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REGIONAL ECONOMIC OUTLOOK 2020

Krungsri Research

Regional Economic Outlook 2020

Myanmar

- Growth will be intact, led by FDI inflows to be attracted by renewed structural reforms in key sectors, improving business environment and less restrictions for foreign investors.
- Vulnerabilities in the banking sector will emerge amid restructuring efforts.
- Weak global demand may hurt export-oriented manufacturing.

Lao PDR

- Growth will improve only modestly due to limited expansion in investment and exports.
- Exports will continue to rely on electricity and commodities; outlook remains weak as major markets are slowing down.
- Investment is likely to increase modestly, backed by ongoing China-led infrastructure projects.

Vietnam

- Growth is expected to remain robust on the back of solid consumption and a resilient external sector.
- Domestic demand will remain a major growth driver.
- Exports will grow at more moderate pace but remain stronger than other exporting countries.
- Promising outlook for investment, driven by a growing domestic economy coupled with favorable investment climate.

Cambodia

- Growth is expected to slightly moderate due to subdued global demand and uncertainties over the EU's decision to suspend its trade preferences.
- Booming construction and tourism sectors coupled with strong domestic demand could cushion growth in 2020.

Philippines

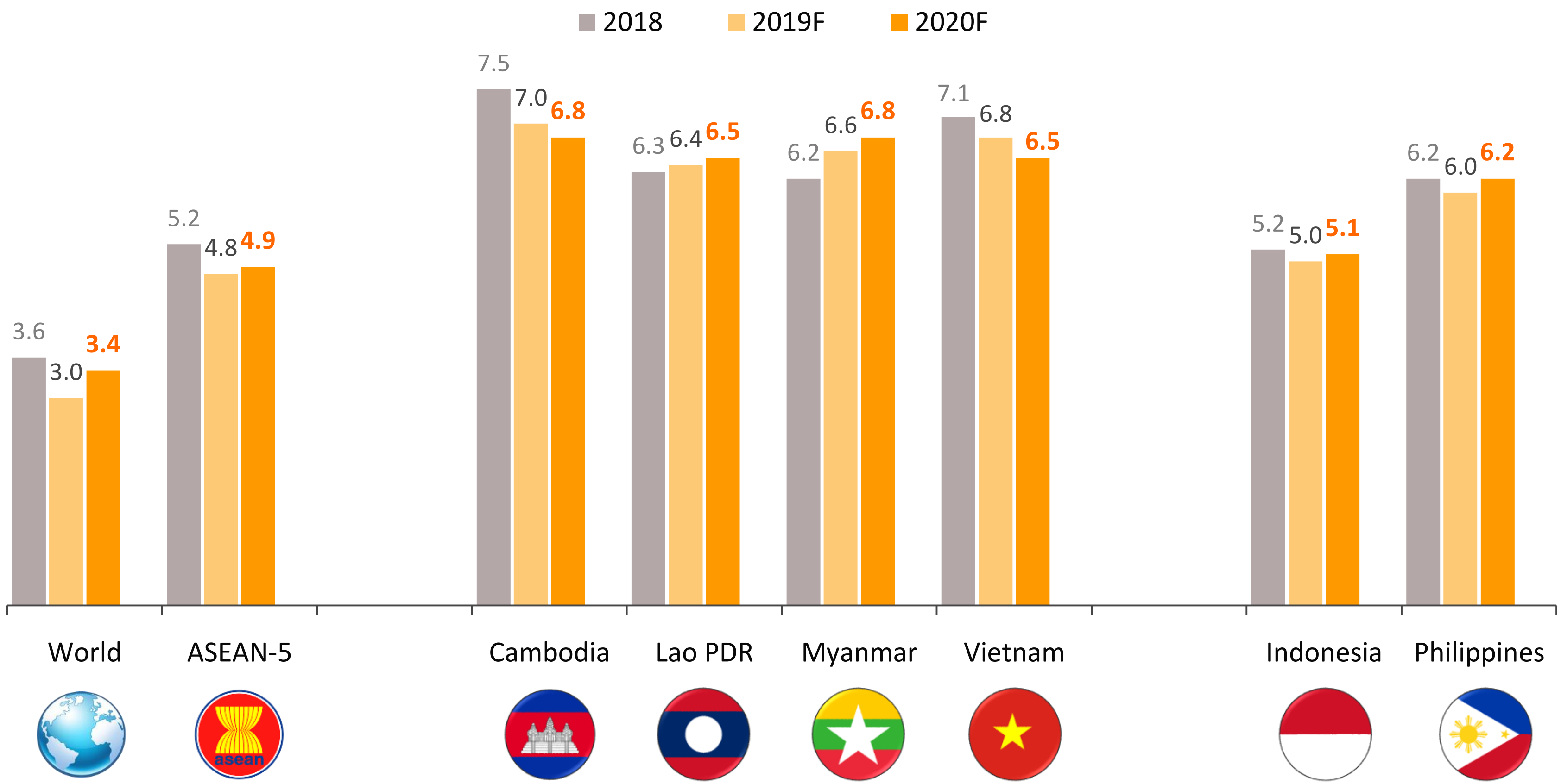
- Growth is set to pick up, supported by government infrastructure spending under the BBB Program.
- Macroeconomic priorities will be pro-growth, given fading inflationary pressure and weak external demand.
- US-China trade tensions have dimmed export outlook, especially for electronics.

Indonesia

- Growth momentum is intact; domestic demand should offset impact of slower exports
- Domestic demand remains a major growth driver, driven by more relaxed monetary policy and stimulus measures.
- Positive outlook for investment, driven by infrastructure development plans.

Regional economies: A story of decoupling growth trajectories

GDP growth of regional economies (%)



Note: ASEAN-5 refers to Indonesia, Malaysia, Philippines, Thailand, Vietnam.
For Myanmar, growth is in fiscal year running in the October-September cycle and growth in 2018 is for the interim fiscal year during April-September 2018

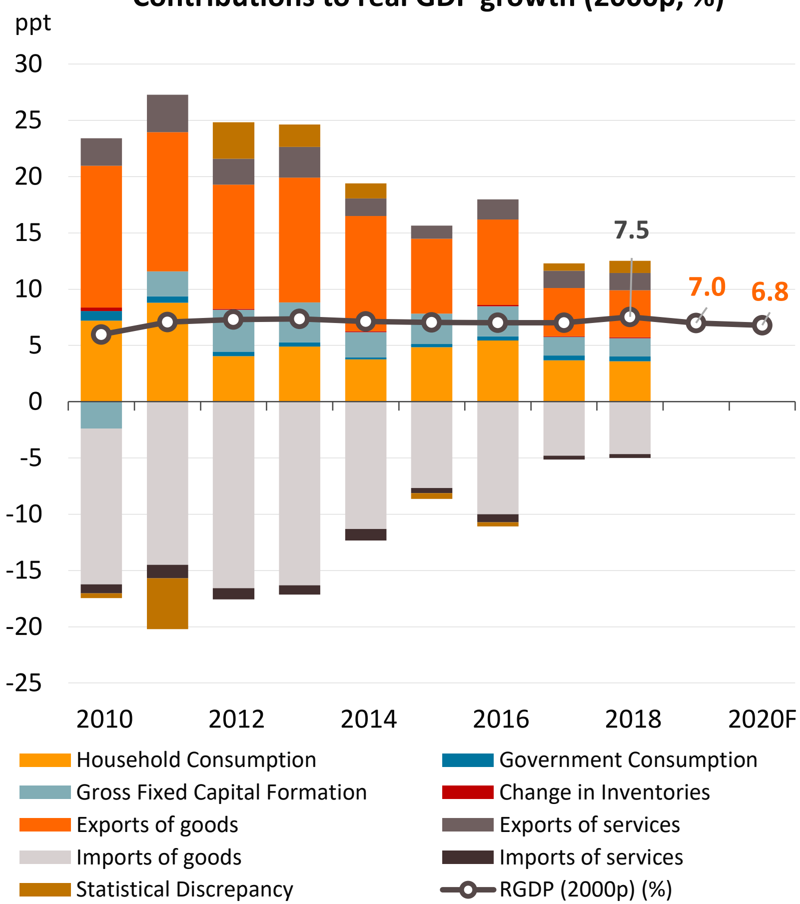
Source: IMF WEO (October 2019), Krungsri Research


CAMBODIA
ECONOMIC OUTLOOK
2020

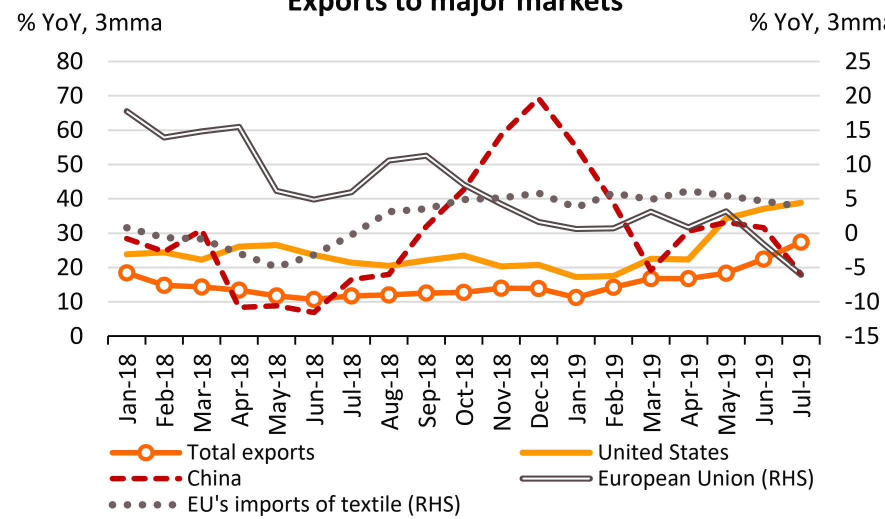
Cambodia: Weathering external headwinds to sustain strong growth

Given stronger external headwinds, we expect growth to moderate to 6.8% in 2020 following robust growth in 2018 (+7.5%) and 2019 (+7.0%). Despite resilient domestic demand, Cambodia's growth will be weighed on by softer global demand and uncertainties over the suspension of trade preferences by the EU. Recently, exports to some major markets have slowed, especially to the EU which accounts for over 40% of Cambodia's total exports. By major product, garment, textile, and footwear (GTF) products which account for more than 70% of Cambodia's exports have also been declining based on the latest readings in 2Q19.

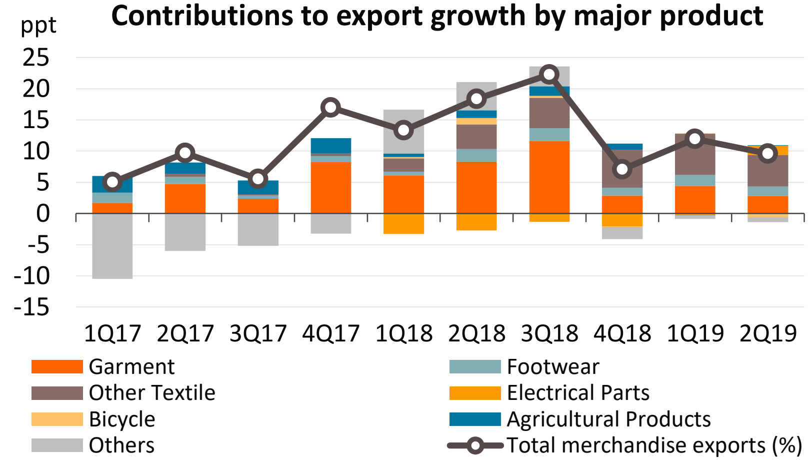
Contributions to real GDP growth (2000p, %)



Exports to major markets



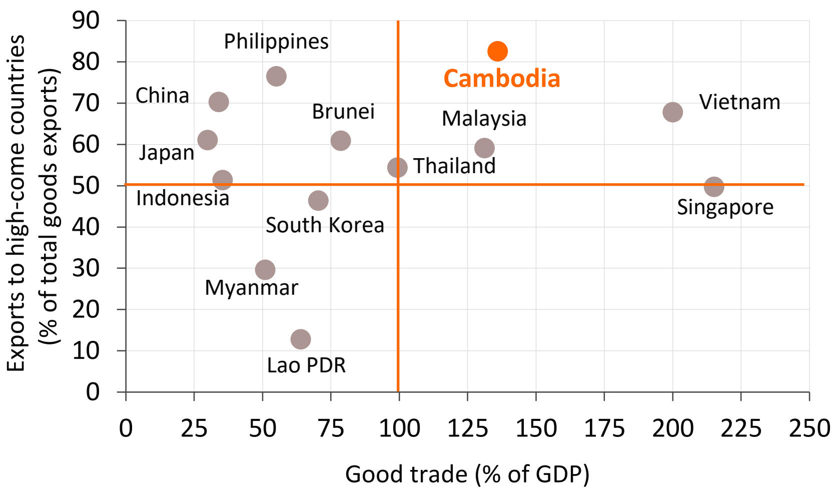
Contributions to export growth by major product



