightly at 0.5% in FY2021/2022F after an estimated contraction of -18% in FY2020/2021 due to the pandemic and political tensions. With COVID-19 cases coming down gradually and economic disruptions partially easing, economic activity is poised for a nascent rebound. A resumption of manufacturing activity would support exports and employment, while Myanmar could benefit from stronger economic ties with China through Chinese infrastructure investment. Nonetheless, the outlook remains highly uncertain, with significant downside risks. First, Myanmar could face higher fiscal and financial stability risks owing to poor revenue collection and lack of financing sources. Cash shortages, especially in foreign currencies, could persist in the short term, while banks become more hesitant to provide loans due to the economic uncertainty. Second, input costs are on the rise caused by higher energy prices abroad and a sharp weakening of the Kyat since the onset of the military takeover. Transportation prices could also impact recovery due to high shipping container costs worldwide and border checkpoint closures. Third, employment levels are significantly depressed, and many workers lack income due to business closures and wage cuts. Fourth, risks of economic sanctions are still present as the political situation is unlikely to be resolved soon. Last, the Omicron variant could pose significant challenges for the country due to its fragile healthcare system and low vaccination rate – extending border closures and other restrictions.

Economic scarring for Myanmar is expected to be deep, with significant impacts on long-term growth. In the longer term, the COVID-19 pandemic and the military takeover could pressure the country's economic growth due to the destruction of human capital and lack of confidence in the economy. Notably, the UN reported that half of the country's population could fall into poverty as a result of the sharp economic contraction. In addition, damage to the country's infrastructure would prolong the economic slowdown. Furthermore, reduced economic openness of Myanmar to foreign trade and investment could impact labor skills and technology sharing. Many foreign companies have already left Myanmar due to the crises and prolonged uncertainty is likely to deepen economic scars.

Political Situation and Sanctions Update

Violence and crackdowns continue to occur throughout the country. Protests and civil disobedience movements are being conducted in major cities as the military continues to confront with protestors, sometimes with force. Violence is especially intense against armed ethnic minority groups close to border areas, with the military having opened fire, leading to numerous injuries and deaths. Aung San Suu Kyi, president of the elected National League for Democracy (NLD) party, was sentenced to six years in confinement for multiple charges with the trial for election fraud ongoing. This led to heavy criticism both domestically and abroad. In response to the intensifying violence, western countries such as the US, the EU, and the UK have announced additional sanctions (Figure 1). However, they are still contained mainly to military leaders, their families, and military-backed enterprises without broad restrictions on the economy. Going forward, sanctions are likely to continue targeting military enterprises in order to limit impacts on Myanmar's citizens. An arms embargo has been discussed by both the US and the EU and could be implemented soon. Humanitarian organizations have pressured nations to sanction the country's oil and gas sector, a large source of Myanmar's revenue, **with the EU recently imposing sanctions on Myanmar Oil and Gas Enterprise.** Meanwhile, Cambodia's prime minister, as ASEAN chair, visited Myanmar for peace talks in January. However, progress has been limited and Myanmar has decided to not attend the ASEAN meeting in February after member countries requested Myanmar send a non-political representative to the event.

Figure 1: Sanctions and Stances of Key Partner Countries

Country	Latest Stance on Myanmar	Export Share (2020)	Approved FDI Share (FY2019/2020)

US	• Actions taken thus far:
	  • US Treasury: freezing properties of key military generals, their family members, and state-owned enterprises linked with the military, including USD 1 billion in funds in the US. Transactions with sanctioned generals and entities are prohibited for US persons or within the US.
	  • USAID redirected USD 42.4 million in support to government toward civil society
	    • USD 69 million worth of bilateral programs, including healthcare support to battle COVID-19, will continue
	  • US Commerce: denying US export and re-export of sensitive items which require licensing to Myanmar's government and military entities. This stance could later expand to all export items.
		5%	1%

EU	• Actions taken thus far:
	  1. Travel ban related to key military generals and state-owned enterprises
	  2. Freezing assets for sanctioned entities
	  3. Forbidding EU citizens from making funds available to sanctioned entities
	  4. Exports to the military are restricted
	• The EU also aims to maintain dialogue channels and avoid affecting the broader population.
	  • Revoking trade deals will harm garment workers more than military businesses and is less likely to be implemented but is under review. Development assistance is also being reassessed.
		16%	9% (incl. UK)

China	• Thus far, China maintains a largely neutral stance as shown by delaying the UN joint statement condemning the coup (which is the first step toward sanctions). • To keep its own national development agenda going, China will likely continue maintaining positive connections with all sides in Myanmar. • Myanmar's geographical advantage (connecting to the Indian ocean, South Asia, and Southeast Asia) remains a priority for the Belt and Road Initiative.	32%	11%
Japan	• Japan, despite joining the joint G-7 condemnation, has maintained a softer approach with Myanmar. New foreign aid has been suspended, but sanctioning has been softened. • Some Japanese companies have pulled out of partnerships and stopped doing business with Myanmar's military and military-owned enterprises.	7%	3%
Singapore	• Despite ASEAN's non-interference principle, Singapore is on the more concerned side among ASEAN nations regarding the coup (together with Malaysia and Indonesia). • As part of ASEAN, supported a five-point consensus urging an end to violence • Some Singaporean companies have cut ties with Myanmar's military and military-owned enterprises.	4%	38%
Thailand	• Neutral stance, viewing Myanmar's situation as a domestic matter to be resolved. • As part of ASEAN, supported a five-point consensus urging an end to violence	18%	2%

Source: EIC analysis based on data from the foreign press and government authorities

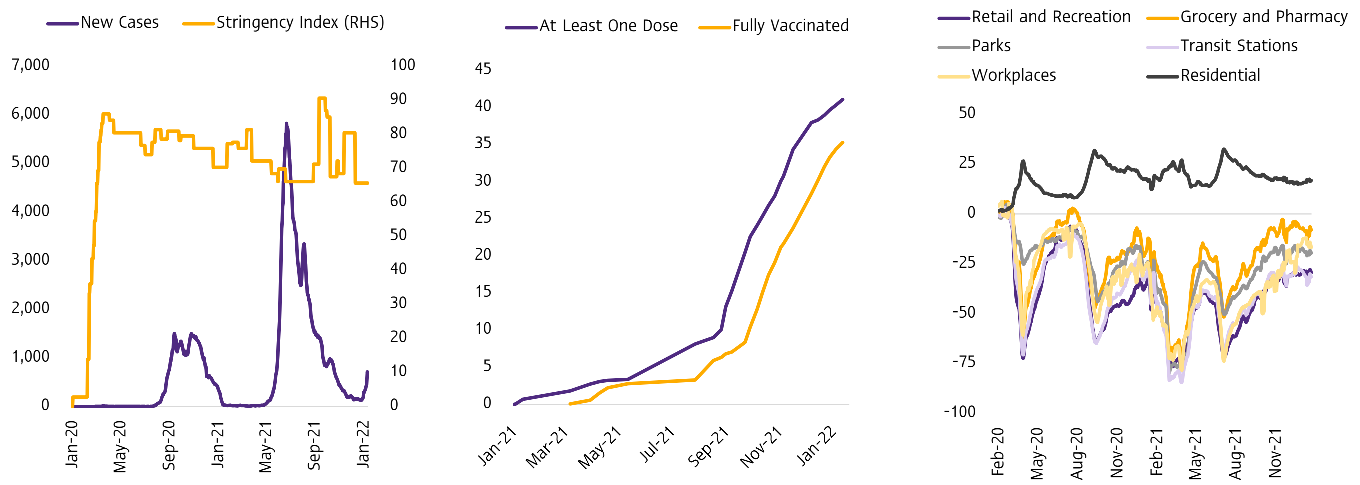
COVID-19 and Vaccination Update

As of February 14th, 2022, Myanmar confirmed 548,357 cases of COVID-19, 518,076 recoveries, and 19,311 deaths (Figure 2 LHS). Official reported cases have dropped sharply after peaking in July, to an average of about 200-300 cases per day between December-January before rising again in February. Note that the actual extent of the outbreak could be underreported due to a lack of medical workers and hesitancy to get tested due to fear during crackdowns. Lockdown measures have been gradually lifted as cases slow, but border closures and a ban on commercial flights are still imposed. **The country's vaccination rate has risen steadily since September but remains low, with only 35% of the population fully vaccinated, while another 6% is vaccinated with a first dose (Figure 2 MID).** Economic activity, as proxied by mobility (Figure 2 RHS), has rebounded since lockdown measures were eased, albeit remaining depressed following the coup. Vaccine supply issues and distrust in government-procured vaccines are hindering Myanmar's vaccination program. Currently, Myanmar has received vaccines from China, India, Russia, and through the COVAX scheme, with more vaccines scheduled to arrive in the future. Nonetheless, with fears of a crackdown, the vaccination program is expected to progress slowly, which could slow the pace toward reaching herd immunity. With the Omicron variant rampant, a low vaccination rate leaves Myanmar vulnerable to a COVID-19 resurgence, which would be another significant blow to an already weakened economy.

Figure 2: COVID-19 cases in Myanmar resurged in February, while vaccination rates remain low

COVID-19 Daily Cases and Stringency Index | Vaccination Progress | Google Community Mobility Data

Unit: Cases (7DMA) Unit: Index (100 = Most Stringent) | Unit: % of Total Population | Unit: % Change from Baseline (7DMA)



Source: EIC analysis based on data from the WHO, Oxford, Our World in Data, and Google

External Demand

Exports in FY2021/2022 are expected to see only a slight recovery as a resumption of foreign orders is offset by supply chain and logistical disruptions. After contracting -14.9%YOY in FY2020/2021, exports saw a smaller decline of -2.8%YOY between October 1st, 2021 to February 4th, 2022 and should benefit from a recovering manufacturing sector and gradual easing of economic disruptions going forward. The January 2022 Manufacturing Purchasing Managers' Index (PMI) fell slightly to 48.5 but was the second highest level since September 2020, reflecting softer declines in new orders and broadly improving manufacturing conditions. As the political situation somewhat stabilizes, new orders are expected to gradually return. Nonetheless, recovery is likely to be limited by ongoing economic disruptions in the near term. Many factories have not returned to full production due to labor and material shortages while input costs are on the rise. Higher costs, particularly of fertilizers, are also affecting the agricultural sector and lowering export yields. In addition, logistical challenges such as a shortage of drivers and border checkpoint closures due to COVID-19 fears are also expected to persist at least in the short term, driving up shipping costs for exporters. Risks to exports are tilted to the downside as foreign orders could fall if the political situation becomes more unstable.

Foreign direct investment should remain subdued due to heightened economic and political uncertainty, but infrastructure investment from China could soften the decline. Approved FDI in FY2020/2021 fell -22.3%YOY and continued to contract -24.6%YOY in the first three months of the FY2021/2022 fiscal year, suggesting weaker confidence from foreign investors in Myanmar's economy going forward and fears of reputational risk. Some companies such as Telenor and Kirin Holdings have announced plans to either sell their businesses in Myanmar or to discontinue cooperation with military-backed enterprises, while Chevron and TotalEnergies have withdrawn its investments from the country. Excluding the power sector, which was aided by a USD 2.5 billion Chinese-backed project, approved FDI in FY2020/2021 plummeted -82.6%YOY. As sanction risks loom, foreign investors are likely to take a wait-and-see stance until the country stabilizes both politically and economically – which is unlikely in the short term. Myanmar's economy will remain substantially below 2019 levels for quite some time, while the legitimacy of the military government will likely continue to come under pressure. Risks to FDI are tilted to the downside with high uncertainty as there are no signs of an end to the conflict. Nonetheless, a bright spot for Myanmar's FDI could be through Chinese infrastructure investment. Due to Myanmar's strategic location, China has interests in building infrastructure which would allow it access to the Indian Ocean. Myanmar's government will likely support these projects amid FDI declines from other countries.