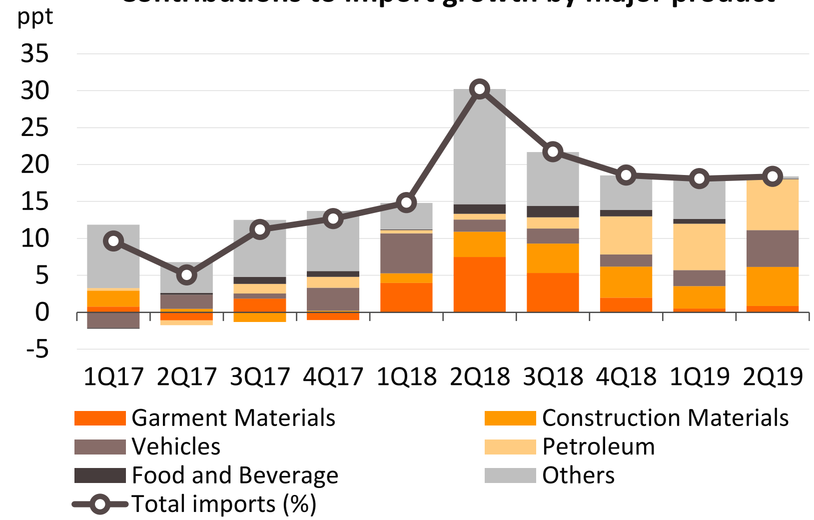
Source: CEIC, Krungsri Research

Export-oriented manufacturing will be weighed on by anemic demand in advanced economies

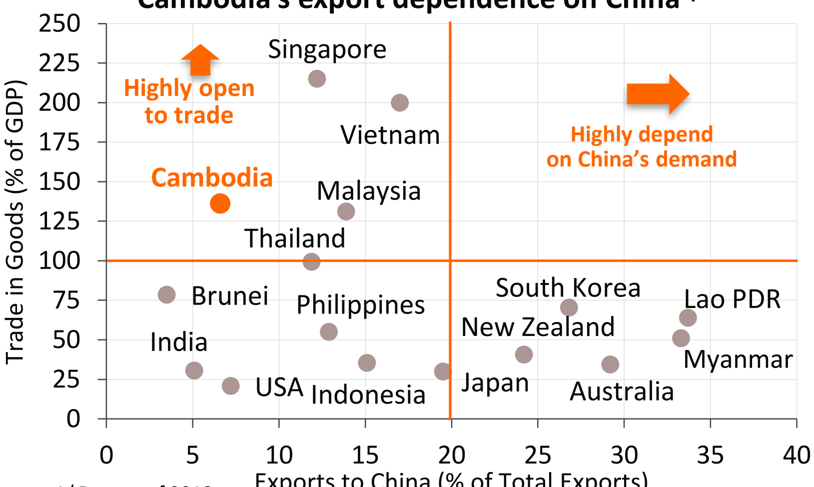
Cambodia's export dependence on high-income countries[1/]



Contributions to import growth by major product



Cambodia's export dependence on China[1/]



Note: 1/ Data as of 2018

Source: CEIC, Krungsri Research

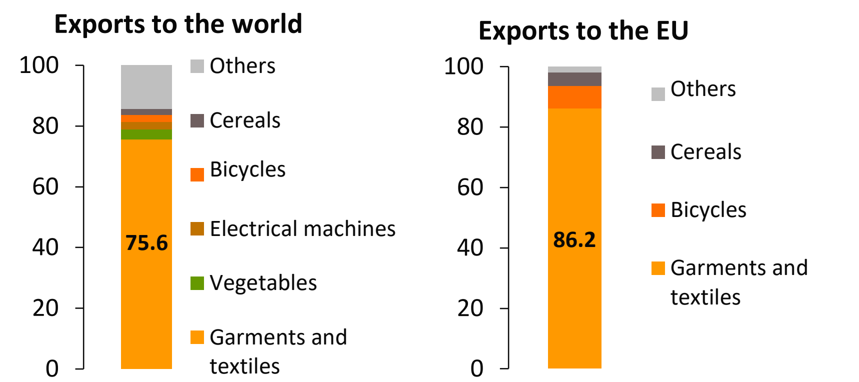
Krungsri Research's View

- Looking ahead, Cambodia's exports – comprising mainly GTF products - would be dragged by softer demand in advanced economies (AEs) and deteriorating external conditions. Structurally, Cambodia not only depends on trade, but is also exposed to fluctuations in demand in AEs which account for over 80% of its exports. The weaker exports also correspond with noticeably slower imports of garment raw materials.
- However, low dependence on China as an export market would insulate Cambodia from China's structural slowdown and ongoing trade tensions. In addition, given that China is one of Cambodia's main suppliers of raw materials for the GTF sector, the risks for Cambodia are likely to be external - the extended slowdown in global growth, a weak demand in AEs, and uncertainties surrounding the suspension of trade preferences by the EU.

EU's decision to suspend its trade preferences could have adverse impact on the economy

Cambodia has been granted unilateral preferential access to the EU single market since 2001. Currently, that is Cambodia's largest export market accounting for 40.3% of its total exports, mainly GTF products. However, the EU is in a process whether to suspend the trade preferences granted to Cambodia due to alleged human right violations. If trade preferences would be withdrawn, Cambodia's GDP could drop by 1.6-2.1% over the long term[1/] depending on the possibility of trade diversion. Moreover, the impact could spill over to the rest of the economy as the GTF sector currently employs over a million workers, mostly a young labor force.

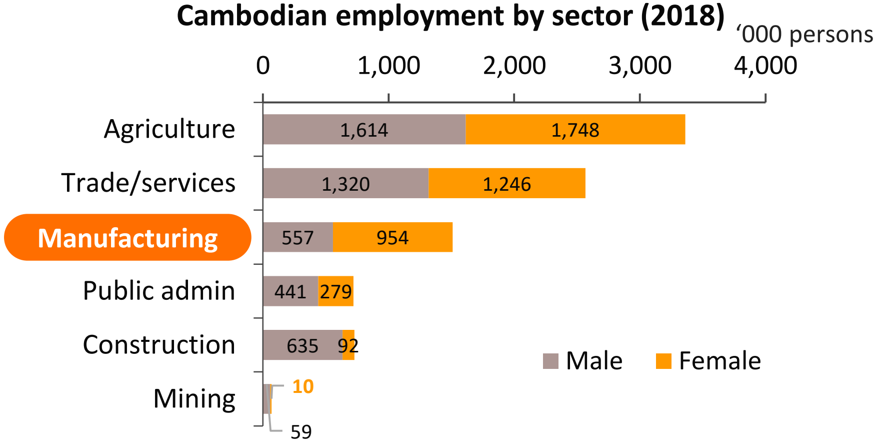
Share of Cambodian exports to the EU and the World, by product (%, 2017)



Impact of suspension of EBA on other parts of the economy (% change from baseline in real terms)*

*2017 GDP share, **employment measured at fixed wages excluded items are imports and exports of services and inventories

Cambodian employment by sector (2018)

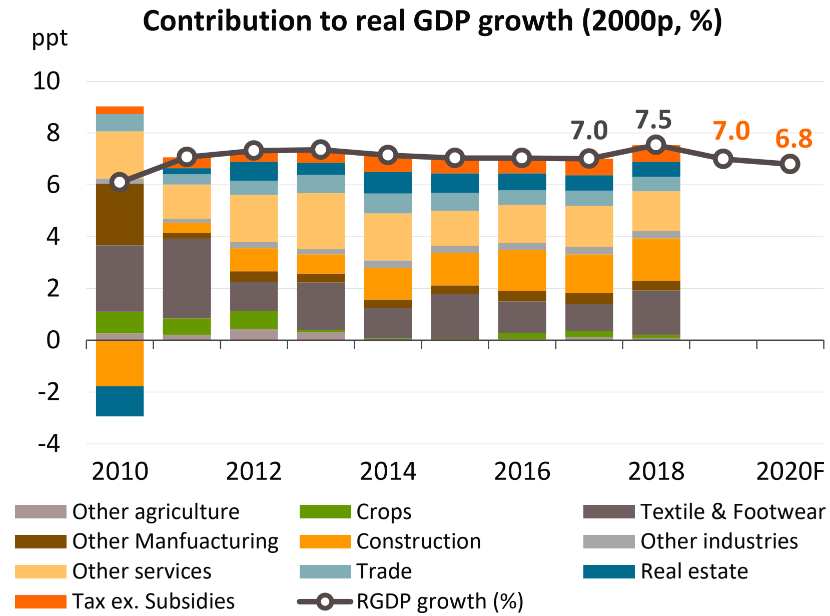


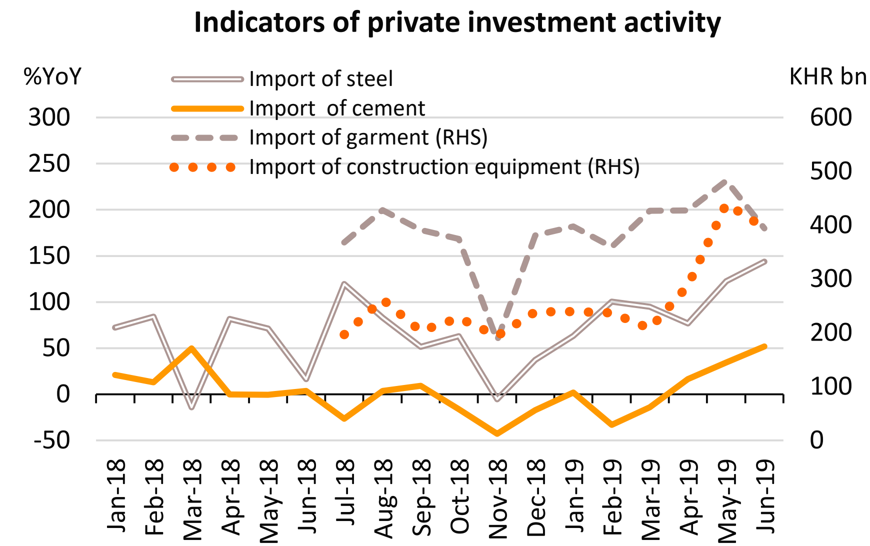
Age and gender distribution of GTF workers in Cambodia aged 15 and above (% of total, as of December 2018)

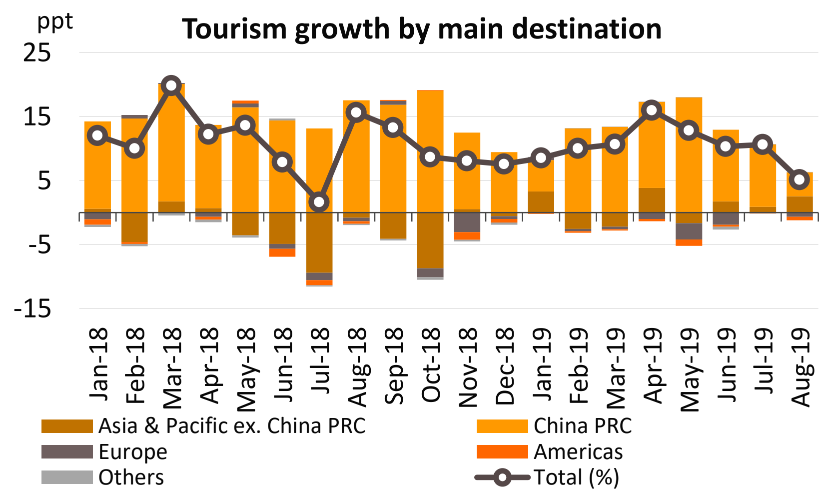
Age group	Male	Female	Total
15-24	**49.0**	**45.0**	**45.8**
25-34	**38.5**	**38.5**	**38.5**
35-44	9.4	11.4	11.0
45-54	1.6	3.6	3.1
55-64	1.4	1.3	1.3
65 and above	0.2	0.3	0.3
Total (%)	100	100	100
Number of GTF workers	224,750	833,026	1,057,776

Note: 1/ The long-term means the period over 5 years.
Source: CEIC, Trade Map, ILO, Krungsri Research

However booming construction and tourism sectors should cushion growth against external uncertainties







Source: CEIC, Krungsri Research

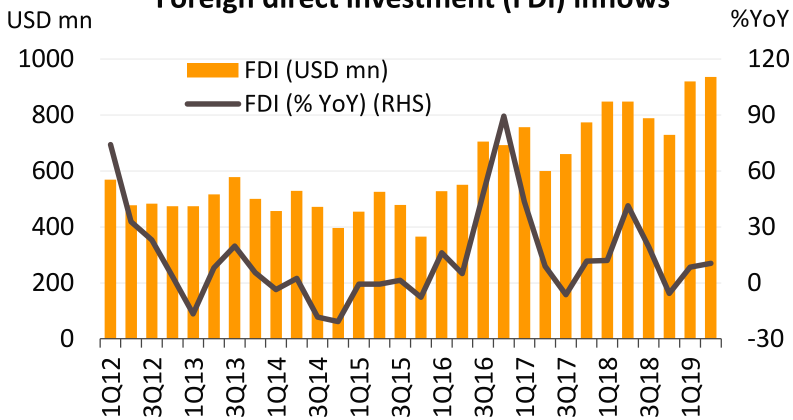
Krungsri Research's View

- Given the weaker external sector, domestic demand is expected to remain resilient and buffer against weakening foreign demand. This is supported by an increase in minimum wage, FDI-fuelled construction activity reflected by rising imports of construction materials, and a strong tourism industry driven by a surge in Chinese tourist arrivals. In addition, the government has continued to stimulate the economy through its expansionary fiscal policy.
- However, the recent move to ban online casinos and gambling creates downside risks to the ongoing construction boom and Chinese tourist arrivals, especially in Sihanoukville, as this would encourage those activities to relocate to neighbouring countries such as the Philippines.