The tourism sector is likely to remain muted despite plans to reopen the country for foreign tourists in 2022. Continued violence between the military and civilians is likely to deter tourists from entering Myanmar. In addition, many hotels and tourism operators have shuttered their businesses due to a severe lack of demand after the pandemic and coup, making significant recovery unlikely. Apart from political issues, the COVID-19 pandemic continues to be an important factor for the tourism sector in Myanmar. The country's vaccination rate is slow, with just above 30% of the population fully vaccinated, which suggests that reopening (if any) should be done very gradually. Furthermore, China, an important market for tourists to Myanmar, continues to impose strict border controls on their citizens, and border checkpoints between the two countries could remain closed if COVID-19 resurges (some checkpoints for border trade have reopened).

Domestic Demand

Domestic demand is likely to see a meager recovery subject to significant downside risks. According to the International Labour Organization, employment and work hours in Myanmar have dropped significantly compared to 2019 levels due to both the pandemic and the coup. Many workers have either left their jobs to participate in the civil disobedience movements, moved back to their hometowns due to the uncertainty, or left to find new jobs due to business closures and salary cuts. Job opportunities overseas (such as in Thailand) are also limited by renewed border restrictions due to the Omicron variant. Subdued incomes would reduce consumers' purchasing power, as reflected by sales of motor vehicles falling -45.8%YOY between January-November 2021 (Figure 3 LHS). Nonetheless, there are signs that the economic disruptions may have partially eased. First, mobility data, although still significantly depressed compared to pre-pandemic and coup levels, has risen steadily to levels seen in August 2020. Second, Manufacturing PMI (more details below) continues to show slower declines in output levels, which could imply higher employment going forward. Despite that, domestic demand recovery would be very gradual as the economy is deeply scarred and will take a long time to fully recover.

Other issues to monitor include rising inflation and cash shortages. The latest data shows that headline inflation reached 9.9%YOY in October 2021, which although was somewhat off from the peak in July 2019 (10.9%YOY), could rise further in the coming months. The recent increase was driven by rising energy prices abroad and the substantial weakening of the Kyat. Very high inflation could depress domestic demand and lower consumers' purchasing power. In addition, Myanmar is facing a cash shortage in its banking system. Withdrawal limits have been imposed, restricting many citizens and businesses from accessing salary payments and liquidity.

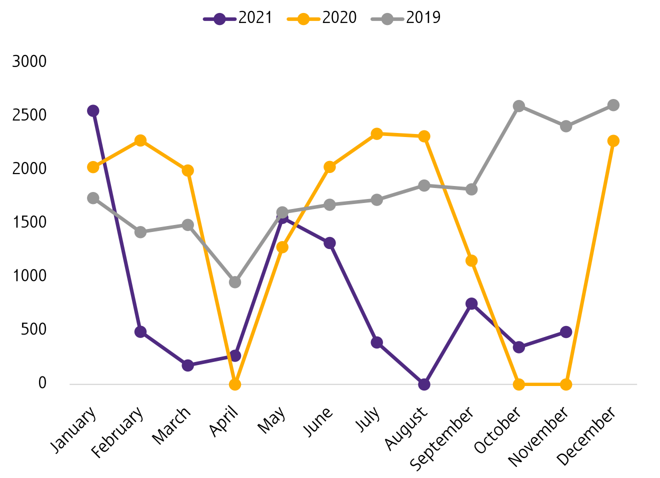
Business activity has showed some signs of a rebound but remains pressured by several factors. Manufacturing PMI reached 48.5 in January 2022, which despite remaining in contraction since October 2020 is the second-highest level since August 2020 (53.2). The survey shows that declines in output, orders, and employment have slowed overall, while the manufacturers' forward sentiment has recovered from the depth of the crisis. New business registrations have also stabilized, with the number of new businesses registered between October-November 2021 already exceeding those between July-September 2021. Nonetheless, registrations for the whole of 2021 were still down -46.9%YOY, while registrations in

January 2022 also declined -21.6%YOY (Figure 3 RHS), reflecting the weaker business environment. Although these are positive signs for the economy, risks to recovery are present. First, input costs have risen significantly both due to rising raw material prices and the weaker Kyat. Second, disruptions to supply chains and logistics could persist as the COVID-19 and civil disobedience movement remain highly uncertain, hindering business activity. Thus, recovery is nascent and very vulnerable to any disruptions to the economy.

Figure 3: Motor vehicle sales continued to be sluggish, but new business registrations have showed signs of a recovery.

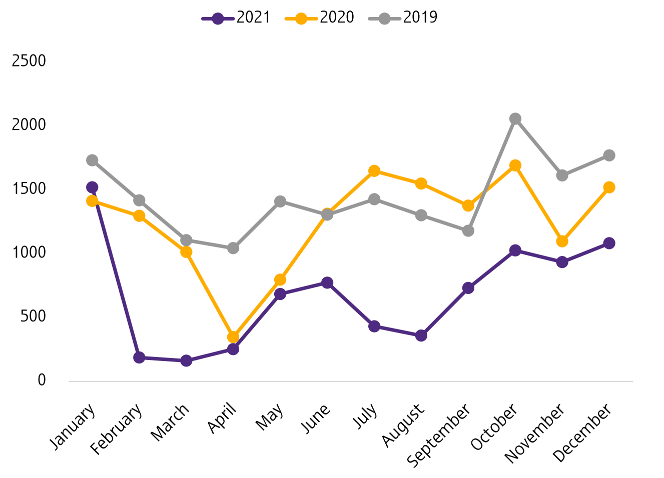
Motor Vehicle Sales

Unit: Units



New Business Registrations

Unit: Companies



Source: EIC analysis based on data from the ASEAN Automotive Federation and Myanmar's DICA

Fiscal and Monetary Policy

Fiscal policy implementation will likely be restricted by a lack of funding sources and distrust of the government. Tax revenue (in USD) fell -46.8%YOY between January-October 2021, suggesting a very small fiscal space for the government to use fiscal stimulus measures to support recovery. A moderate recovery in FY2021/2022 is expected in line with gradual economic recovery but would likely remain depressed. In addition, high distrust of the government among many citizens suggests that compliance would be low and affect the effectiveness of policy implementation going forward. Foreign financing options for Myanmar appear limited due to economic sanctions imposed on the country, while multinational institutions are hesitant to support the military government. Therefore, Myanmar may need to rely on domestic bond issuance, which may also see lower demand from investors as a result of skepticism in the government and the uncertain economy. Another option for Myanmar is monetary financing (transfer of money from the central bank to the government) but this could put upward pressure on inflation, which is already on the rise. The sharp drop in both government revenue and GDP is expected to cause the public debt to GDP ratio to rise significantly in the medium term. The IMF forecasts an increase in public debt to 63.6% of GDP in 2022 compared to just 38.8% of GDP in 2019, suggesting a heightened risk for Myanmar's fiscal stability.

Financial Markets

The Myanmar Kyat could face further depreciation pressures due to a lack of confidence in the currency, especially as the Fed prepares to tighten monetary policy. A severe lack of USD in the financial system has led the Kyat to plummet since the onset of the military takeover. Although the Kyat somewhat stabilized starting in November 2021, partly due to the Central Bank of Myanmar's intervention, as of February 16th, 2022, the currency is still 33.8% weaker than it was at the end of December 2020. Given the vulnerable external finance position, the Kyat could be subjected to greater volatility as the FED tapers QE and raises interest rates in 2022. Lack of foreign fund flows and confidence in the local currency will also likely persist in 2022, adding depreciation pressures to the Kyat. The weak currency has led to rising import prices, further pushing up inflation, which could add risks to economic recovery. In addition, it could lead to higher external debt repayment costs – although most of Myanmar's public debt is domestic. Recent developments show that the government is preparing to accept China's RMB in official settlement for border trade to combat the USD shortage, in line with its recent policy to form closer economic bonds with China. On the other hand, the National Unity Government, formed by opposition forces to counter the military regime, has announced that it would accept Tether, a blockchain-based cryptocurrency, as an official currency in order to aid the resistance against the military government. These issues will be important to monitor in 2022.

Myanmar's Key Indicators

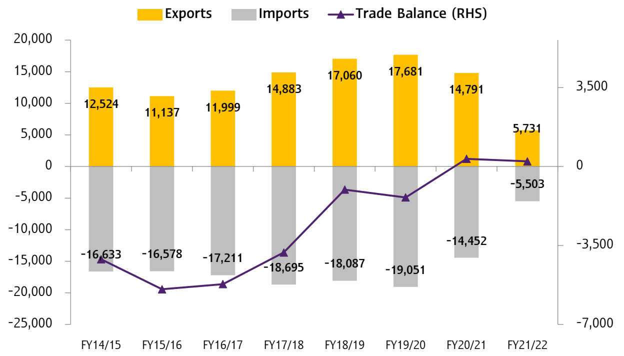
Domestic Demand	Unit	2016	2017	2018	2019	2020	2021F	2022F
Real GDP	% YOY	6.4	5.8	6.4	6.8	3.2	-18.0	0.5
Consumer price index (average)	%	9.1	4.6	5.9	8.6	5.7	4.1	6.5
Current account balance	% of GDP	-4.2	-6.8	-4.7	-2.8	-3.4	-0.8	-1.0
Policy rate (end of period)	%	10.0	10.0	10.0	10.0	7.0	7.0	-

Sources: International Monetary Fund (IMF) and Myanmar Authorities, EIC Analysis (2022F = FY21/22, GDP is rebased to 2015/16 prices)

Foreign trade declined substantially in FY2020/2021 and should only see a gradual recovery in FY2021/2022.

Foreign Trade

Unit: USD million

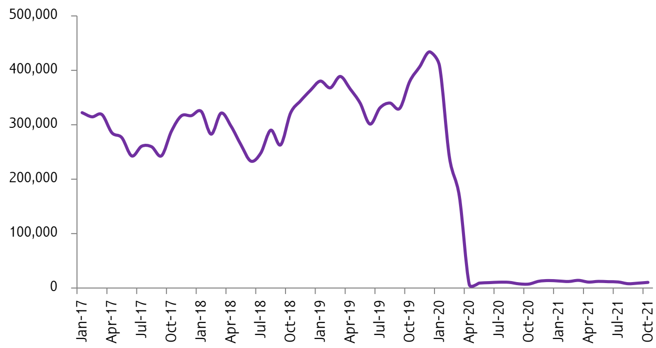


Sources: Ministry of Planning and Finance (FY21/22 up to February 11th, 2022)

With the COVID-19 and political crisis, tourism is not expected to see a significant recovery in the short term.

Visitor Arrivals

Unit: Persons

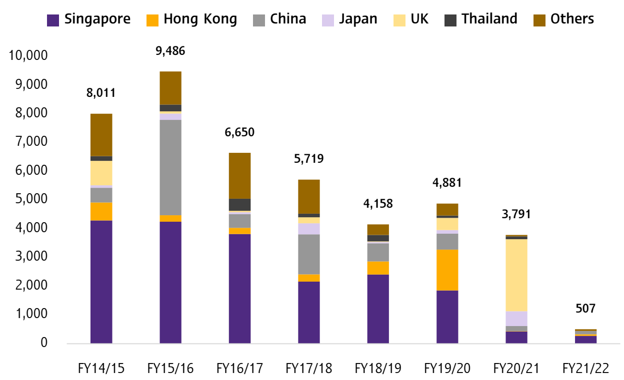


Sources: Ministry of Planning and Finance

Approved FDI should remain subdued due to the heightened political and economic uncertainty.

Approved Foreign Direct Investment

Unit: USD million

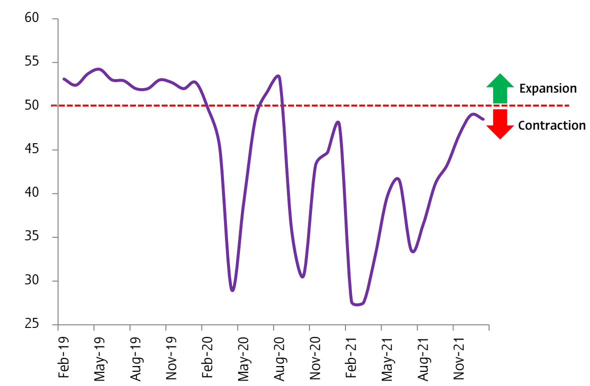


Sources: DICA (FY21/22 up to January 2022)

Manufacturing PMI gradually rebounded since August 2021 but remains in contraction.

Manufacturing PMI

Unit: Index (>50 Expansion, <50 Contraction)



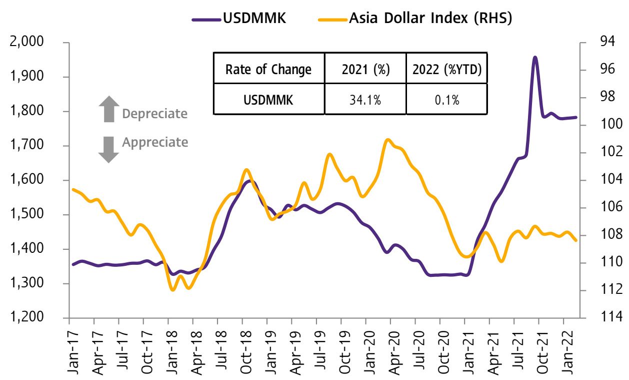
Sources: IHS Markit

The Kyat started to stabilize in the fourth quarter of 2021 after depreciating sharply after the coup.

USDMMK and ADXY

Unit: USD / MMK

Unit: Index

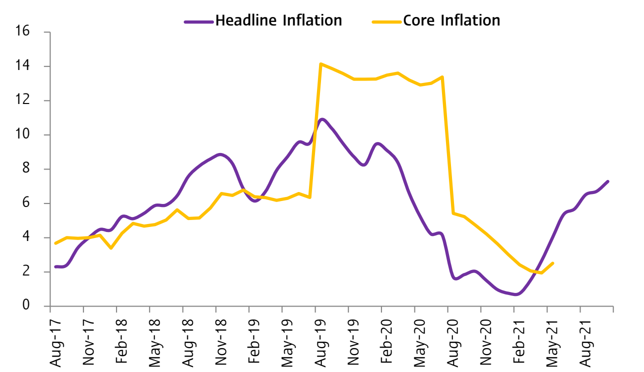


Sources: Bloomberg (as of February 21st, 2022)

Myanmar could see higher inflation from supply disruptions, weak Kyat, and potential monetary financing.

Inflation rate

Unit: %YOY



Sources: Central Statistical Organization

Vietnam

OVERALL ECONOMY

Facts and Figures

Population (2021)	98.51 million
Labor force (2020)	57.8 million
GDP (2020)	USD 271.16 billion
GDP per capita (2020)	USD 2,777
GDP by sector (2021)	Agriculture: 12%, Industry: 38%, Services: 41%
Top exports (2021)	Phones and Parts 17.1%, Electrical Parts 15.1%, Textiles 9.7%

What to watch in 2022:

- Rising COVID-19 cases and risks from the Omicron variant
- Tourism reopening in March

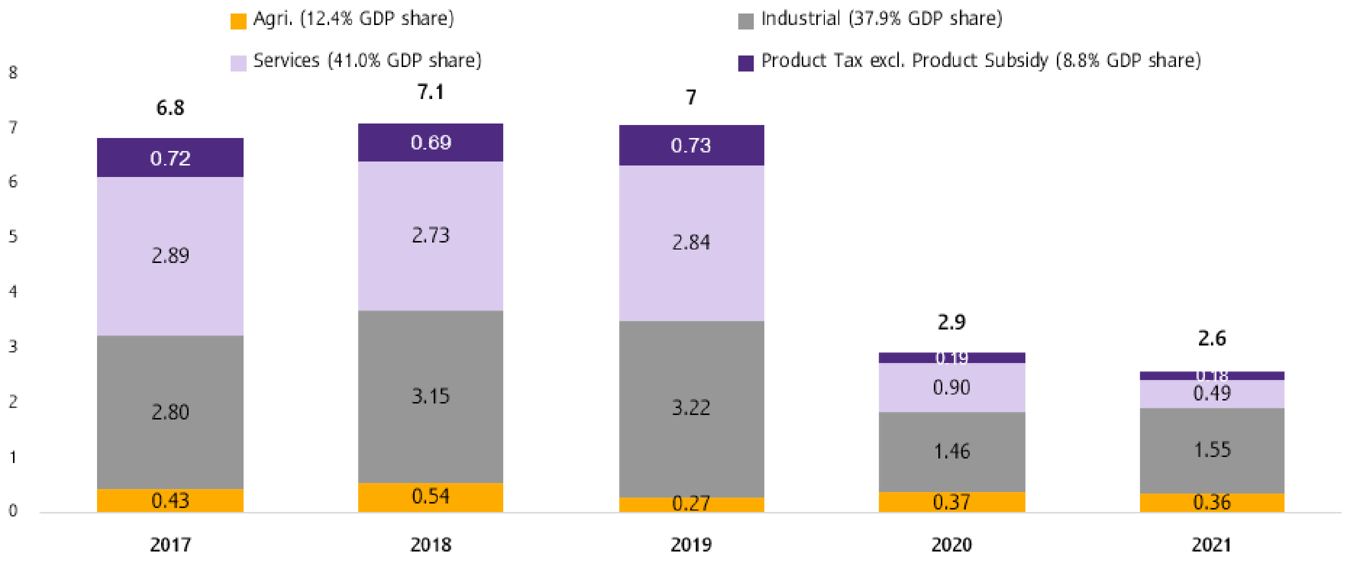
2021 Recap and 2022F Outlook

EIC forecasts Vietnam's economy to grow 6.5% in 2022F after facing its lowest growth in 30 years at 2.6% in 2021 (Figure 1). Despite a strong recovery in the first half of 2021 driven by robust exports, the economy saw a sharp contraction in the third quarter (-6.0%YOY) as the Delta variant outbreak forced the country into a strict lockdown. The services industry experienced a significant slowdown, growing by just 1.2%YOY in 2021 (vs 2.3%YOY in 2020), as citizens in major cities were not allowed to leave their homes during the peak of the lockdown. The accommodation and food services sector in particular experienced a sharp contraction at -20.8%YOY while the transportation and storage sector also contracted -5.0%YOY weighed down by movement restrictions and lower demand. The industry and construction sector (including manufacturing) was relatively more resilient at 4.1%YOY growth (vs 4.0%YOY in 2020). However, this was still considerably lower than pre-COVID-19 levels as supply chain disruptions severely impacted operations despite stronger exports overall. Many factories either stopped production during the lockdown or were forced to operate under a bubble (where workers would stay at the factory), resulting in significant slowdowns, order cancellations, and labor shortages. The agriculture, forestry, and fishery sector was the least affected sector, with growth of 2.9%YOY (vs 2.7%YOY in 2020). Nonetheless, the bottom has likely passed as Vietnam adapts to living with COVID-19, setting the path for a strong recovery in 2022.

Figure 1: Vietnam's economy grew at its slowest rate in 30 years as a strict lockdown in the third quarter significantly pressured the services sector.

Contribution to Vietnam's GDP Growth

Unit: %



Source: EIC analysis based on data from Vietnam's General Statistics Office

The outlook for 2022 is brighter given increased vaccination rates, easing of lockdown measures, and resilient export demand. Economic growth in the fourth quarter of 2021 rebounded sharply to 5.2%YOY and strong momentum should carry forward into 2022. Exports are expected to remain a key growth driver, albeit moderating this year, with most factories resuming operations and demand from trade partners returning. Exports should also benefit from the RCEP free trade agreement, in effect since January 1st, 2022, especially to key trade partners in the region such as China, South Korea, and Japan. Foreign direct investment is expected to benefit from relaxed quarantine requirements for inbound arrivals and stronger economic confidence. In the longer term, Vietnam should remain attractive to foreign investors due to its close proximity to China, various FTAs, and tax incentives. Tourism recovery is likely to be gradual, with a phased opening plan leading to a full reopening by mid-March. Domestically, the easing of lockdown measures and higher vaccination rates should support nascent demand recovery. Additional fiscal stimulus measures have been announced and should aid a rebound in domestic demand as the labor market slowly recovers.

Risks to the outlook remain stemming from high COVID-19 cases and scarring effects on the economy. Despite higher vaccination rates, COVID-19 cases are still on the rise and reaching new highs. The highly transmissible Omicron variant is a significant downside risk to Vietnam's economic outlook. Although a return to strict lockdowns is unlikely, the high number of cases could diminish consumer confidence and stall domestic demand recovery. Furthermore, supply chain disruptions could persist longer if workers are forced to quarantine and isolate, while trade and tourism could also be affected if borders remain closed longer. Additionally, the economy still faces significant economic scarring after the lockdown last year. Both the unemployment and underemployment rates remain elevated and could take some time before normalizing. The rise in non-performing loans is another issue to monitor this year, alongside policy support from the central bank and the government to aid those affected.

COVID-19 and Vaccination Update

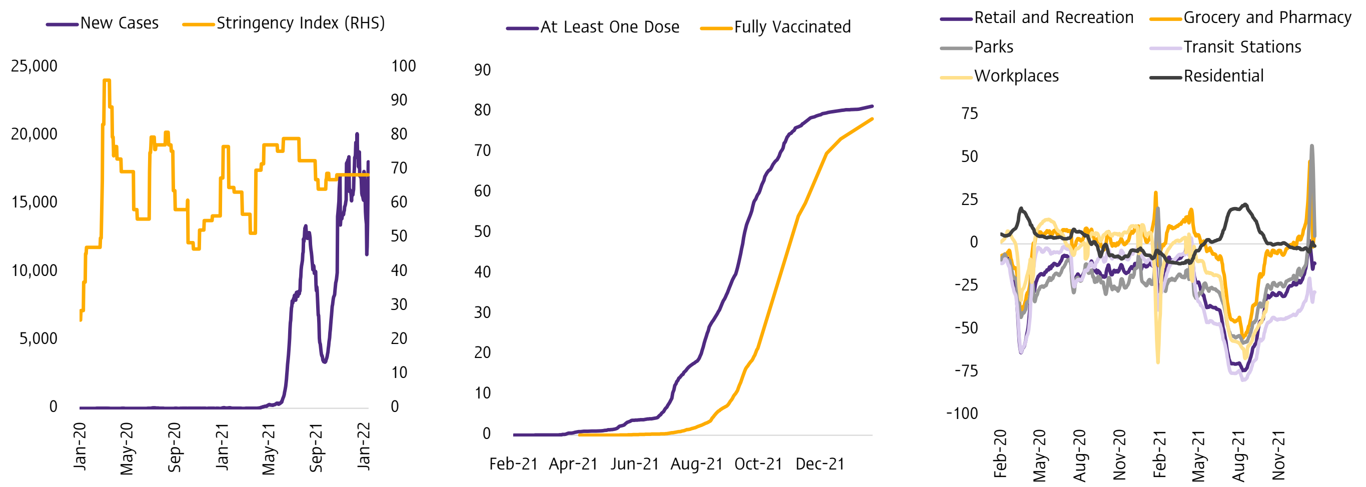
As of February 14th , 2022, Vietnam recorded 2,540,273 confirmed cases of COVID-19, 2,232,947 recoveries, and 39,037 deaths (Figure 2 LHS). 78% of the population has been fully vaccinated, while 3% has been vaccinated with a first dose (Figure 2 MID). COVID-19 cases started to rise again starting in November 2021 after lockdown restrictions were eased, with daily confirmed cases reaching new highs in February 2022 on a 7-day average. Nonetheless, as part of the plan to live with COVID-19, the country did not return to widespread lockdowns, instead opting for selective partial lockdowns (such as prohibiting dining in restaurants and other non-essential activities) in areas with high cases and low vaccinations. Domestic travel has also restarted after a period of suspension during the lockdown. For international travelers, fully vaccinated tourists must quarantine for three days with RT-PCR tests taken on the first and third days. Business travelers residing in Vietnam for less than 14 days are exempted from quarantine. After the lockdown was relaxed, mobility data started to recover from its bottom in August and almost reached pre-pandemic levels (Figure 2 RHS). Going forward, wider vaccination coverage should allow restrictions to be relaxed further and economic activity to rebound. Currently, Vietnam has allowed vaccinations for citizens aged 12 and above while a proposal to vaccinate children aged 5-11 is in the works. Booster shots are expected to be rolled out to the adult population in the first quarter of 2022, which should strengthen consumer confidence and domestic demand recovery.