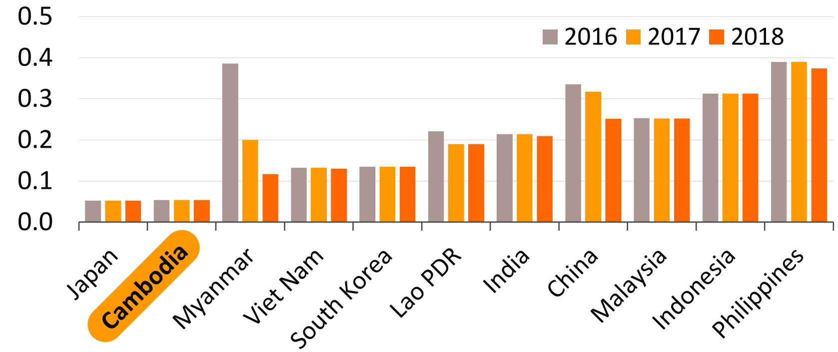
FDI will continue to flow into the manufacturing sector, partly driven by relocation out of China

Despite the EU's threat to suspend its trade preferences, Cambodia offers several investment incentives, including (1) low-cost labor, (2) generous tax exemption, and (3) tariff-free access to major markets, and these will continue to attract FDI. The US-China trade spat has accelerated the relocation of labor-intensive manufacturing industries to frontier markets, including Cambodia. With the least restrictions on FDI among regional peers, Cambodia should remain one of attractive alternative destinations for foreign firms. In addition, FDI inflows is sufficient to finance Cambodia's current account deficit as well.

Foreign direct investment (FDI) inflows

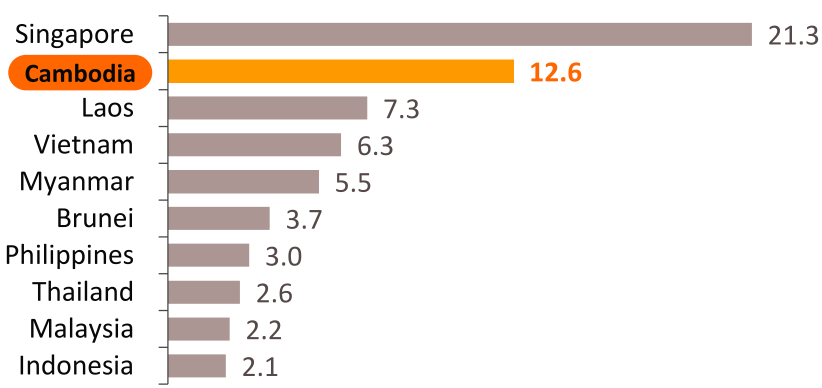


OECD FDI Regulatory Restrictiveness Index (FDI Index)[1/]

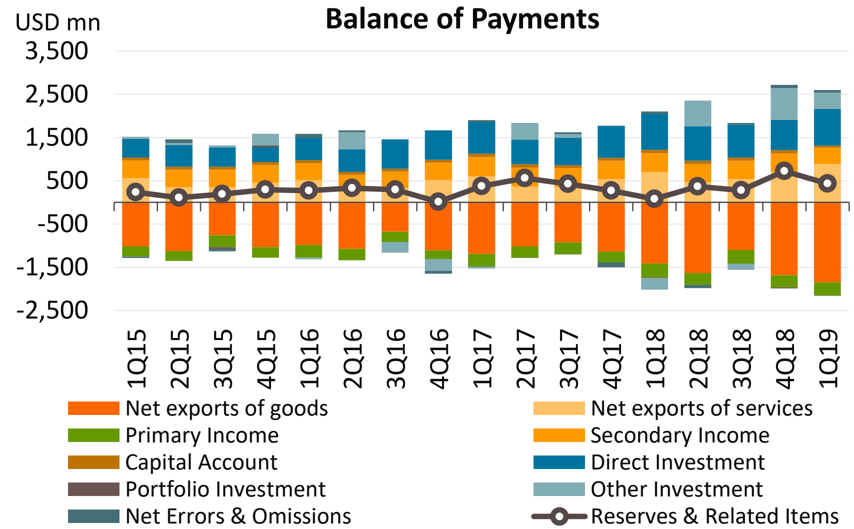


Note: [1/]The lower the index, the less restrictive for FDI

FDI-to-GDP ratio (%, as of 2018)



Balance of Payments



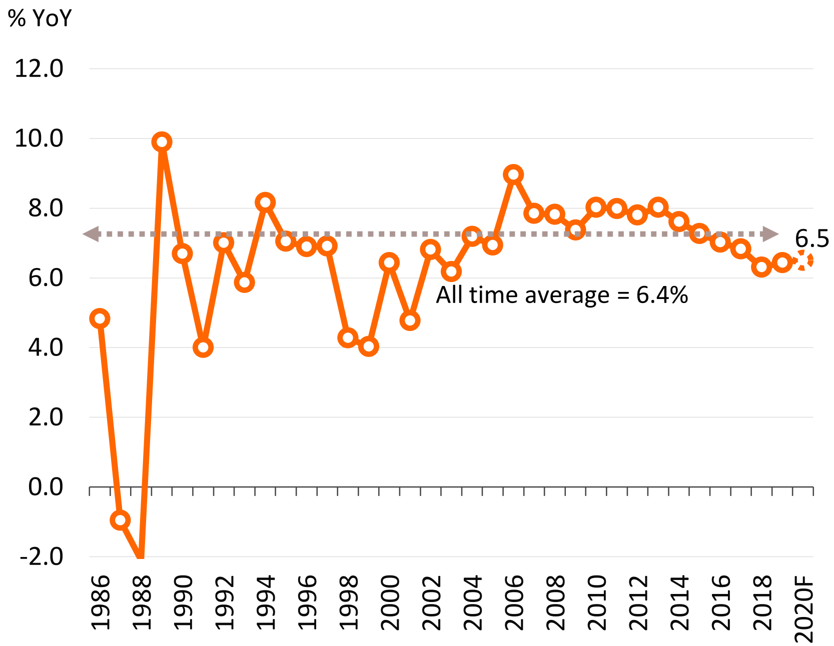
Source: CEIC, Krungsri Research


LAO PDR
ECONOMIC OUTLOOK
2020

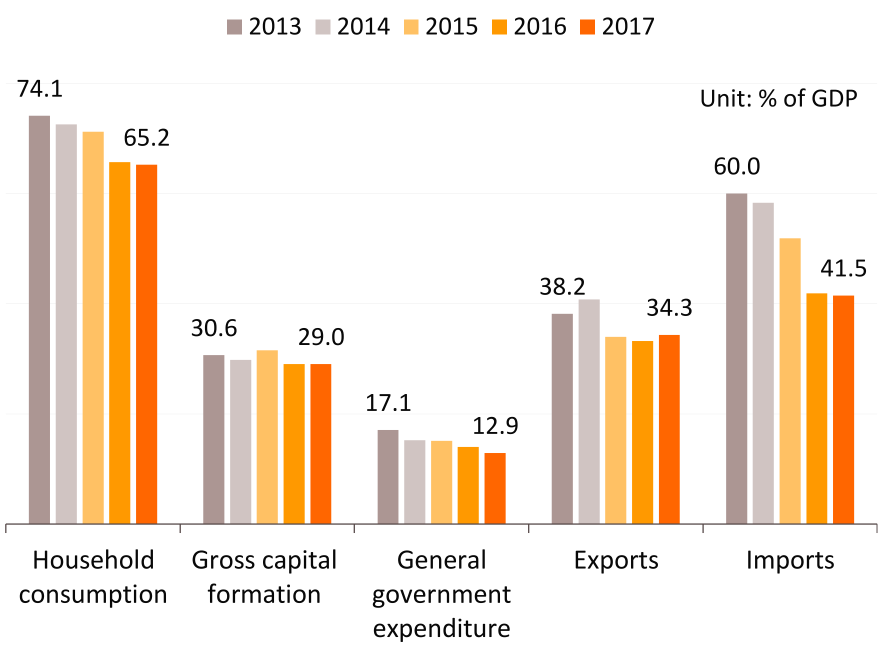
Lao PDR: Growth will remain modest due to limited expansion in investment and exports

After registering the slowest growth in 15 years, at 6.3% in 2018, the IMF projects Laos' economic growth will improve to 6.4% in 2019 and 6.5% in 2020. This is premised on a sluggish global economy and a slowdown in domestic demand, the largest contributor to GDP. Risks are tilted to the downside, stemming from looming external uncertainties, slower-than-expected implementation of committed structural reforms, and weather-related shocks. From here on, the country is aiming for about 6.5% p.a. economic growth over the medium term vs 7.4% p.a. in the past decade.

Laos' annual GDP growth

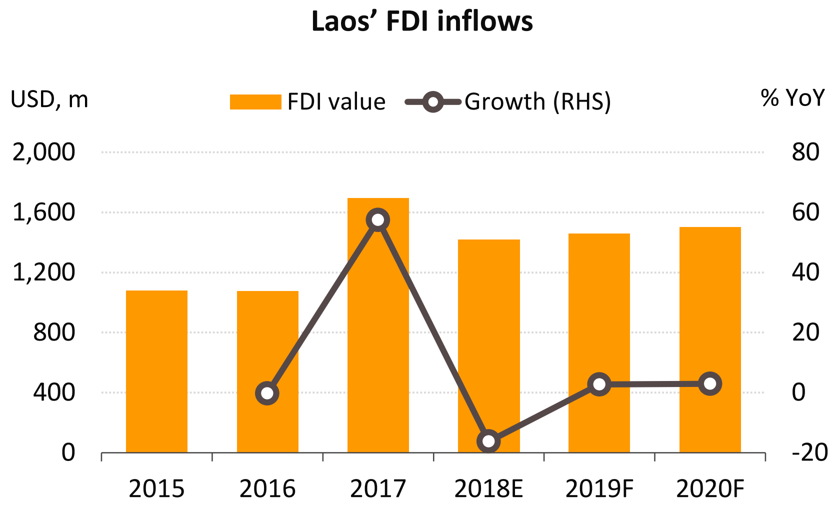


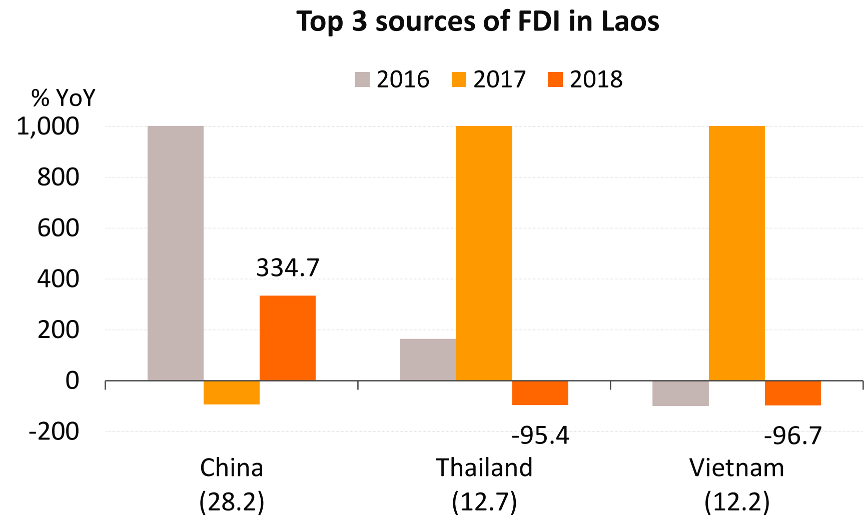
Gross Domestic Product by expenditure

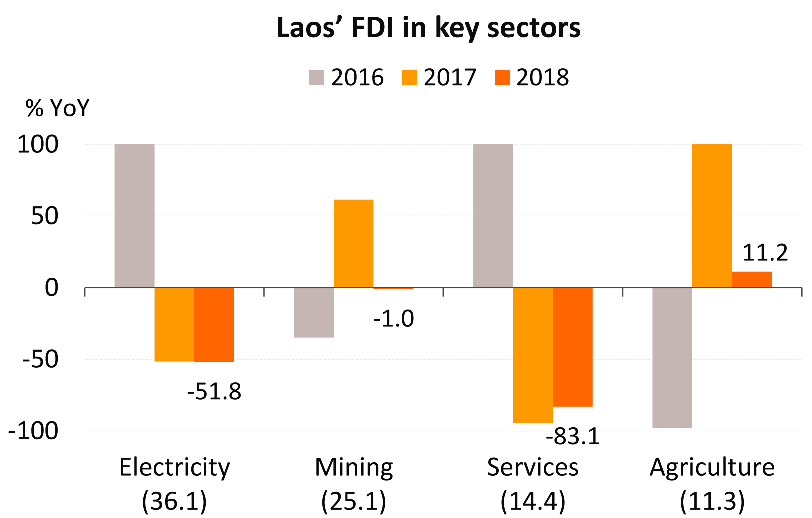


Source: IMF's 2019 Article IV for Lao PDR, Krungsri Research

Investment should rise modestly driven by the Chinese







Krungsri Research's view

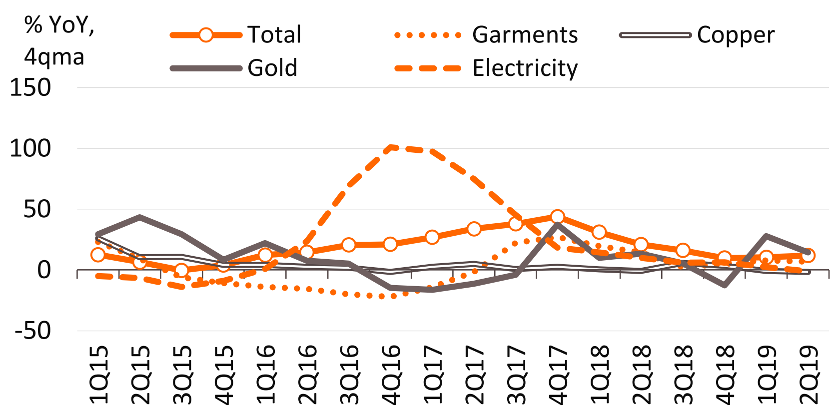
- Investment in Laos will continue to be capped. There is a mild positive outlook based on China-led infrastructure projects, including progress in the China-Laos railway project and the 90-year concession for Boten Special Economic Zone worth USD10bn.
- Chinese FDI in Laos will continue to rise and entrench China's role as the largest investor in Laos, given better connectivity between the two countries in northern Laos. Chinese investors have also expanded investment in other sectors, including agriculture, agri-processing, as well as services sectors like banking, financial services and education.
- However, following the decision to suspend new investment licenses for hydroelectricity and mining activities, the two largest investment destinations which account for more than half of total investment in Laos, inflows could increase only modestly.

Source: IMF's 2019 Article IV for Lao PDR, Lao local news media, Krungsri Research

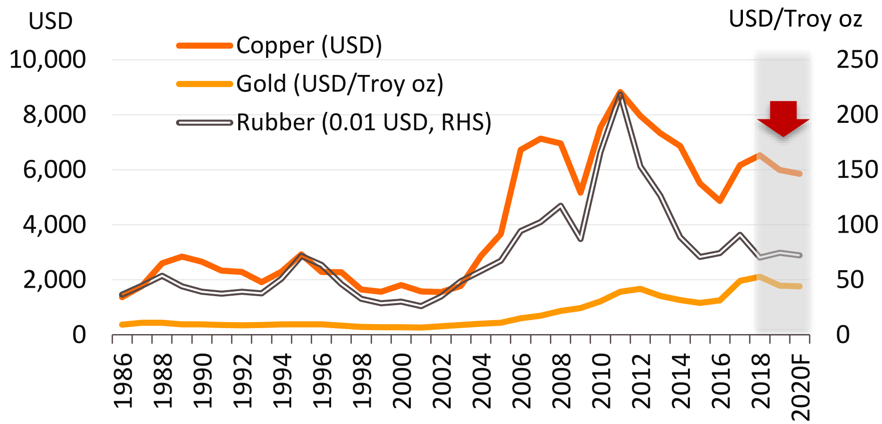
Export growth will slow down; trade and current account deficit will remain large

Laos remains heavily reliant on electricity and commodities exports – a combined 56% share of total exports – which continue to be concentrated in two markets, Thailand and China (44% and 34% of Laos' total exports, respectively). Given the subdued outlook for prices of key commodities and slowing demand in major export markets, Laos' exports will grow at a slower pace ahead. Imports would also moderate in anticipation of fewer new investment projects. Trade deficit would continue to rise and its current account deficit will remain large, making Laos vulnerable to external shocks.

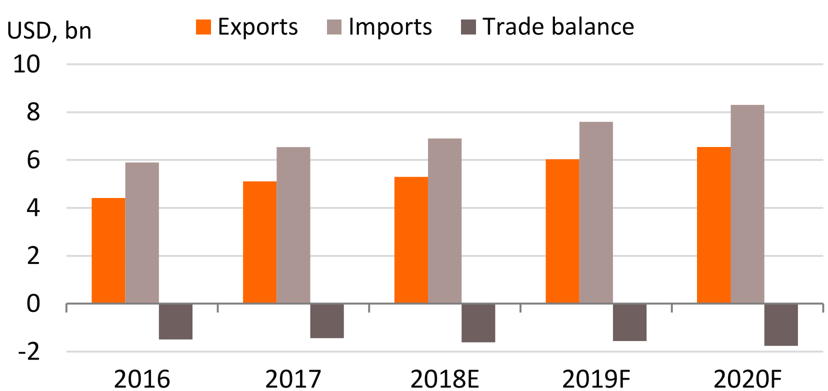
Laos' major exports



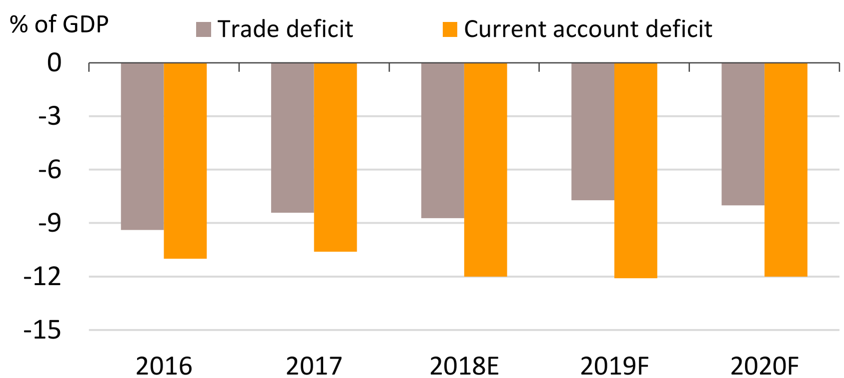
Prices of key global commodities



Laos' trade statistics

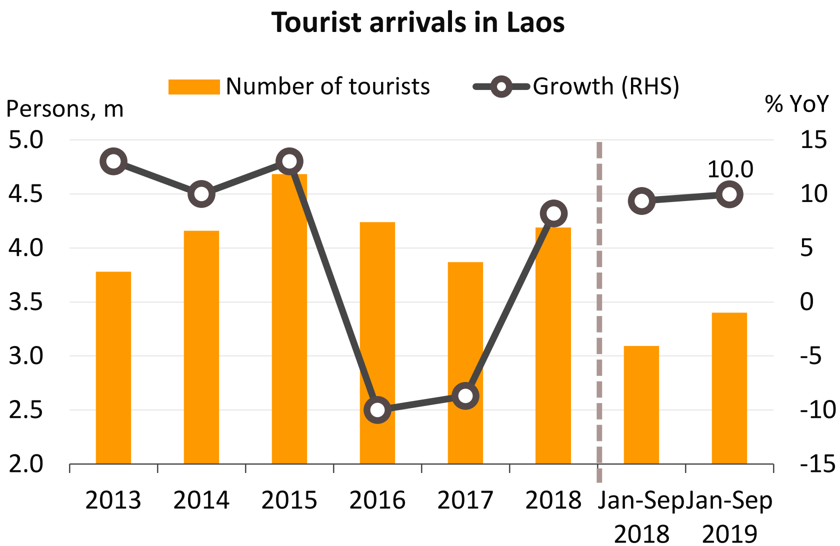


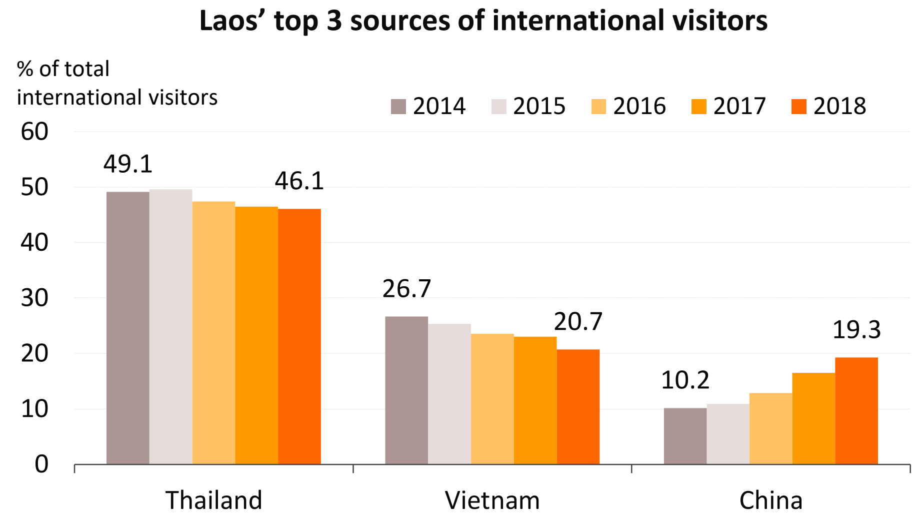
Laos' trade deficit and current account deficit



Source: IMF, CEIC, Krungsri Research

Brighter outlook for tourism sector: Chinese tourist arrivals continue to rise





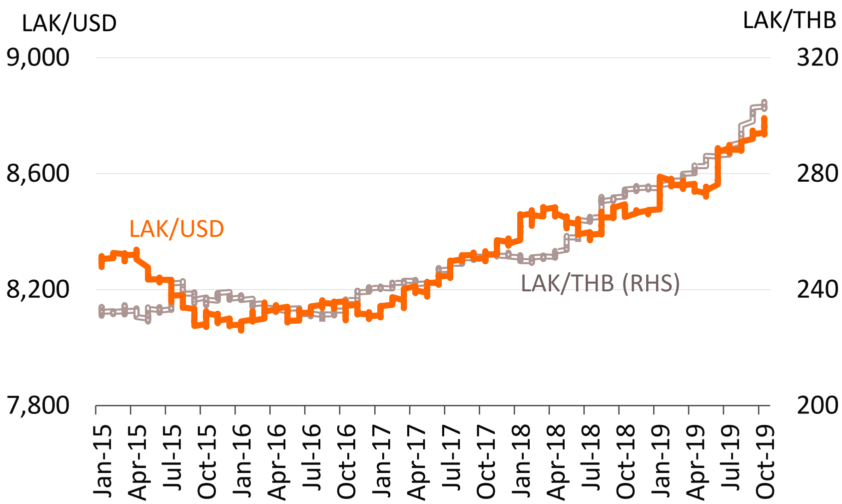
Source: IMF, Laos' Ministry of Information, Culture and Tourism, CEIC, Krungsri Research

Krungsri Research's view

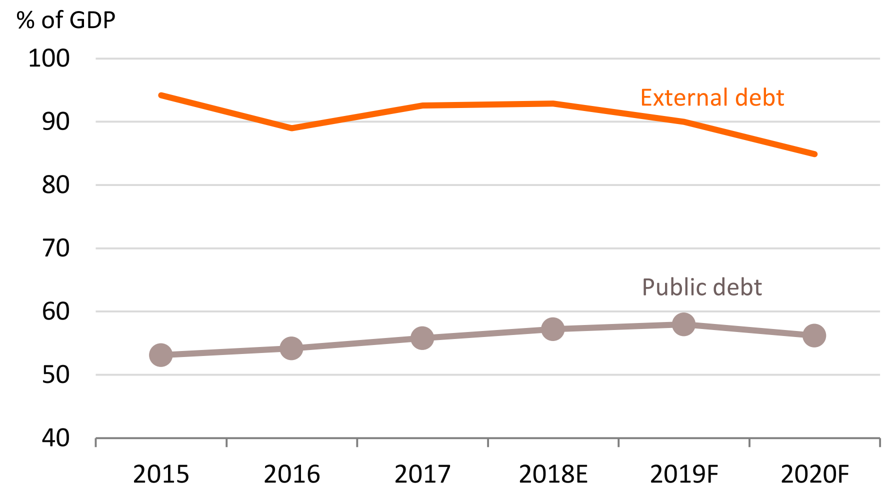
- Laos' tourist arrivals will surge for the second consecutive year in 2019 driven by several tourism campaigns, especially *Visit Laos-China Year 2019* and the launch of e-Visa services in June 2019.
- Chinese tourist arrivals have been rising in recent years. Their share of international arrivals in Laos has doubled, and Chinese tourists are the 3rd largest arrivals in Laos.
- For 2020, we expect the tourism sector to continue on its promising growth path, driven by a rising number of Chinese tourists, a relatively strong RMB, as well as the recently-launched *QR Code UnionPay* - an e-payment service offered through a cooperation between BCEL of Lao PDR and UnionPay International (UPI) of China.