Figure 2: Higher vaccination rates and the easing of lockdown measures have allowed mobility to rise

COVID-19 Daily Cases and Stringency Index
Unit: Cases (7DMA) Unit: Index (100 = Most Stringent)

Vaccination Progress
Unit: % of Total Population

Google Community Mobility Data*
Unit: % Change from Baseline (7DMA)



Note: *Workplaces data since October 20, 2021, is unavailable. Spikes are due to Lunar New Year Festival.

Source: EIC analysis based on data from the WHO, Oxford, Our World in Data, and Google

External Demand

Export growth is likely to remain resilient in 2022, but with some moderation as global economic growth slows. In 2021, exports rose by 19.0%YOY, the fastest pace since 2017, owing to sharp economic rebounds in trading partners, strong demand for new-normal goods (e.g. electronics), and a low base effect. Export growth was broad-based across key products such as phones and parts (12.4%YOY, 17.1% share), computers and electrical products (14.4%YOY, 15.2% share), machinery and equipment (41.0%YOY, 11.4% share), and textiles and garments (9.8%YOY, 9.7% share). Export growth was also robust across key trading partners[1] , including the US (24.0%YOY, 28.5% share), China (16.0%YOY,16.6% share), and South Korea (14.0%YOY, 6.6% share). Looking forward, as growth moderates in key trade partners, exports are likely to soften somewhat. Nonetheless, they should remain resilient overall as demand for electronics continues to remain strong and backlogged orders are fulfilled. In addition, Vietnam is poised to benefit from free trade agreements such as RCEP (effective January 1st, 2022) alongside others already in effect such as the EU-Vietnam FTA and CPTPP. Vietnam also stands to be a key beneficiary of manufacturing diversification outside of China due to its strategic location and large labor force, which should support its export base going forward.

However, downside risks to exports are on the rise. First, the rapidly rising number of COVID-19 cases worldwide and domestically fueled by the Omicron variant could pose a threat to Vietnamese exports through both lower external demand and supply chain disruptions. Border checkpoints, especially with China, which imposes a Zero-COVID policy, could shutter if cases were to rise and limit the nation's exports. Secondly, elevated raw material and logistics costs would pose a challenge to exports, especially in terms of oil and container prices.

Disbursed foreign direct investment contracted slightly at -1.2%YOY in 2021, but there are signs of recovery leading into 2022. After expanding 6.8%YOY in the first half of 2021, FDI disbursement fell sharply during the lockdown in the third quarter as investors postponed projects amid severe economic disruptions. With restrictions eased and economic activity normalizing, FDI disbursement is expected to resume and could benefit from pent-up demand. In addition, authorities have eased quarantine rules for foreign investors and business travelers travelling to Vietnam for less than 14 days. They will not be required to quarantine, although other restrictions regarding their place of accommodation will still apply. The gradual easing of travel restrictions should boost foreign investors' confidence, aiding FDI recovery. Another factor supporting FDI recovery in 2022 is growing total registered capital (approved FDI) which rose by 9.2%YOY last year. This suggests improving confidence by foreign investors and higher investment projects in the pipeline waiting to begin. Total registered capital was particularly strong for the manufacturing sector, Vietnam's key industry, with growth of 33.2%YOY suggesting a brighter outlook for industry. Lastly, the government is likely to implement further tax incentive packages to attract foreign investors in a bid to strengthen economic recovery (more details in the fiscal and monetary policy section), bolstering FDI inflows. In the longer term, EIC maintains its view that Vietnam remains attractive to foreign investors due to its large and relatively cheap labor force, various signed and ratified FTAs, and a strategic location bordering China and with many seaports. However, in the short term, recovery could be derailed if COVID-19 resurges significantly, leading to lockdown re-tightening and prolonged border closures.

Tourism is likely to see a nascent recovery starting in the second quarter of 2022 as the risk of Omicron outbreaks subside and Vietnam further reopens its borders. Currently, Vietnam plans a phased reopening starting with key tourist areas such as Phu Quoc island and Da Nang, which have been welcoming tourists since November 2021. From January 1st onward, quarantine requirements for fully vaccinated tourists have been reduced to three days in a certified accommodation with a RT-PCR test conducted on the first and third day. After mid-March, quarantine requirements will be reduced to one day, but tourists will still need to test negative upon arrival. Although this is a positive sign for the tourism sector, EIC sees recovery to be sluggish at least in the first half of 2022 as the global outbreak of the Omicron variant deters potential tourists. In addition, there are no clear signs for a return of Chinese tourists (32% share pre-pandemic) due to strict border controls in China. With the outbreak expected to subside by mid-2022, tourist arrivals should recover, coinciding with the country's plan to allow more incoming flights. Risks to the outlook stem from a more severe and prolonged COVID-19 outbreak than expected leading to extended border closures.

Domestic Demand

Domestic demand is expected to rebound due to the easing of lockdowns and government stimulus measures but remains hindered by rising COVID-19 cases and economic scarring. Total retail sales of goods and services contracted -5.3%YOY in 2021, with services spending particularly hard hit as lockdowns forced many citizens to remain at home and

[1] Data as of the first eleven months of 2021

businesses to close. Purchasing power was likely hit sharply as reflected by elevated unemployment and underemployment levels at 3.6% and 3.4% respectively during the fourth quarter of 2021 (compared to 2.3% and 2.0% respectively during the first quarter of 2020). The urban unemployment rate was particularly high at 5.1% due to a larger service sector in major cities. With vaccination rates rising and the economy recovering strongly, unemployment is expected to gradually come down going forward thus supporting domestic demand recovery. Recent mobility data shows a gradual rebound close to pre-pandemic levels, suggesting improving economic activity. Additional government stimulus measures have been announced and should also help shore up lost income (see more details below). Nonetheless, with a high number of COVID-19 cases and the looming Omicron variant, partial lockdown retightening is a key downside risk to the outlook. Risks regarding current inflation are manageable, with the latest headline rate at just 1.9%YOY in January.

On the supply side, the manufacturing sector has recovered strongly after lockdown easing but faces labor shortages and rising input cost. The Industrial Production Index bounced back to growth of 8.7%YOY in December resulting in a full-year increase of 4.8% for 2021. Manufacturing growth was mostly broad-based, with significant rebounds in communication equipment (18.5%YOY) and electronic component (10.9%YOY) production in December. Looking forward, strong momentum should carry into 2022 owing to resilient demand for key products and backlogged orders. Manufacturing PMI reflects the rebound with the latest print for January at 53.7, the fourth consecutive month of expansion. According to IHS Markit, new orders continued to rise but firms faced pressures regarding labor shortages, rising input costs, and logistics disruptions. Manufacturing firms saw a net employment gain in December after six months of job shedding as economic activity normalizes but is still not enough to operate at full capacity. Raw material costs are on the rise, although at a slower pace, which is a downside risk to the manufacturing sector. If supply chain disruptions persist (for example, due to a COVID-19 resurgence), the sector's strong recovery could stall.

Fiscal and Monetary Policy

Vietnam approved a new stimulus package worth USD 15.3 billion (about 4.1% of GDP) in early January to support economic recovery over 2022-2023 (Figure 3). Before this package, Vietnam has implemented substantial fiscal support measures worth a cumulative 6.5% of GDP between 2020 – September 2021 according to the IMF. Such measures included tax cuts and exemptions, cash transfers, and accelerating public investment disbursement. Additional measures were implemented during the lockdown in the third quarter of 2021, including 30% rent reductions, 30% corporate income tax cuts for firms with revenue below VND 200 billion, and investment incentives for targeted industries. The newest package is reported to include a 2% VAT reduction, a reduction in loan interest rates, and increased infrastructure spending alongside measures to strengthen the healthcare system and reduce rents, according to Reuters. These measures are expected to help shore up domestic demand and strengthen economic recovery during a period where purchasing power is weakened by high unemployment. Additionally, the loan-restructuring scheme was extended to mid-2022, which should support financial stability amid a rise in non-performing loans. Although the increased government spending is likely to push up the public debt ratio, a strong GDP rebound should help keep the level manageable. The IMF projects general government debt (excluding guaranteed and sub-national debt) at 47.8% of GDP in 2022 before declining over the next five years. The government has also considered raising the public debt ceiling above 60%, which would give more room for the nation to implement stimulus measures if approved.

Figure 3: Vietnam's fiscal and monetary policy responses

Policy	Description
Fiscal	1) Value-added tax, corporate income tax, personal income tax, and land rental payments deferred for a period of 5 months (recently repeated for 2021 tax filing schedule) 2) Deferral of contributions to pension and death benefit fund is permitted for up to 12 months for both firms and workers 3) Exempting import duty for products related to the containment of COVID-19; preferential tariffs for businesses in key industries (incl. automobiles, textiles, footwear, and agriculture) 4) Cash transfer program worth a total of VND 36 trillion for the period April-June targeting poor households and unemployed workers or workers without incomes 5) Reducing corporate income tax by 30% in 2020 for businesses with revenue under VND 200 billion per year 6) Reducing fees charged by banks, non-banks, and securities businesses by 50% until June 2021 7) Reducing fees for cars assembled domestically by 50% 8) Reducing flight control fees for domestic airlines by 50% from March 2020 to June 2021 9) Government guarantee for loans provided to the aviation sector with outstanding loans at the end of 2019 10) Reducing rent payments by 15% for those leased by the State/State Agencies 11) Increasing tax deductions in family allowances for personal income tax to VND 4.4 million per month per dependent starting from July 12) Fee reductions in various sectors, including business registration fees, electricity tariffs, telecom fees, and labor registration transaction fees (most extended to June 2021) 13) VND 26 trillion relief fund for employers and employees affected by the 4^{th} – wave pandemic, including insurance fund waivers for employers, reskilling support for employees, and unemployment support for suspended workers of all categories (July 2021) 14) Reducing rent of state land by 30%, 30% CIT cut for firms with revenue of less than VND 200 billion, and investment incentives for targeted industries (implemented during the third quarter of 2021) 15) USD 15.4 billion stimulus package including 2% VAT reduction, loan interest reduction, and infrastructure investment plans.
Monetary	1) The SBV has stated that they are prepared to provide liquidity support and intervene in the exchange rate market to maintain stability 2) Reducing the refinancing rate to 4% (total cut of 200 bps) in addition to other benchmark policy rates 3) Cutting short-term deposit rate caps by 25-30 bps and short-term lending caps for priority sectors by 50bps 4) Reducing rate on VND compulsory reserves to 0.5% and 0% for non-compulsory reserves 5) Encouraging credit institutions to restructure loans (extended to mid-2022), reduce costs, reduce interest rates, and potentially suspending dividend payments 6) Providing 0% interest rate loans with no collateral through the Vietnam Bank for Social Policies to support firms paying their workers 7) Reducing the interest rate by 2% for loans to SMEs from the SME Development Fund 8) Establishing a credit package worth VND 300 billion for debt restructuring and fee reductions

Source: EIC analysis based on data from IMF, ADB, and local press

Financial Markets

Rising non-performing loans would be a key issue to watch this year. According to the State Bank of Vietnam, the NPL ratio in 2021 increased to 3.8% (compared to about 1.6% pre-pandemic). If restructured loans are included, the ratio could increase to as much as 8.2%. Although the economy has shown signs of a sharp recovery, high NPL levels could pose challenges to demand recovery and financial stability. The central bank has implemented measures to keep NPLs in check through loan restructuring, which has been extended to mid-2022. Vietnamese banks appear to be well capitalized overall, with the capital adequacy ratio (CAR) at 11.37% (above the threshold of 10.5%) but state-owned banks are more vulnerable with a CAR of 9.17% as of September 2021.