Lao kip will continue to depreciate; greater pressure on debt stability

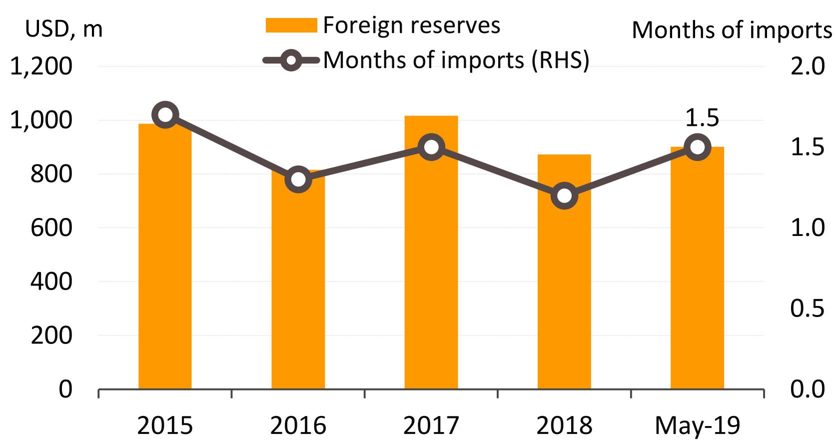
Laos' foreign exchange rate



Laos' public debt and external debt



Laos' foreign reserves

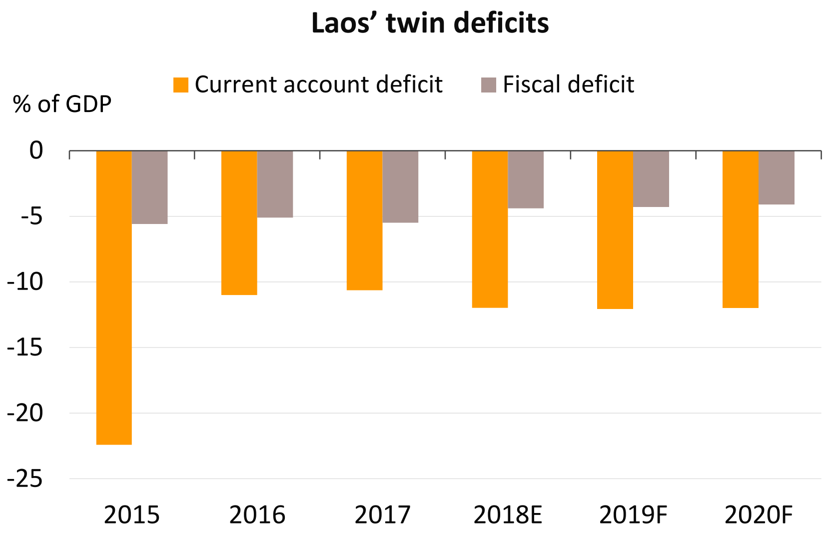


Source: IMF, CEIC, Krungsri Research

Krungsri Research's view

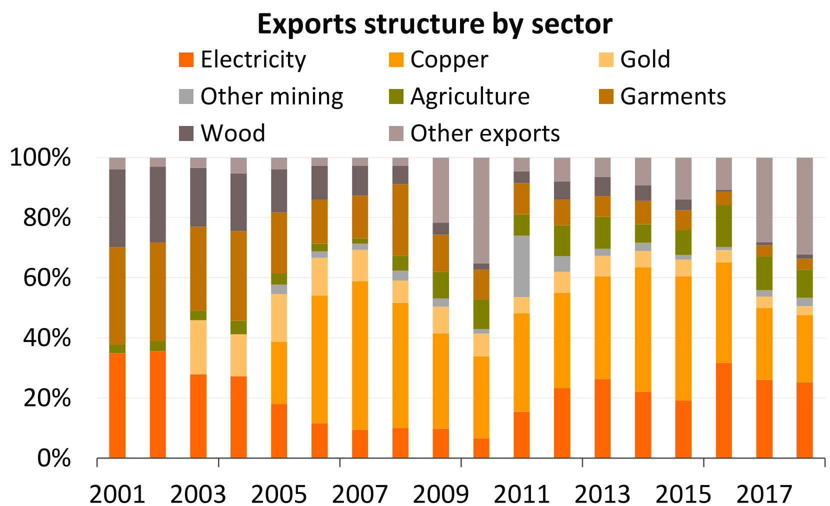
- The Lao kip has continued to weaken, by 10% against the Thai baht and 3.5% against the USD year-to-date. This was due to two key reasons: (i) the stronger Thai baht and USD, and (ii) still-low foreign reserves, at about 1.5 months of imports, far below the precautionary 3 months.
- In anticipation of slower growth in exports and FDI inflows, Laos' foreign reserves are likely to remain low. Looking ahead, we expect the Lao kip to depreciate further, which would increase vulnerability to debt stability as public and external debts remain high.

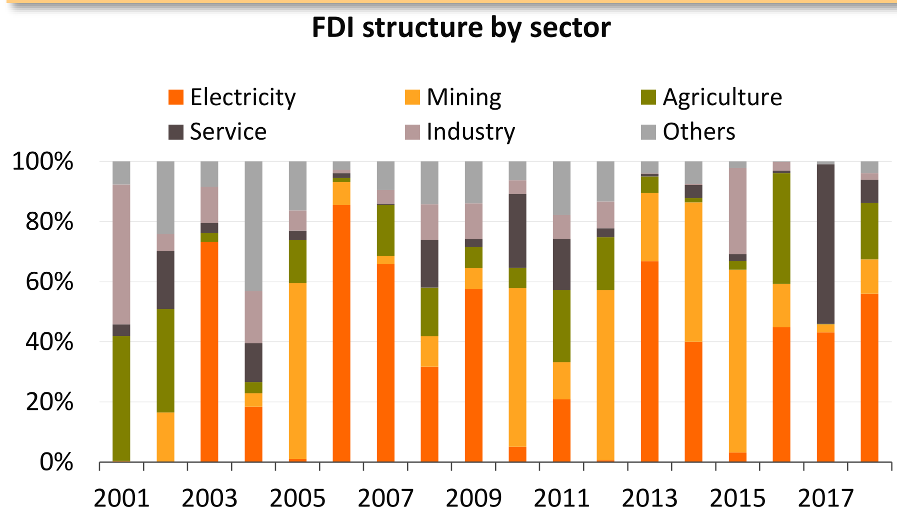
Stability remains weak with large twin deficits and high debt level; needs reforms but that would take time



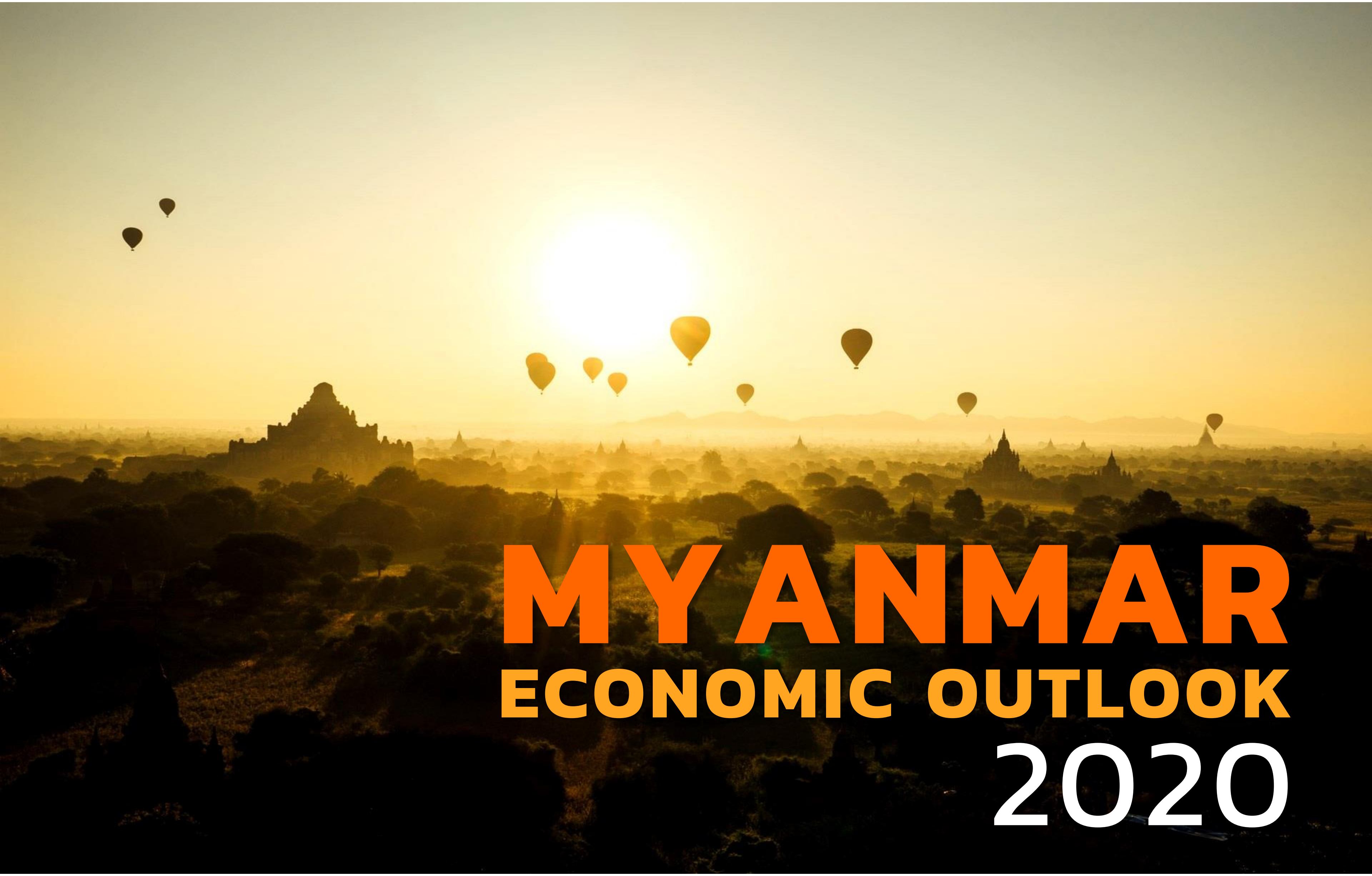
Krungsri Research's view

- Laos has been registering high twin deficits – current account deficit and fiscal deficit – over decades. The situation has worsened owing to a falling prices of commodities, which is the country's major export and FDI destination. The government has recently made efforts to address the issues by reforming its economic structure.
- It is expected to reduce fiscal deficit by focusing on fiscal consolidation by managing expenditure – including limiting recruitment in civil service and re-focusing capital spending on post-disaster replenishment—and improving revenue collection.
- The government is also on track to transform Laos' economic structure from resource-based to a manufacturing economy. Major reforms include a revision of the Investment Law and the new Decree on Concession and Controlled List (released in October 2019), aimed at diversifying manufacturing investment, promoting a conducive investment climate, and prioritizing key industries.
- Recent developments show commitment by the Lao government to strengthen its macroeconomic stability, but that would take time to implement and it would be while before we can see positive impact on the country's economic stability.