Vietnam's Key Indicators

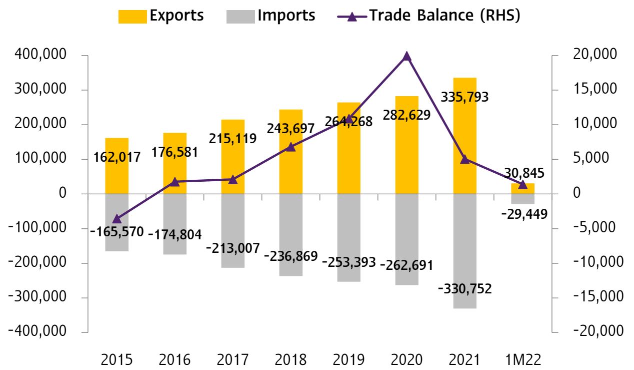
Domestic Demand	Unit	2016	2017	2018	2019	2020	2021	2022F
Real GDP	% YOY	6.7	6.9	7.1	7.0	2.9	2.6	6.5
Consumer price index (average)	%	2.7	3.5	3.5	2.8	3.2	2.0	2.3
Current account balance	% of GDP	0.2	-0.6	1.9	3.8	3.7	1.8	3.2
Policy rate (end of period)	%	6.5	6.25	6.25	6.0	4.0	4.0	-

Sources: International Monetary Fund (IMF) and Vietnamese Authorities, EIC Analysis

Exports rose strongly in 2021 and should continue to grow in 2022 at a slower pace as supply disruptions abate.

Foreign Trade

Unit: USD million

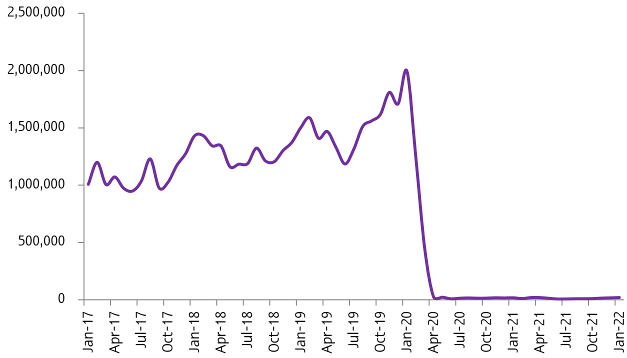


Sources: General Statistics Office

Tourist arrivals should recover gradually starting from March 2022 when Vietnam reopens its borders.

Visitor Arrivals

Unit: Persons

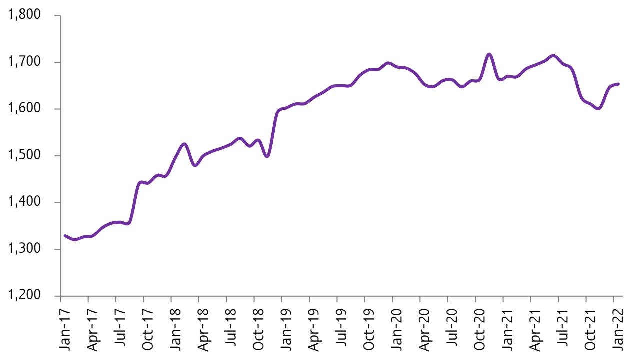


Sources: General Statistics Office

FDI disbursement recovered slightly after declining during the strict lockdown in the third quarter of 2021.

Foreign Direct Investment (Implementation Capital)

Unit: USD million (12 Month Moving Average)

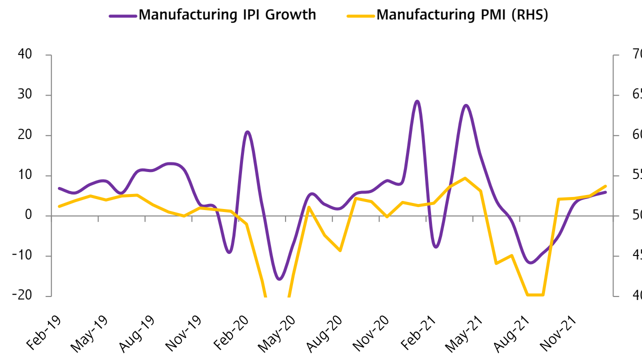


Sources: Foreign Investment Agency

The manufacturing sector returned to growth after lockdown restrictions were relaxed.

Manufacturing IPI and PMI

Unit: %YOY Unit: Index (>50 Expansion, <50 Contraction)

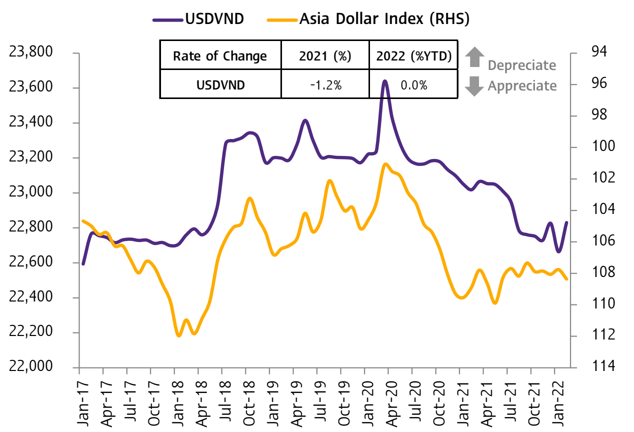


Sources: General Statistics Office and IHS Markit

VND was stable against the USD year to date.

USDVND and ADXY

Unit: USD / VND Unit: Index

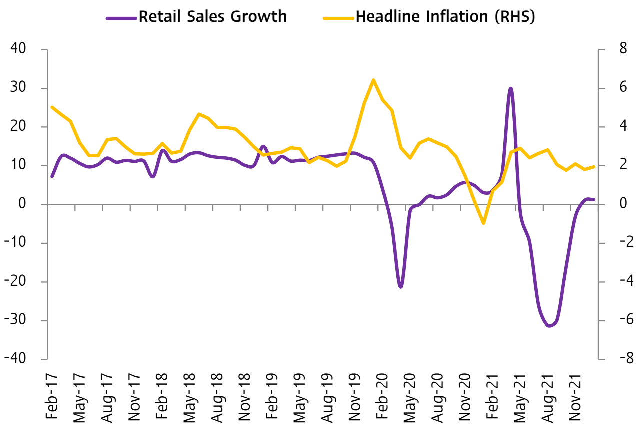


Sources: Bloomberg (as of February 21st, 2022)

Retail sales recovered slightly after a sharp decline during the lockdown, while inflation remains low.

Retail Sales and Inflation

Unit: %YOY



Sources: General Statistics Office

Links to Thailand

CLMV Trade: Growth is expected to moderate in 2022 after a broad-based recovery in 2021

Thai Exports to (%YOY)										
Country (Share 2021)	2019	2020	2021	2021Q1	2021Q2	2021Q3	2021Q4	Oct-21	Nov-21	Dec-21
Cambodia (2.6)	-6.2%	-14.8%	16.4%	-12.6%	37.1%	34.0%	22.3%	40.1%	12.2%	16.7%
Laos (1.5)	-6.7%	-12.7%	19.2%	15.2%	35.1%	13.4%	15.5%	24.3%	9.6%	13.8%
Myanmar (1.6)	-5.7%	-13.0%	13.7%	-18.5%	50.2%	13.5%	25.2%	50.3%	8.4%	24.7%
Vietnam (4.6)	-6.5%	-7.9%	12.3%	12.9%	44.7%	-7.9%	5.0%	1.3%	9.4%	4.1%
CLMV (10.3)	-6.3%	-11.1%	14.5%	0.6%	42.3%	8.0%	13.4%	19.7%	9.9%	11.4%
Thai Imports from (%YOY)										
Country (Share 2021)	2019	2020	2021	2021Q1	2021Q2	2021Q3	2021Q4	Oct-21	Nov-21	Dec-21
Cambodia (0.3)	195.8%	-49.5%	-22.4%	-48.9%	55.8%	-11.5%	7.7%	9.8%	13.1%	2.1%
Laos (1.2)	-2.9%	17.2%	9.6%	17.2%	36.4%	1.9%	-7.6%	-16.2%	-18.4%	12.4%
Myanmar (1.1)	7.8%	-13.9%	0.9%	-4.0%	0.0%	-5.9%	16.0%	13.9%	15.0%	19.0%
Vietnam (2.6)	-4.4%	0.2%	27.9%	16.4%	68.8%	4.0%	32.9%	31.4%	49.6%	16.5%
CLMV (5.2)	11.7%	-8.3%	12.7%	0.4%	40.3%	0.3%	16.9%	13.4%	22.7%	14.8%

Source: EIC analysis based on data from the Ministry of Commerce

- **Thai exports to CLMV rebounded 14.5%YOY in 2021 after contracting -11.1%YOY in 2020 owing to the low-base effect and easing of supply chain disruptions.**
  - Momentum slowed in the second half of 2021 as the Delta variant outbreak prompted tight lockdown measures across the region in the third quarter, particularly in Vietnam. After the restrictions were relaxed in the fourth quarter, exports gradually rebounded.
  - Exports to Myanmar was pressured by the country's political uncertainty and weak domestic demand but showed signs of improvement after the first quarter of 2021.

- **Likewise, Thai imports from CLMV rebounded 12.7%YOY in 2021 after contracting -8.3%YOY in 2020 due to recovering economic growth in Thailand and the easing of lockdown restrictions.**
  - Growth was broadly robust in the first half of 2021 except for imports from Cambodia (thanks to the high-base effect from gold imports) and Myanmar (political uncertainty).
  - Momentum stalled in the third quarter as Thailand entered a lockdown but recovered sharply in the fourth quarter.

- **Looking forward, Thai exports to CLMV are expected to see continued growth in 2022, albeit with some moderation, due to the following supporting factors:**
  1. CLMV economic growth is expected to strengthen in 2022 as higher vaccination rates allow authorities to ease lockdown restrictions, supporting economic activity recovery.
  2. Additional border checkpoints should reopen which would support border trade, while supply shortages and high input costs are likely to lessen in the second half of 2022.
  3. The Regional Comprehensive Economic Partnership (RCEP) FTA is likely to strengthen supply chain connectivity within the region.
  4. The Thai Baht is expected to remain weak in the near term which would increase competitiveness of Thai products in the regional market.
  5. Oil prices are likely to remain elevated which would support Thai exports of refined fuel.

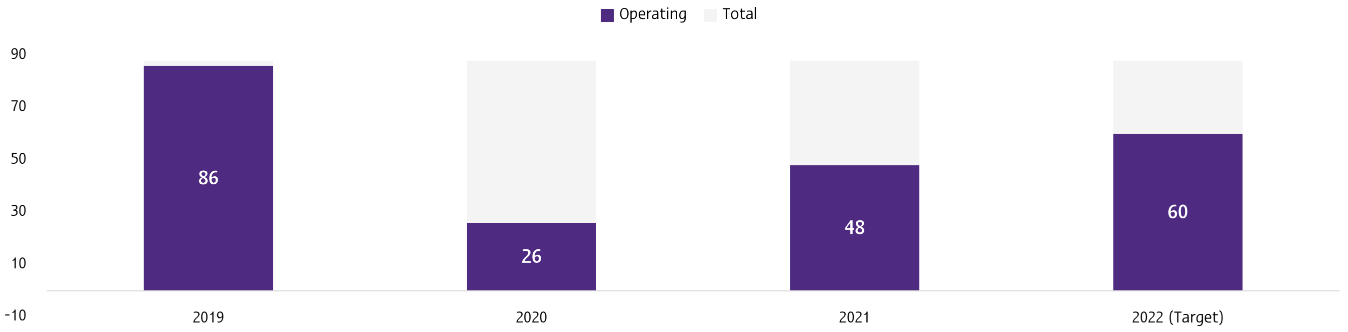
- **Nonetheless, risks to exports are still present.** The outbreak of the Omicron variant poses a key downside risk through exacerbated supply chain disruptions and weakened external demand. In addition, high input and shipping costs could persist for longer than expected which would adversely impact exports.

Border and Transit Trade: Growing in line with overall CLMV Trade

Thai Border/Transit Exports to (%YOY)										
Country	2019	2020	2021	2021Q1	2021Q2	2021Q3	2021Q4	Oct-21	Nov-21	Dec-21
Cambodia	14.2%	-5.0%	7.6%	-9.3%	9.8%	13.2%	21.1%	20.0%	16.4%	27.3%
Laos	-8.5%	-12.1%	20.4%	13.6%	27.6%	17.9%	24.1%	32.9%	17.1%	23.1%
Myanmar	-1.1%	-12.4%	37.4%	-9.2%	74.9%	40.8%	62.2%	111.0%	40.8%	53.5%
Vietnam	-9.5%	-17.6%	5.0%	24.8%	-1.6%	-14.4%	17.7%	18.9%	50.9%	-4.2%
CLMV	-0.1%	-10.5%	17.9%	0.1%	26.5%	17.5%	31.4%	41.0%	26.2%	28.4%
Thai Border/Transit Imports from (%YOY)										
Country	2019	2020	2021	2021Q1	2021Q2	2021Q3	2021Q4	Oct-21	Nov-21	Dec-21
Cambodia	-7.0%	8.6%	13.0%	9.3%	54.7%	-9.8%	15.5%	18.7%	23.3%	7.2%
Laos	-6.1%	8.4%	4.4%	-2.9%	17.7%	5.7%	-0.4%	-13.1%	-0.1%	13.4%
Myanmar	6.5%	-17.2%	8.8%	-7.2%	0.5%	9.6%	38.7%	35.5%	36.7%	44.0%
Vietnam	-40.5%	18.1%	90.5%	-0.5%	84.3%	103.4%	202.3%	264.0%	221.2%	148.3%
CLMV	-4.5%	-2.6%	13.6%	-2.4%	17.1%	13.1%	28.9%	22.2%	30.1%	34.4%

Number of Operating Thai Border Checkpoints with Cambodia, Laos, and Myanmar (End-Year)

Unit: Number of Checkpoints



Source: EIC analysis based on data from the Ministry of Commerce

- **Border-transit exports to CLMV in 2021 showed a broad-based rebound of 17.9%YOY supported by a low base effect, border checkpoints reopening, and stronger regional economic activity.**
  - Notably, both border-transit exports and imports growth were higher than overall CLMV trade growth.
  - Strong growth in refined fuel exports was a key driver due to higher oil prices. In addition, electronics, electrical appliances, and cars also saw growing demand as economies reopened.
  - Trade growth slowed slightly in the third quarter as most countries entered a lockdown but recovered strongly in the fourth quarter due to pent-up demand.
  - Thailand reopened an additional 22 border checkpoints with CLM in 2021 to a total of 48 checkpoints which lessened logistical disruptions.

- **In 2022, border trade is expected to continue expanding at a moderate pace from new growth drivers:**
  1. CLMV economic growth is expected to strengthen further in 2022.
  2. The RCEP agreement should bolster regional supply chains and support trade to CLMV and China.
  3. The Ministry of Commerce plans to reopen an additional 12 border checkpoints which would support the shipment of goods.
  4. The opening of the China-Laos railway should benefit the shipment of agricultural goods to China through Laos.
  5. Weak THB would increase Thai products' competitiveness.

Trade With Cambodia: Continued growth is expected as Cambodia reopens its economy

Thai Exports to Cambodia %YOY (Share 2021)	2019	2020	2021	2021Q1	2021Q2	2021Q3	2021Q4	Oct-21	Nov-21	Dec-21
Total (100)	**-6.2%**	**-14.8%**	**16.4%**	**-12.6%**	**37.1%**	**34.0%**	**22.3%**	**40.1%**	**12.2%**	**16.7%**
Fuel (29.1)	-3.4%	-14.7%	47.5%	-1.9%	92.5%	90.8%	33.6%	81.7%	36.0%	-0.5%
Agro-Industrial Products (17.8)	16.3%	-8.1%	8.8%	-3.5%	23.3%	6.9%	12.2%	13.0%	10.3%	13.3%
Cars and Components (5.6)	81.3%	-30.3%	31.4%	-7.9%	56.7%	38.5%	66.0%	105.6%	22.7%	84.9%
Electrical Appliances (4.4)	22.7%	-16.6%	5.7%	5.5%	18.9%	5.1%	-3.5%	-22.9%	0.4%	16.1%
Textiles (2.7)	6.3%	-15.5%	13.1%	-9.1%	30.2%	18.9%	23.3%	13.6%	33.0%	23.2%
Agricultural Products (2.5)	19.7%	140.0%	-55.5%	-50.9%	-60.4%	-58.7%	-47.8%	-55.1%	-47.7%	-32.2%

Thai Imports from Cambodia %YOY (Share 2021)	2019	2020	2021	2021Q1	2021Q2	2021Q3	2021Q4	Oct-21	Nov-21	Dec-21
Total (100)	**195.8%**	**-49.5%**	**-22.4%**	**-48.9%**	**55.8%**	**-11.5%**	**7.7%**	**9.8%**	**13.1%**	**2.1%**
Total excl Gold (100)	**68.0%**	**-37.3%**	**10.9%**	**9.5%**	**55.8%**	**-11.5%**	**7.7%**	**9.8%**	**13.1%**	**2.1%**
Fruit and Vegetable Products (31.1)	-3.1%	41.7%	-3.5%	12.0%	21.6%	-50.5%	-25.3%	-3.9%	-18.5%	-35.6%
Other Metal Products (28.7)	-13.3%	37.8%	58.2%	58.0%	69.5%	42.2%	66.1%	54.5%	65.3%	77.8%
Aluminum Products (22.6)	-10.9%	39.2%	49.0%	43.8%	50.3%	51.5%	50.0%	44.7%	44.7%	60.5%
Slings and Cables (11.3)	-0.2%	-27.6%	13.7%	1.5%	82.1%	6.4%	2.1%	-4.8%	-5.4%	15.5%
Clothes (7.2)	2.9%	-14.6%	-28.5%	-41.7%	74.8%	-35.6%	-38.6%	-44.0%	-32.6%	-38.7%

Source: EIC analysis based on data from the Ministry of Commerce

- **Thai exports to Cambodia rose 16.4%YOY in 2021 after contracting -14.8%YOY in 2020. For 2022, exports are expected to see continued growth, supported by a stronger economic recovery in Cambodia, although at a slower pace as the low base effect subsides.**
  - Exports of fuel was a major driver supported by rising oil price in the global markets and easing of lockdown measures in Cambodia. Exports of cars and components also benefited substantially from economic reopening despite semiconductor shortages faced by Thai manufacturers.
  - Looking forward, exports to Cambodia are likely to moderate in 2022 but should continue to see resilient growth. Economic activity in Cambodia is likely to strengthen this year due to the country's high vaccination rate and border reopening, supporting demand for Thai goods.

- **Thai imports from Cambodia fell -22.4%YOY in 2021, mainly due to a lack of gold imports. Excluding gold, imports grew 10.9%YOY in line with stronger economic recovery in Thailand.**
  - Imports of raw materials for manufacturing were the bright spots consistent with stronger growth in Thai exports of manufactured products. On the other hand, imports of textiles were sluggish as they are more vulnerable to lockdown measures.
  - Nonetheless, stronger Thai economic activity in 2022 should support imports growth this year, especially for goods related to the service sector (i.e. textiles) which is poised for a stronger recovery from widespread vaccination and borders reopening.

Trade With Laos: China-Laos Railway to become a new growth driver

Thai Exports to Laos %YOY (Share 2021)	2019	2020	2021	2021Q1	2021Q2	2021Q3	2021Q4	Oct-21	Nov-21	Dec-21
Total (100)	**-6.7%**	**-12.7%**	**19.2%**	**15.2%**	**35.1%**	**13.4%**	**15.5%**	**24.3%**	**9.6%**	**13.8%**
Refined Fuel (16.2)	-16.3%	-29.3%	26.0%	-13.8%	73.7%	35.6%	41.4%	36.2%	52.6%	36.4%
Agro-Industrial Products (15.2)	7.3%	-3.6%	16.8%	23.7%	20.7%	8.8%	14.7%	15.7%	27.1%	3.3%
Cars and Components (6.0)	-16.9%	-29.3%	42.8%	58.0%	130.9%	9.3%	21.6%	36.5%	44.5%	-4.5%
Electronics (4.6)	-10.6%	-20.6%	-2.0%	18.4%	16.5%	-16.5%	-19.9%	-29.4%	-26.1%	-2.9%
Livestock (2.9)	2.1%	-23.0%	-48.3%	-29.8%	-39.0%	-66.2%	-67.3%	-43.8%	-72.4%	-80.2%
Thai Imports from Laos %YOY (Share 2021)	**2019**	**2020**	**2021**	**2021Q1**	**2021Q2**	**2021Q3**	**2021Q4**	**Oct-21**	**Nov-21**	**Dec-21**
Total (100)	**-2.9%**	**17.2%**	**9.6%**	**17.2%**	**36.4%**	**1.9%**	**-7.6%**	**-16.2%**	**-18.4%**	**12.4%**
Fuel (61.4)	-1.4%	26.5%	13.4%	8.3%	24.4%	31.4%	-6.2%	-6.2%	-10.6%	-1.2%
Fruit and Vegetable Products (7.8)	6.9%	91.0%	30.9%	23.1%	54.9%	1.9%	48.0%	9.9%	29.3%	54.8%
Machinery and Components (3.9)	-16.3%	-30.6%	-21.9%	-7.8%	59.3%	-28.6%	-62.5%	-93.7%	-45.3%	-44.8%
Electrical Appliances (2.4)	-32.9%	-47.1%	39.9%	37.9%	144.9%	53.7%	-29.7%	42.8%	-39.1%	-64.6%
Copper Products (1.7)	10.3%	-62.3%	-63.2%	-91.6%	-81.3%	-21.0%	107.9%	11.2%	306.3%	70.2%

Source: EIC Analysis based on data from the Ministry of Commerce

- **Thai exports to Laos rebounded sharply at 19.2%YOY in 2021 after a contraction of -12.7%YOY in 2020 supported by refined fuel and car exports. For 2022, Thai exports should benefit from stronger economic growth in Laos in addition to the opening of the China-Laos railway.**
  - The main drivers of exports growth were refined fuel (from higher oil prices), agro-industrial products (from weak THB and higher food prices), and cars (from easing supply chain disruptions) while exports of livestock, particularly pork, were the major drag.
  - Since most of Thai exports to Laos are through border trade, reopening of border checkpoints have supported growth and should remain so next year as additional checkpoints are reopened.
  - Looking forward, the opening of the China-Laos railway could prove to be an opportunity for Thai exporters to ship goods to China through Laos at a lower cost and a shorter time. This would especially be beneficial for agricultural goods due to reduced spoilages, although the export of some goods would require Chinese approval first.