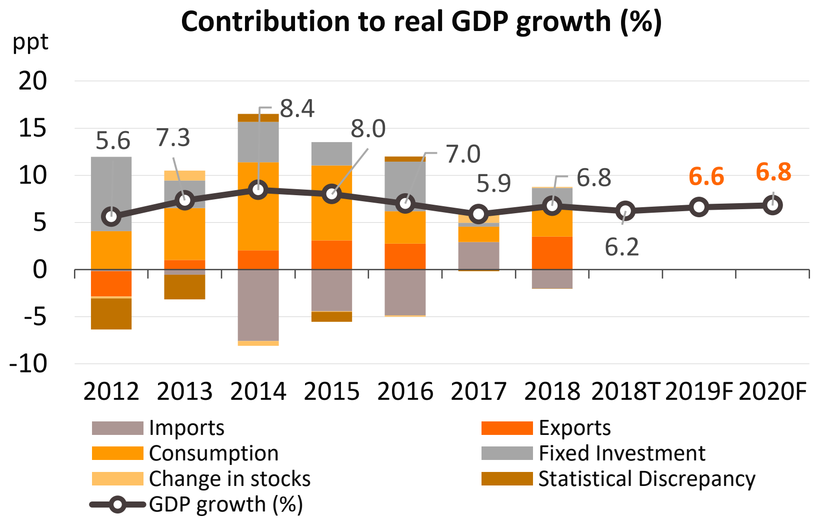


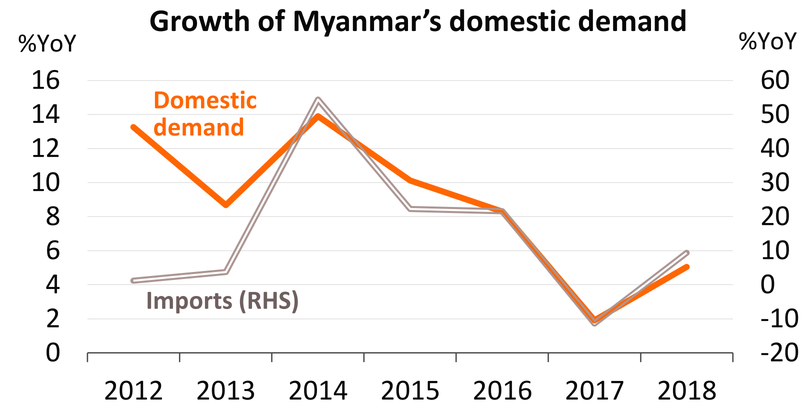
Source: IMF's 2019 Article IV for Lao PDR, Ministry of Planning and Investment, Lao Statistics Bureau, CEIC, Krungsri Research

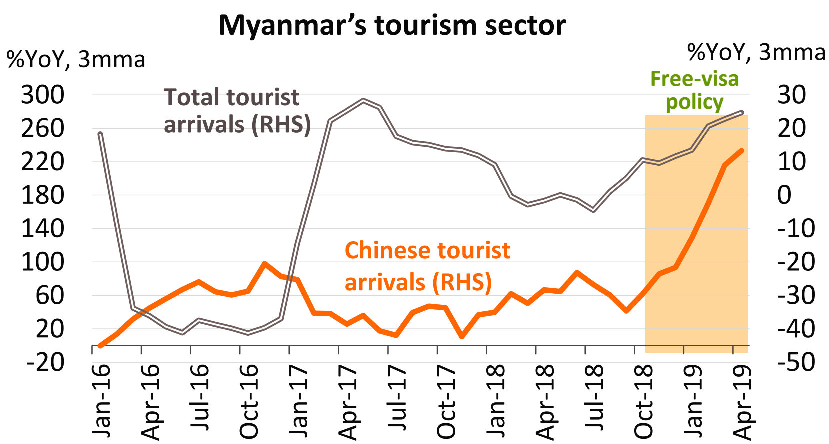

MYANMAR
ECONOMIC OUTLOOK
2020

Myanmar: Growth is intact despite looming uncertainties surrounding the 2020 general election

Myanmar's economy is set to grow by 6.8% in 2020 following estimated 6.6% growth in 2019. The revival of structural reforms are expected to play a main role in attracting FDI to nurture growth. In addition, government investment in several infrastructure projects including projects under the China-Myanmar Economic Corridor (CMEC) and a rebound in tourism would also support growth, on the back of resilient private consumption and exports. However, risks to growth outlook are on the downside.







Source: CEIC, Krungsri Research

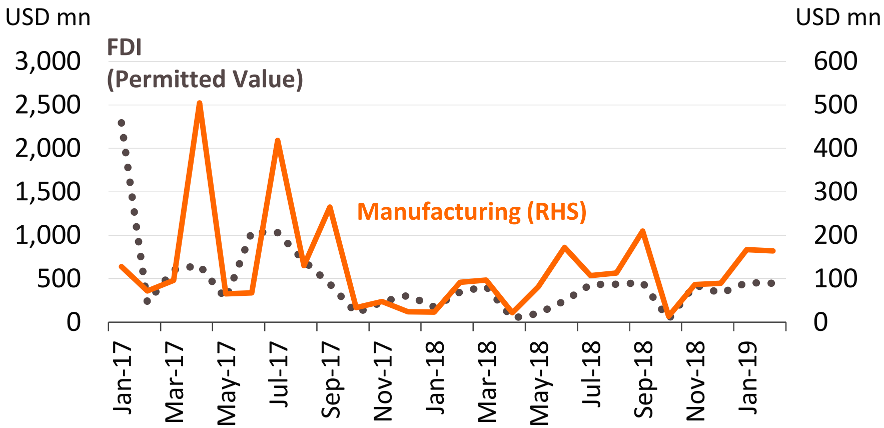
Krungsri Research's View

- With the revival of structural reforms, FDI inflows should continue to fuel growth in 2020. On the back of resilient domestic demand and a rebound in exports, the recovering tourism industry should also support the services sector and feed into the rest of the economy. The free-visa policy for some major markets in east Asia, especially China, and in Europe, has played substantial roles in attracting tourists, reflected by a rebound in total tourist arrivals.
- However, risks to growth are tilted to the downside. These include uncertainties of external conditions, lingering unrest in the border areas and Rakhine State, and political uncertainties owing to the upcoming 2020 general election. The NLD-led government's attempt to amend the constitution also adds to the uncertainties. These could hurt investment sentiment. In addition, mounting NPLs in the banking sector as banks continue to clean their balance sheets may pose a risk to financial stability and the macroeconomy.

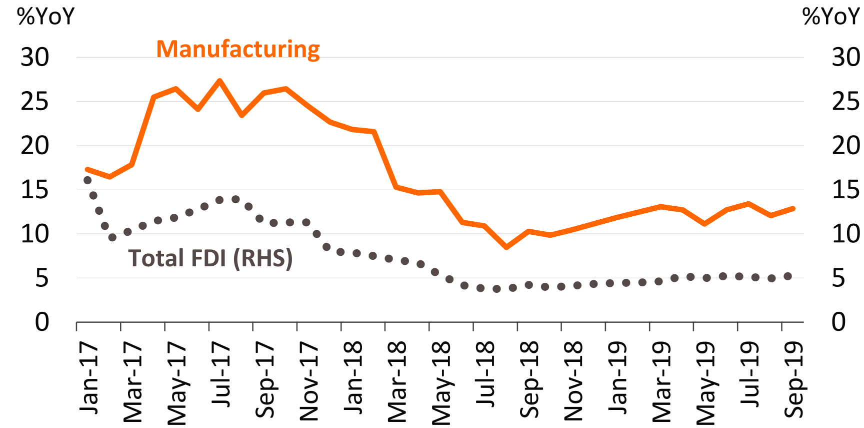
Myanmar will continue to attract FDI due to ongoing structural reforms

In the FY2019/20, the government aims to attract USD5.8bn of FDI inflows, similar to that of FY2018/19. Following the revival of structural reform programs and liberalization of key sectors including banking, insurance, retail and wholesale trade, education, and other priority sectors, coupled with fewer restrictions on FDI and the improved ease of doing business, the FDI target should be achievable. FDI inflows to the manufacturing sector, especially the garment and textile industry, should pick up. In addition, Myanmar should benefit from the relocation of labor-intensive production out of China, accelerated by US-China trade tensions. However, the NLD's policy of promoting responsible foreign investment and quality-over-quantity could cap FDI inflows.

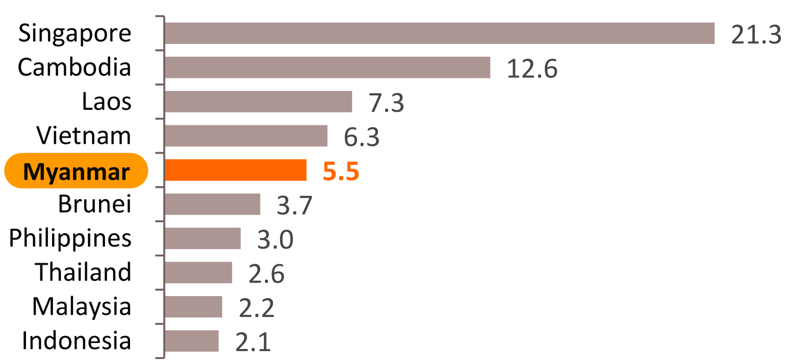
Committed FDI inflows (permitted value)



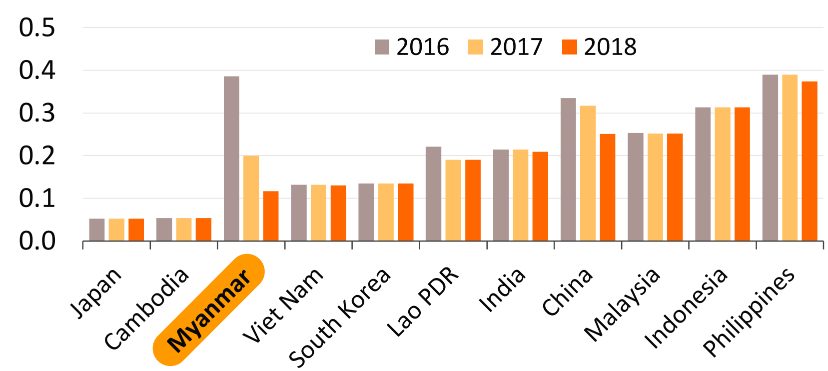
Growth of cumulative FDI (approved amount)



FDI-to-GDP ratio (%, as of 2018)



OECD FDI Regulatory Restrictiveness Index (FDI Index)[1/]



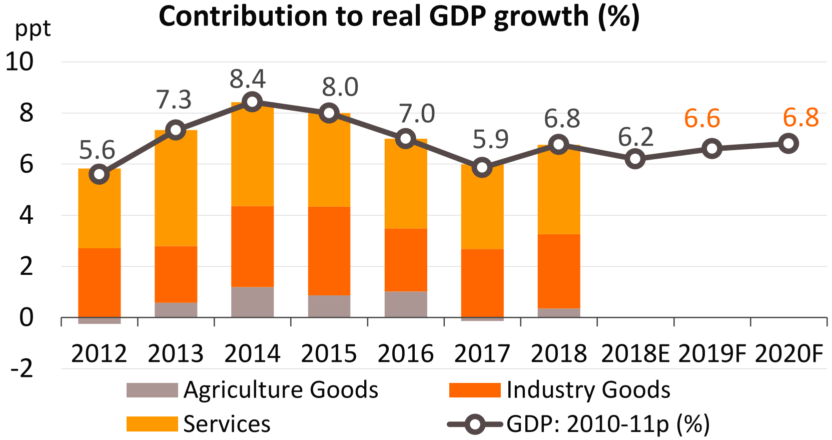
Source: CEIC, ASEAN Stat, OECD, Myanmar DICA, Krungsri Research

Note: [1/]The lower the index, the less restrictive for FDI

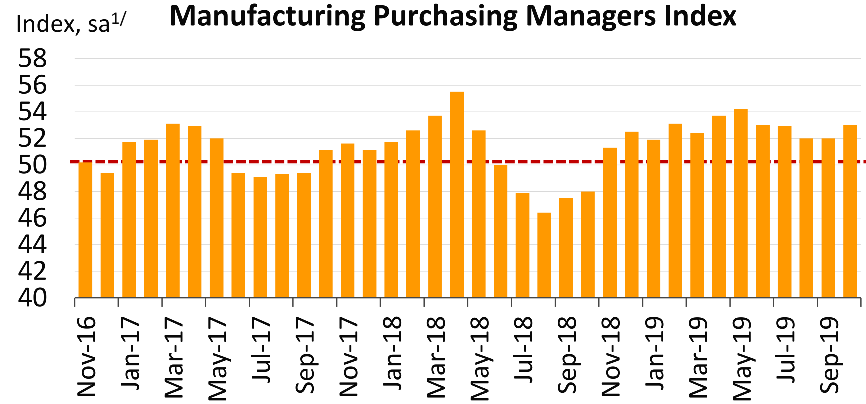
Manufacturing activity is buoyant due to FDI inflows

Manufacturing activity driven by FDI inflows is set to expand at a stronger pace. The recent PMI has expanded at a solid pace. In addition, a pick-up in exports of manufactured products should induce higher imports of capital goods and intermediate inputs in the periods ahead. While the industrialization process has been advanced recently, manufacturing activities - which is currently dominated by the garment industry and accounts for only a quarter of Myanmar's total exports- should continue to expand. In 2020, thanks to uncertainties surrounding global trade policies which would in part drive the relocation of manufacturing out of China, we therefore expect investment activity to pick up in the Thilawa SEZ and other industrial zones. In addition, investment incentives and tariff-free access to major markets including the EU, should outweigh the impact of high operating costs (e.g. electricity).