- **In contrast to trade with other countries, Thai imports from Laos slowed to 9.6%YOY in 2021 after a robust growth of 17.2%YOY in 2020 pressured by slower imports of electricity and agricultural goods.**
  - Imports of fuel (most of which is electricity) and fruit and vegetable products continued to grow although at a slower pace compared to 2020.
  - As the Thai economy recovers and border checkpoints are reopened, imports growth should remain in the positive this year.
  - The China-Laos railway could lead to an influx of Chinese goods to Thailand through Laos, supporting imports. However, this could potentially cause disruptions to the local domestic market and it remains to be seen whether any restrictions to imports will be implemented.

Trade With Myanmar: Sluggish growth due to the country's political uncertainty and weak economy

Thai Exports to Myanmar %YOY (Share 2021)	2019	2020	2021	2021Q1	2021Q2	2021Q3	2021Q4	Oct-21	Nov-21	Dec-21
Total (100)	**-5.7%**	**-13.0%**	**13.7%**	**-18.5%**	**50.2%**	**13.5%**	**25.2%**	**50.3%**	**8.4%**	**24.7%**
Agro-Industrial Products (23.1)	-19.0%	-3.0%	11.4%	-9.4%	43.0%	7.2%	9.5%	29.8%	-0.2%	5.5%
Refined Fuel (11.9)	3.6%	-37.5%	73.0%	-16.2%	123.6%	114.5%	182.6%	264.6%	148.6%	160.8%
Electrical Appliances (7.0)	-5.3%	-2.8%	41.3%	-23.1%	1.1%	130.4%	54.0%	-8.6%	-12.1%	154.0%
Cars and Components (5.3)	-0.8%	-0.7%	-20.7%	8.9%	52.1%	-56.6%	-43.1%	-18.2%	-58.2%	-41.0%
Textiles (4.0)	2.5%	-31.2%	-11.2%	-47.2%	58.2%	-38.9%	25.7%	71.7%	15.3%	7.2%
Thai Imports from Myanmar %YOY (Share 2021)	**2019**	**2020**	**2021**	**2021Q1**	**2021Q2**	**2021Q3**	**2021Q4**	**Oct-21**	**Nov-21**	**Dec-21**
Total (100)	**7.8%**	**-13.9%**	**0.9%**	**-4.0%**	**0.0%**	**-5.9%**	**16.0%**	**13.9%**	**15.0%**	**19.0%**
Natural Gas (60.8)	6.8%	-25.5%	-6.2%	-16.7%	-20.3%	-7.3%	22.9%	8.8%	21.9%	40.3%
Plant Products (16.7)	428.3%	65.3%	66.0%	22.6%	112.3%	73.0%	127.2%	139.0%	156.1%	97.3%
Other Metal Products (5.2)	-22.0%	30.3%	-29.2%	56.0%	-15.8%	-77.2%	-70.4%	-59.1%	-75.5%	-77.2%
Meat Products (4.0)	9.1%	5.1%	-3.7%	-6.3%	-12.3%	37.8%	-14.4%	-13.1%	-15.3%	-14.8%
Copper Products (3.2)	-27.0%	45.2%	-52.6%	41.5%	-50.6%	-94.4%	-94.1%	-92.6%	-95.4%	-94.4%

Source: EIC Analysis based on data from the Ministry of Commerce

- **Thai exports to Myanmar rebounded 13.7%YOY in 2021 after contracting -13.0%YOY in 2020 despite political uncertainty in Myanmar. However, risks to exports are to the downside as the situation has not yet improved.**
  - Exports shrank significantly in the first quarter of 2021 when the coup began but has recovered gradually since, partly due to base effects. By product, exports of refined fuel and agro-industrial products were the main drivers supported by higher prices of both goods. Exports of electrical appliances also saw strong growth in the second half of 2021.
  - On the other hand, exports of car and components shrank substantially, going against the trend in exports to other CLMV countries, as domestic demand in Myanmar especially for big-ticket items suffered following the coup. Export of textiles were also pressured by the weak domestic demand, COVID-19 outbreaks, and factory closures.
  - In 2022, exports to Myanmar are likely to grow only marginally as the low base effect subsides. Myanmar's GDP growth is expected to be sluggish, and domestic demand is not expected to recover significantly despite the easing of economic disruptions. Various downside risks to exports remain such as logistical disruptions caused by the political uncertainty and cash shortages in Myanmar.

- **Thai imports from Myanmar only recovered slightly at 0.9%YOY in 2021 after a contraction of -13.9%YOY in 2020 largely due to ongoing economic disruptions in Myanmar which affected manufacturing and logistics.**
  - Imports of plant products, namely cereals and flour, were the main bright spot as the agricultural sector is less affected by the political uncertainty, while other imports experienced declines.
  - Imports in 2022 are likely to recover very slowly as stronger economic growth in Thailand and easing economic disruptions in Myanmar support a recovery. However, risks are significantly to the downside as Myanmar's economy should remain depressed throughout the year with unresolved political uncertainty.

Trade With Vietnam: Growth should remain resilient as Vietnam's economy sharply rebounds

Thai Exports to Vietnam %YOY (Share 2021)	2019	2020	2021	2021Q1	2021Q2	2021Q3	2021Q4	Oct-21	Nov-21	Dec-21
Total (100)	**-6.5%**	**-7.9%**	**12.3%**	**12.9%**	**44.7%**	**-7.9%**	**5.0%**	**1.3%**	**9.4%**	**4.1%**
Cars and Components (14.8)	26.4%	-27.2%	37.0%	28.1%	456.6%	-1.2%	-6.8%	-6.3%	-10.1%	-2.7%
Electrical Appliances (11.8)	-1.9%	-9.4%	3.9%	-0.3%	23.1%	-16.3%	9.1%	-8.0%	18.2%	15.2%
Plastic Pellets (8.2)	-17.0%	-14.1%	42.9%	53.6%	60.4%	30.9%	29.9%	20.4%	28.8%	38.7%
Agro-Industrial Products (8.0)	5.2%	23.5%	-17.7%	-0.3%	-30.9%	-29.0%	-4.8%	-30.6%	4.7%	20.3%
Electronics (6.8)	3.1%	-0.2%	3.9%	-3.6%	7.8%	-4.0%	17.7%	18.6%	32.7%	5.6%
Thai Imports from Vietnam %YOY (Share 2021)	**2019**	**2020**	**2021**	**2021Q1**	**2021Q2**	**2021Q3**	**2021Q4**	**Oct-21**	**Nov-21**	**Dec-21**
Total (100)	**-4.4%**	**0.2%**	**27.9%**	**16.4%**	**68.8%**	**4.0%**	**32.9%**	**31.4%**	**49.6%**	**16.5%**
Electrical Appliances (14.8)	-18.3%	-23.6%	29.9%	8.3%	51.8%	-2.5%	110.0%	87.1%	150.3%	101.5%
Machinery and Components (8.2)	11.4%	-10.4%	13.9%	26.4%	40.0%	-5.3%	3.4%	-4.1%	7.0%	8.6%
Cars and Components (6.8)	7.4%	6.0%	23.2%	16.6%	73.0%	25.1%	-0.9%	-4.6%	3.7%	-2.0%
Iron Products (6.4)	-2.6%	44.5%	10.1%	37.4%	92.4%	-35.6%	-8.1%	-31.1%	44.3%	-27.3%
Clothing (3.1)	21.7%	-19.8%	-6.8%	-4.7%	50.9%	-30.0%	-33.0%	-38.2%	-23.9%	-37.4%

Source: EIC Analysis based on data from the Ministry of Commerce

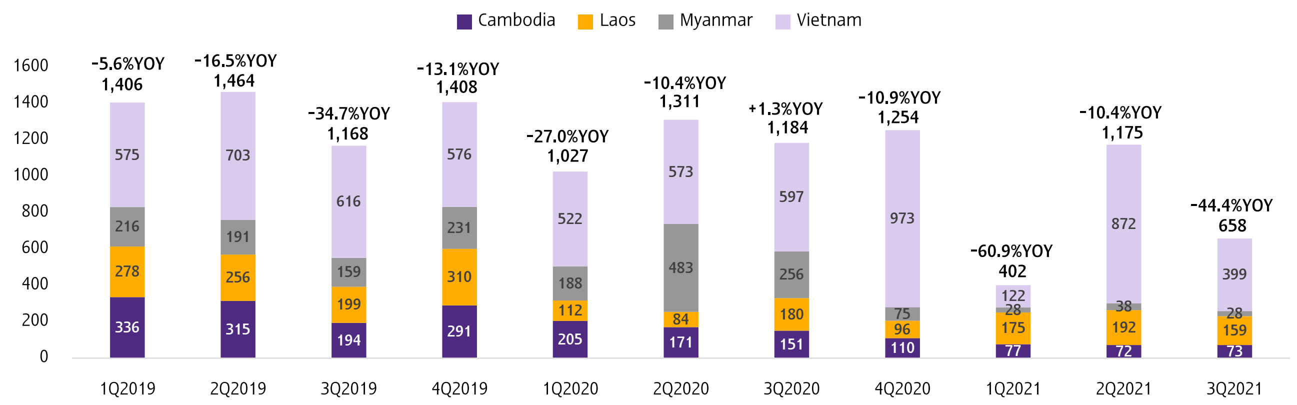
- **Thai exports to Vietnam surged 12.3%YOY in 2021 after contracting -7.9%YOY in 2020 supported by the easing of supply chain disruptions. However, growth stalled in the second half of 2021 when Vietnam entered a strict lockdown to contain the Delta variant outbreak.**
  - Exports in the first half of 2021 was robust in line with Vietnam's resilient economic growth during the period. Cars and components, electrical appliances, and plastic pellets were the key drivers of exports, benefiting from the easing of supply chain disruptions, buoyant domestic demand, and strong manufacturing activity in Vietnam.
  - However, in the second half of 2021, Thai exports slowed substantially and fell to a contraction in the third quarter as Vietnam imposed a very stringent lockdown. Much of the decline is attributed to weaker demand for consumer goods during the lockdown, while raw materials exports were also affected by factory closures.
  - Looking forward, exports to Vietnam are likely to remain resilient in 2022 since the country's economy is expected to rebound sharply, especially for the manufacturing sector. Easing lockdown restrictions should support domestic demand recovery and lessen supply chain disruptions. Nonetheless, the high COVID-19 cases remain a downside risk as it could lead to renewed restrictions if uncontained.

- **Thai imports from Vietnam rose sharply at 27.9%YOY in 2021 after 0.2%YOY growth in 2020 driven by strong demand for manufacturing inputs.**
  - Imports growth was robust for most of the year apart from the third quarter when Vietnamese factories faced supply chain disruptions. Consumer and manufacturing goods saw robust growth while clothing remains depressed.
  - In 2022, imports growth is likely to continue at a moderate pace lifted by stronger economic growth in Thailand and easing supply chain disruptions in Vietnam.

Thai Direct Investment: Slow recovery in 2022 with downside risks

Thai Direct Investment in CLMV Countries (Outflow)

Unit: USD millions



Source: Bank of Thailand

- **Thailand's outward direct investment to CLMV countries contracted for the fourth consecutive quarter in 3Q2021 at -44.4%YOY, pressured by the regional COVID-19 outbreaks, political uncertainty in Myanmar, travel restrictions, and the weaker THB which increases the costs of outward direct investment. In 2022, TDI is expected to rise gradually as most countries ease their border restrictions and see stronger economic growth in addition to the ratification of the RCEP agreement in January 2022. Risks are tilted to the downside from new COVID-19 outbreaks and the ongoing political uncertainty in Myanmar.**

- **TDI to Cambodia was relatively stable at a low level throughout the first three quarters of 2021** as most of Cambodia's key economic sectors (tourism, garments, real estate) remain depressed. With COVID-19 under control and borders reopened, TDI to Cambodia is likely to see a gradual recovery in 2022 although the pace could remain below pre-pandemic levels as Cambodia's economy would not yet reach pre-pandemic level growth.

- **TDI to Laos was the bright spot among CLMV countries driven by investments in the financial and insurance sector.** Looking forward, new key drivers are expected to support TDI growth to Laos in various sectors. First, the financial and insurance sector could see continued growth driven by higher banking services penetration rate in Laos. Second, Laos is a key country for Thai investments into renewable power projects due to its strategic location. Lastly, the newly opened China-Laos railway could increase TDI interest in Laos for businesses wishing to take advantage of the connection to China.

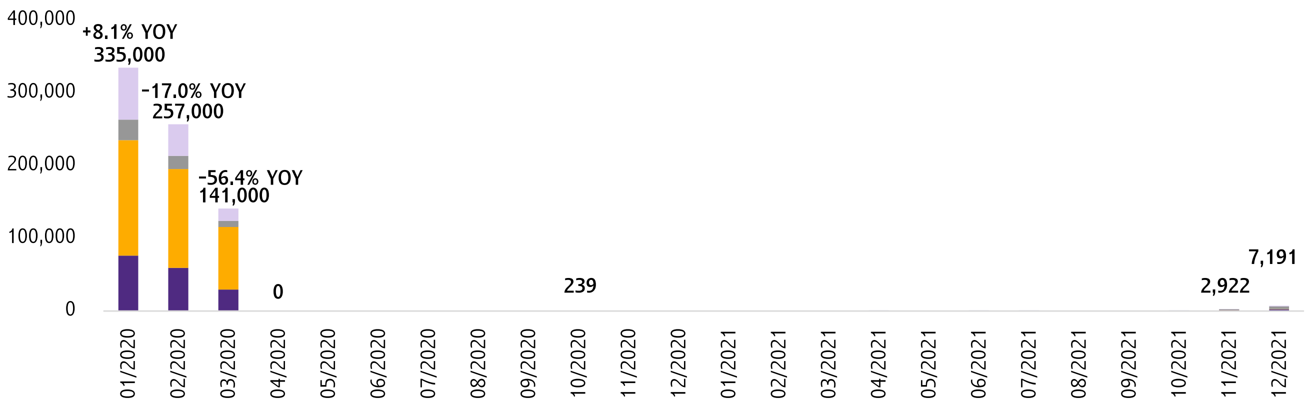
- **TDI to Myanmar fell significantly in 2021 as a result of the coup with no short-term signs of a significant recovery.** Thai investors are likely to take a wait-and-see stance before committing to investments in Myanmar due to risks of sanctions, reputational risks, high political and economic uncertainty, and the weak domestic demand.

- **TDI to Vietnam continues to contribute the largest share among CLMV countries but faced significant slowdowns in the first and third quarter pressured by COVID-19 outbreaks in both countries and a high base in 4Q2020.** In the short term, risks of supply chain disruptions and COVID-19 restrictions could deter potential investors. However, in the longer term, Vietnam should remain attractive to Thai investors as one of the fastest growing economies in the region in addition to their large and young population, strategic location, and various signed FTAs.

Regional Tourism: Very gradual recovery after the start of “Test & Go” program

CLMV Tourist Counts in 2020-2021

Unit: Persons



Source: EIC Analysis based on data from the Ministry of Tourism and Sports

- **Tourist arrivals from CLMV countries have seen a very gradual recovery starting in November 2021 when Thailand launched the “Test & Go” program.** Under the program, fully vaccinated tourists can enter Thailand quarantine-free provided that they register for the “Thailand Pass” and tested negative upon arrival. This should help bolster CLMV tourist arrivals into Thailand, but a significant recovery is not expected.

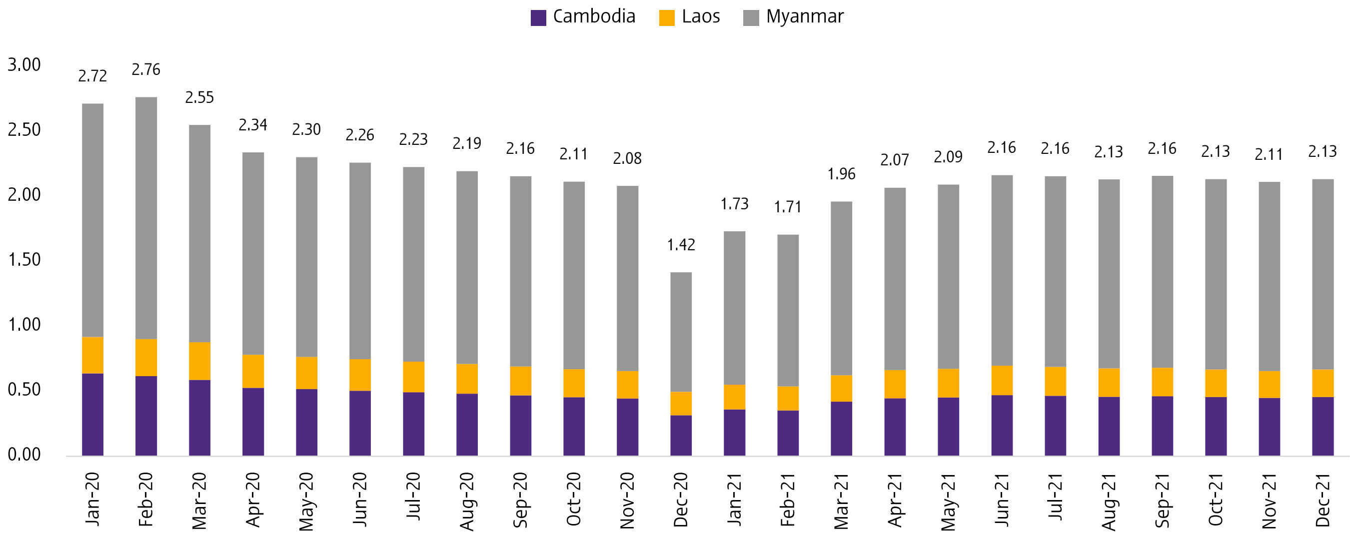
- **Many factors are likely to limit prospects of a significant tourism recovery.** First, the outbreak of the Omicron variant remains a key issue to monitor due to its highly contagious nature which could deter potential tourists. Second, fully vaccination rates in Laos and Myanmar are relatively low which could limit the number of tourists from these countries. Third, costs associated with COVID-19 testing and insurance are quite high which could put off some tourists.

- **Potential travel bubbles could be an upside.** The Ministry of Tourism and Sports is in the process of negotiations with CLMV to initiate a travel bubble. If enacted, this would be beneficial to CLMV tourist arrivals especially those crossing via land borders.

Foreign Employment: Stagnating since June 2021 resulting in labor shortages

Number of Registered CLM Workers in Thailand in 2020 and 2021: By Country

Unit: Million Persons



Source: EIC Analysis based on data from the Foreign Workers Administration Office

- **The number of registered CLM workers in Thailand stagnated at about 2.16 million persons since June 2021.** After a trough in December 2020 partly due to under-surveying of Myanmar workers around pandemic clusters, the number of foreign employments has risen gradually but remains well below pre-pandemic levels despite policies to expand official registrations of CLM workers who were previously informally employed.

- Ongoing border restrictions, high quarantine costs, and low vaccination rates are factors that could limit the recovery going forward, although a stronger Thai economy should increase demand for foreign employment and lead to increasing number of registered CLM workers.

- Labor shortages issues have risen due to the lower number of CLM workers. Going forward, this could potentially increase labor costs for businesses and affect earnings.

CLMV Outlook 2022

Contributors

Punn Pattanasiri
Analyst
(punn.pattanasiri@scb.co.th)

Chinnawut Techanuvat Ph.D
Head of Economic and Financial Market Research
(chinnawut.techanuvat@scb.co.th)

ECONOMIC AND FINANCIAL MARKET RESEARCH

YUNYONG THAICHAROEN
SEVP, Chief Wholesale Banking Officer and SEVP, Chief Wealth Banking Officer
Siam Commercial Bank PLC.

Chinnawut Techanuvat Ph.D
Head of Economic and Financial Market Research

Wachirawat Banchuen
Senior Economist

Poonyawat Sreesing, Ph.D.
Senior Economist

Asama Liammukda
Analyst

Jongrak Kongkumchai
Analyst

Nichanan Logewitool
Analyst

Punn Pattanasiri
Analyst

Vishal Gulati
Analyst

Economic Intelligence Center (EIC)

E-mail: eic@scb.co.th Tel: +66 (2) 544 2953

YUNYONG THAICHAROEN, PH.D.
SEVP, Chief Wholesale Banking Officer and SEVP, Chief Wealth Banking Officer
Siam Commercial Bank PLC.
yunyong.thaicharoen@scb.co.th

Economic and Financial Market Research

Chinnawut Techanuvat
chinnawut.techanuvat@scb.co.th

Wachirawat Banchuen
wachirawat.banchuen@scb.co.th

Poonyawat Sreesing, Ph.D
poonyawat.sreesing@scb.co.th

Asama Liammukda
asama.liammukda@scb.co.th

Jongrak Kongkumchai
jongrak.kongkumchai@scb.co.th

Nichanan Logewitool
nichanan.logewitool@scb.co.th

Punn Pattanasiri
punn.pattanasiri@scb.co.th

Vishal Gulati
vishal.gulati@scb.co.th

Data Analytics

Krasae Rangsipol
krasae.rangsipol@scb.co.th

Pangubon Amnueysit
pangubon.amnueysit@scb.co.th

Export Cluster

Chotika Chummee
chotika.chummee@scb.co.th

Kaittisak Kumse, Ph.D
kaittisak.kumse@scb.co.th

Jirapa Boonpasuk
jirapa.boonpasuk@scb.co.th

Nongnapat Gotiwichien
nongnapat.gotiwichien@scb.co.th

Service Cluster

Pranida Syamananda
pranida.syamananda@scb.co.th

Kamonmarn Jaenglom Ph.D.
kamonmarn.jaenglom@scb.co.th

Keeratiya Krongkaew
keeratiya.krongkaew@scb.co.th

Pattharapon Yuttharsaknukul
pattharapon.yuttharsaknukul@scb.co.th

Punyapob Tantipidok
punyapob.tantipidok@scb.co.th

Infrastructure Cluster

Kanyarat Kanjanavisut
kanyarat.kanjanavisut@scb.co.th

Chetthawat Songprasert
chetthawat.songprasert@scb.co.th

Keeratiya Krongkaew
keeratiya.krongkaew@scb.co.th

Energy and Resources Cluster

Sivalai Khantachavana, Ph.D.
sivalai.khantachavana@scb.co.th

Nattanan Apinunwattanakul
nattanan.apinunwattanakul@scb.co.th

Jirapa Boonpasuk
jirapa.boonpasuk@scb.co.th

Digital and New Business Model

Pimjai Hoontrakul
pimjai.hoontrakul@scb.co.th

Apinya Aksornkij
apinya.aksornkij@scb.co.th

Puthita Yamchinda
puthita.yamchinda@scb.co.th

Knowledge Management & Networking

Phanumard Lueangaram
phanumard.lueangaram@scb.co.th

Krilerk Vallopsiri
krilerk.vallopsiri@scb.co.th

Piyanuch Phiolueang
piyanuch.phiolueang@scb.co.th

Poomisak Kumprasert
poomisak.kumprasert@scb.co.th

Wanitcha Nateesuwan
wanitcha.nateesuwan@scb.co.th

Worawan Wannaprapan
worawan.wannaprapan@scb.co.th