Contribution to real GDP growth (%)

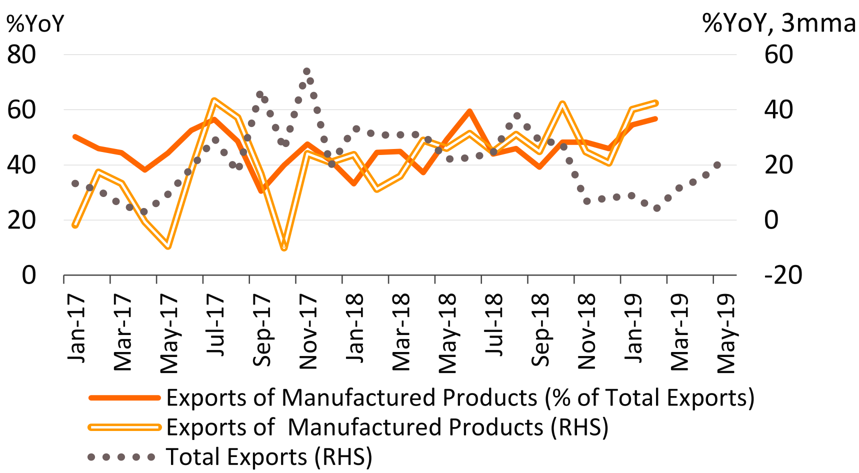


Manufacturing Purchasing Managers Index

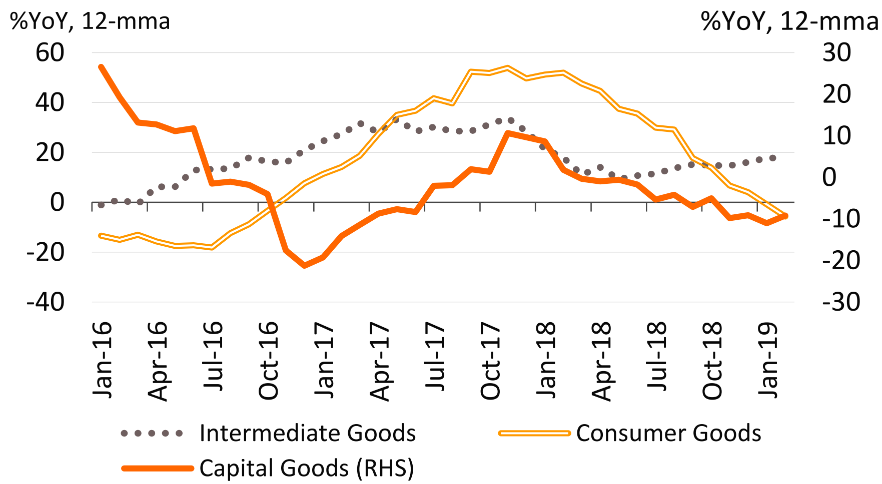


Note: [1/]The index greater than50 means improvement since previous month

Growth of Myanmar's export of manufactured products



Growth of Myanmar's imports by major item

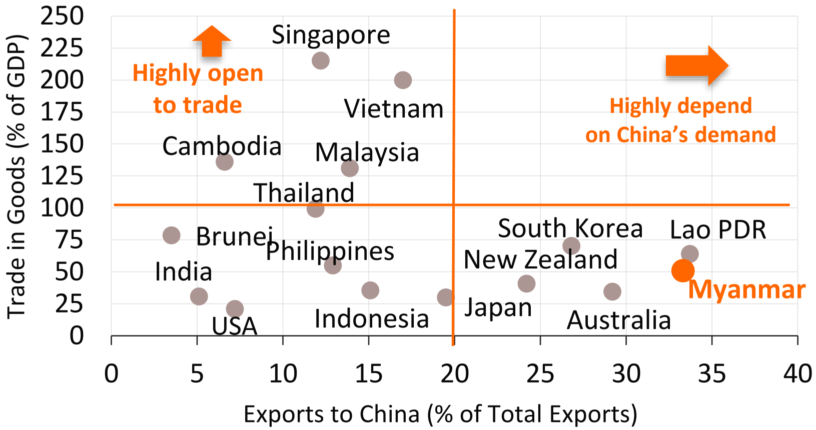


Source: World Bank, CEIC, Krungsri Research

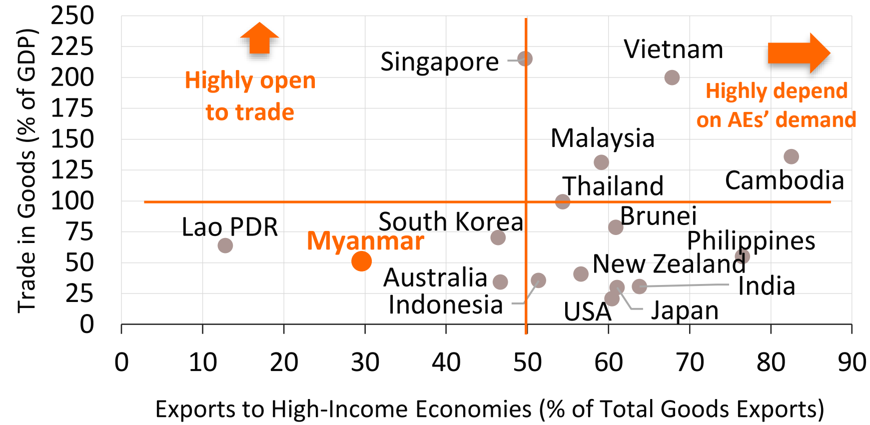
Myanmar’s relatively-closed economy should insulate it from trade tensions, but not weak global demand

Low openness to trade and connectivity to China’s supply chains would insulate Myanmar from trade uncertainties. However, weak global demand could compress its exports despite its low dependence on AEs’ demand for exports compared to regional peers. A structural slowdown in China could also reduce imports from Myanmar, especially basic metals. Nevertheless, looking forward, we view that exports of garment, textile, and footwear (GTF) products should continue to expand and drive Myanmar’s total exports in 2020.

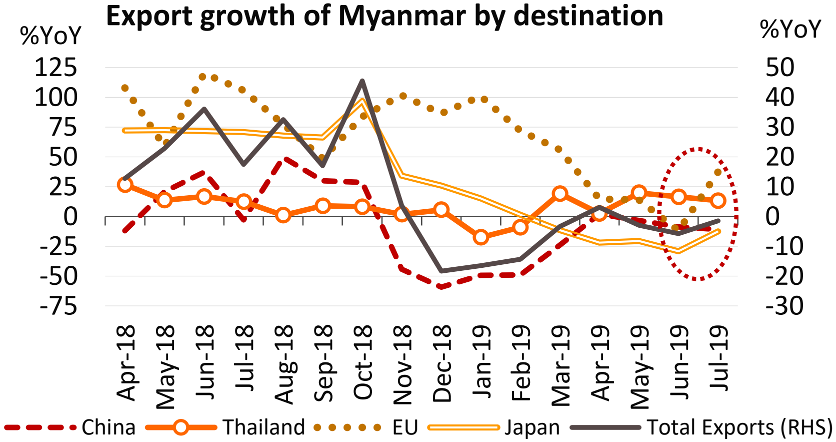
Export dependence on China of some selected countries (as of 2018)



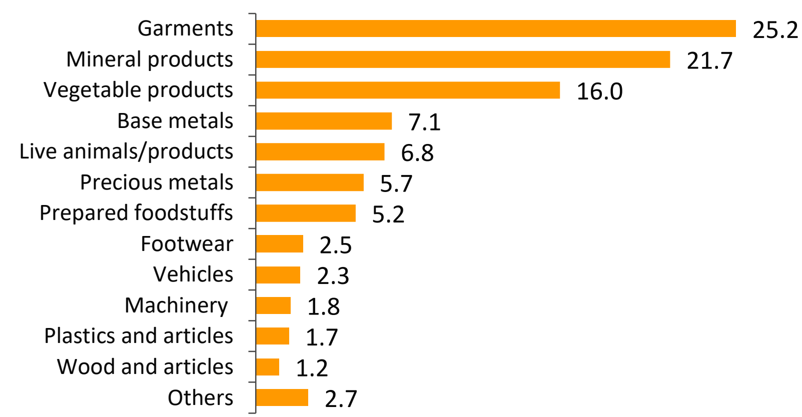
Export dependence on advanced countries (as of 2018)



Export growth of Myanmar by destination



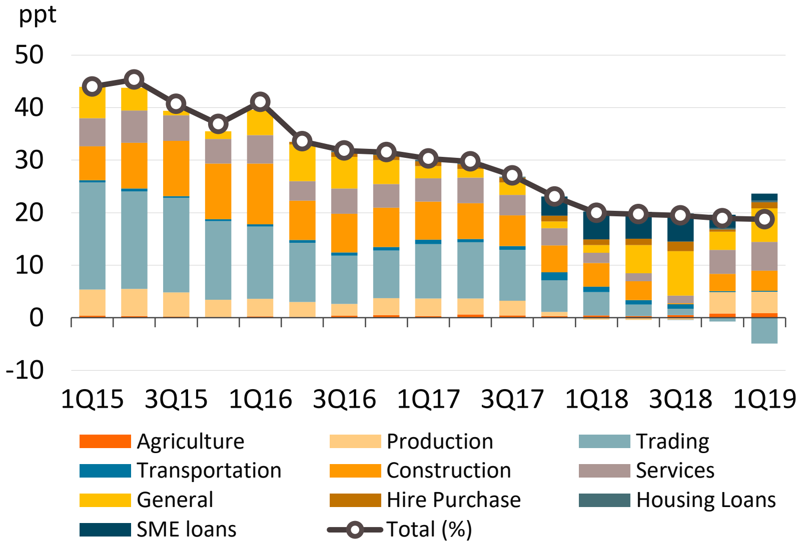
Major export items of Myanmar (% share, 2018)



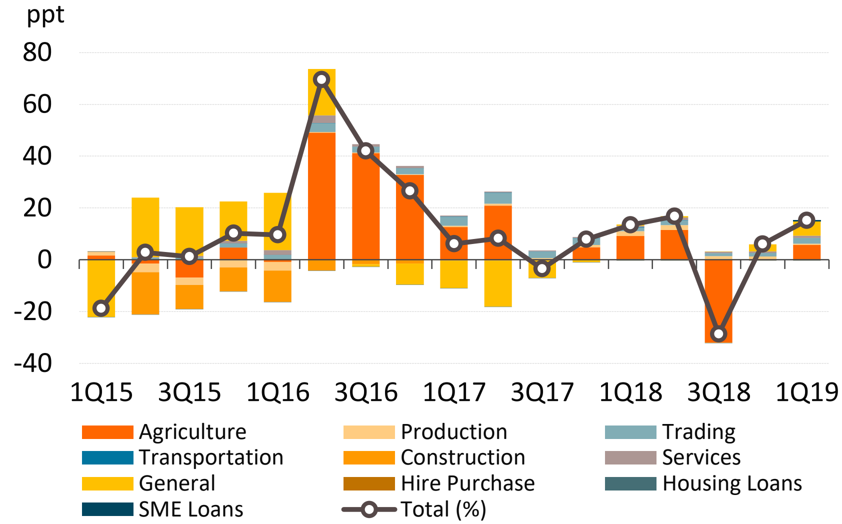
Source: CEIC, Trademap, Krungsri Research

Vulnerabilities in the banking sector are emerging due to the transition to stringent regulations

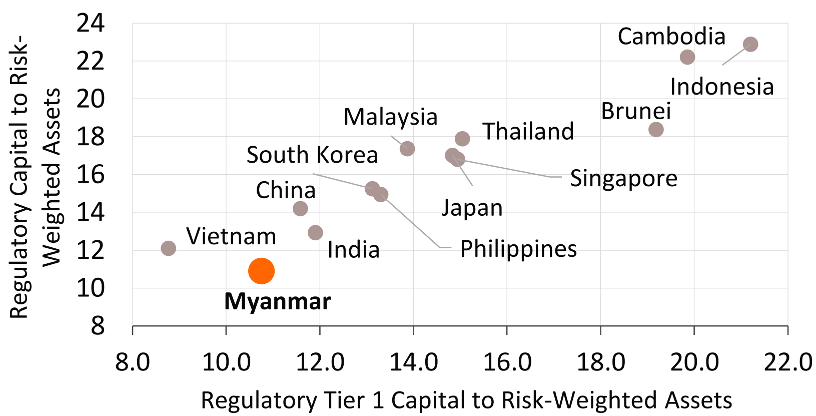
Contributions to sectoral loan growth of private banks



Contributions to sectoral loan growth of state-owned banks



Capital adequacy of the banking system in ASEAN+3 (as of 2018)



Source: CEIC, Krungsri Research

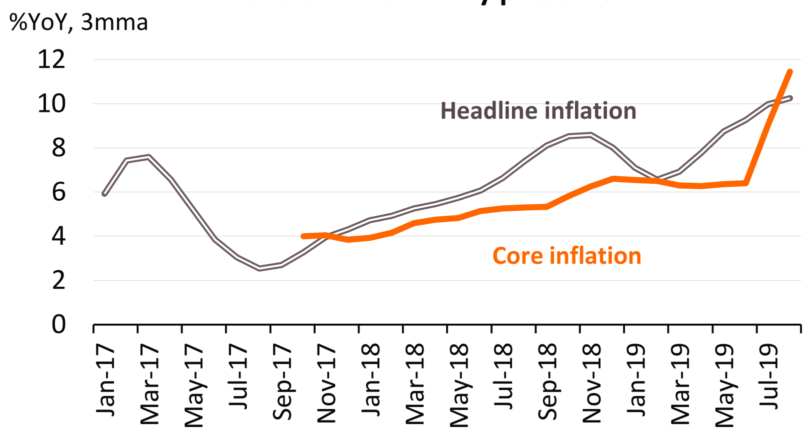
Krungsri Research's View

- The key risk to macroeconomic stability in the near term is emerging vulnerabilities in the private banking sector as banks are required to comply with more stringent regulations under Basel II. Banks are cleaning up their balance sheets and restructuring their loan portfolios, by converting non-NPL overdrafts to term loans within July 2020. Against a backdrop of low capital buffers, private banks have been deleveraging and this is reflected by a declining credit to the economy. And if this happens too fast, it could harm growth. In addition, some private banks could become insolvent as NPLs rise, and some are struggling to meet higher capital adequacy requirements. This create risks to financial instability and may subsequently hurt growth through macro-financial links.

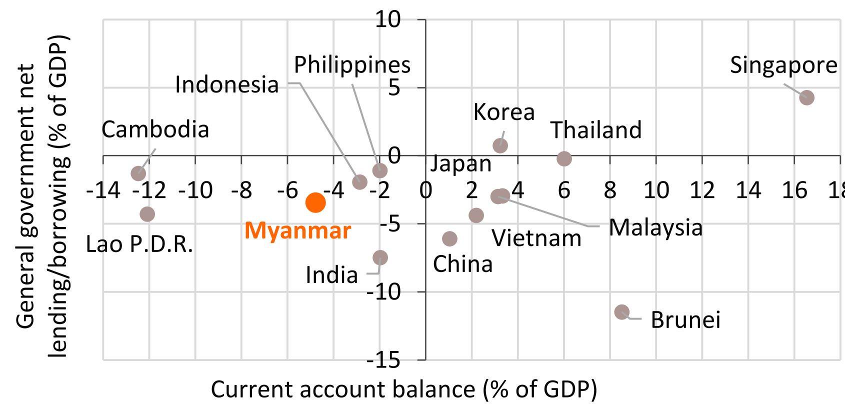
Macroeconomic stability remains broadly weak

Maintaining macroeconomic stability while implementing structural reforms is challenging. On the price stability, strong inflationary pressure, rising electricity prices, and supply-side shocks including food prices, pose upside risks to inflation. Twin deficits are threatening external stability. The current account deficit is sufficiently financed by FDI inflows, but looking ahead, the growing export-oriented manufacturing sector, more FDI-driven investments, and the implementation of several infrastructure projects, would widen the current account deficit. This would in turn put downward pressure on the MMK, which is stable currently. The effect of a weaker MMK is normally passed relatively quickly through to domestic prices because Myanmar relies substantially on imports.

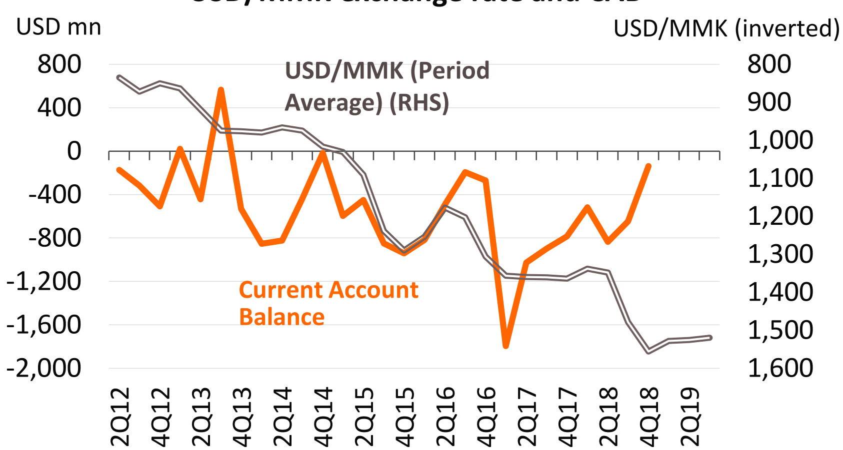
Trend of inflationary pressure



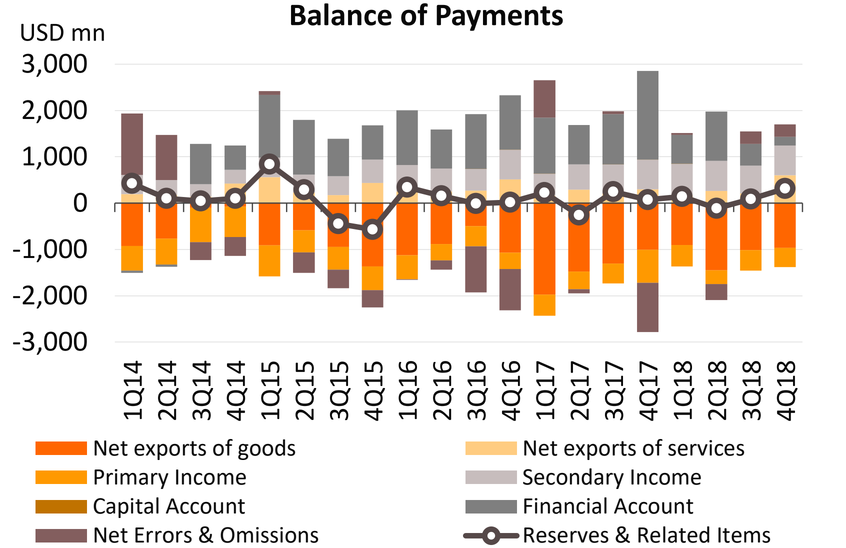
Current account balance (CAB) and government budget balance



USD/MMK exchange rate and CAB



Balance of Payments

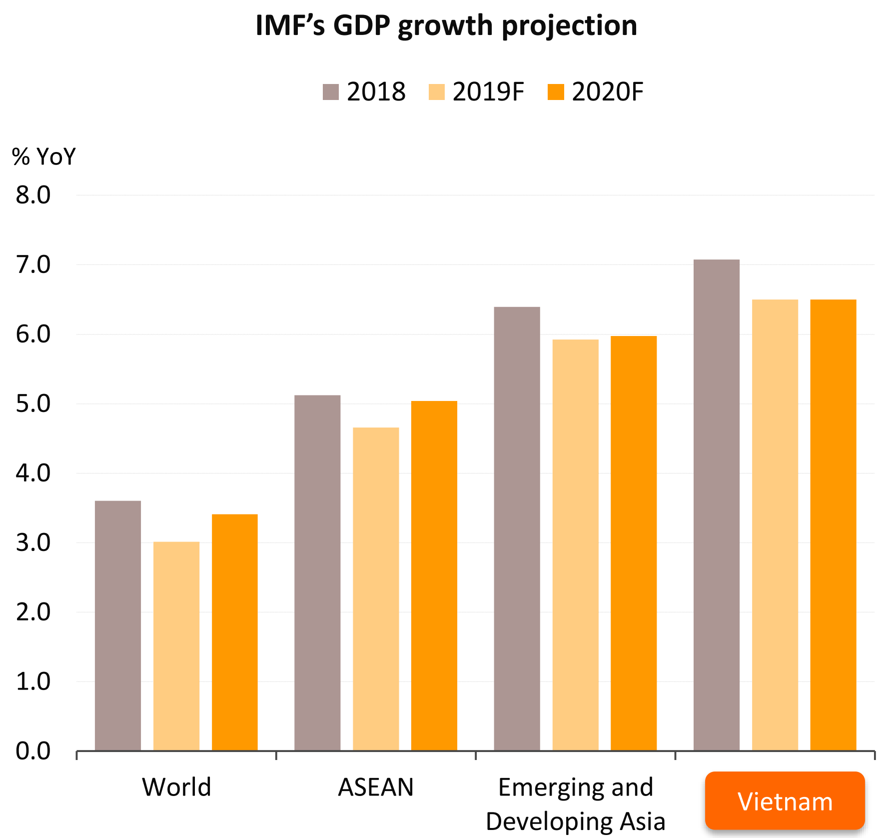


Source: CEIC, Krungsri Research

VIETNAM
ECONOMIC OUTLOOK
2020

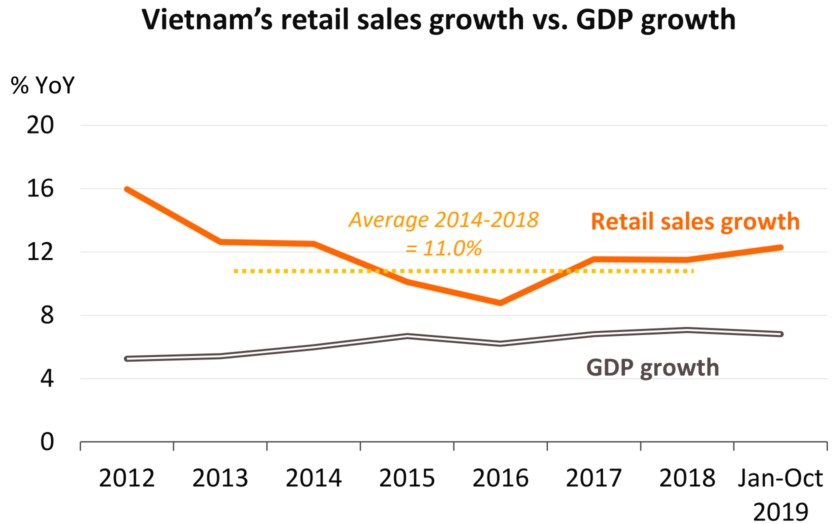
Vietnam: Economic growth will remain robust and continue to outperform other developing Asian countries

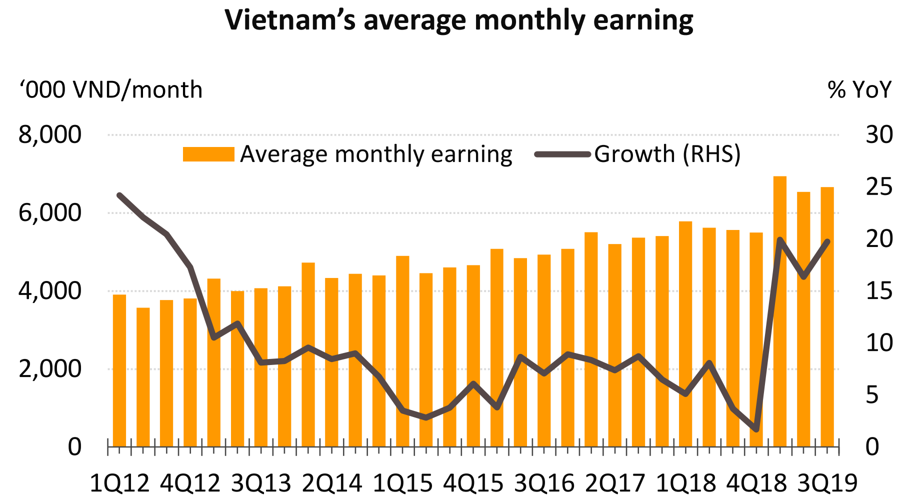
Despite escalating trade tensions and a slowdown in global trade, Vietnam's economy registered 6.98% growth in the first three quarters of 2019, and is expected to achieve the upper level of its official target range of 6.6-6.8%. In 2020, the economy should continue to post robust growth, supported by solid consumption and rising investment given a more favourable investment climate. This will lead Vietnam to become the fastest growing economy in ASEAN and among emerging markets in Asia.

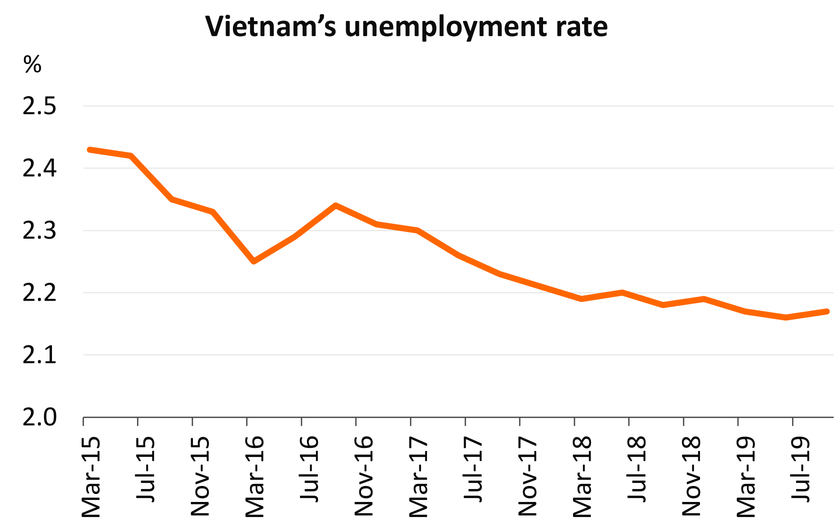


Source: Vietnam's General Statistics Office (GSO), IMF World Economic Outlook (October 2019), CEIC, Krungsri Research

Bright growth prospect for domestic consumption given strong fundamentals plus an easing monetary policy







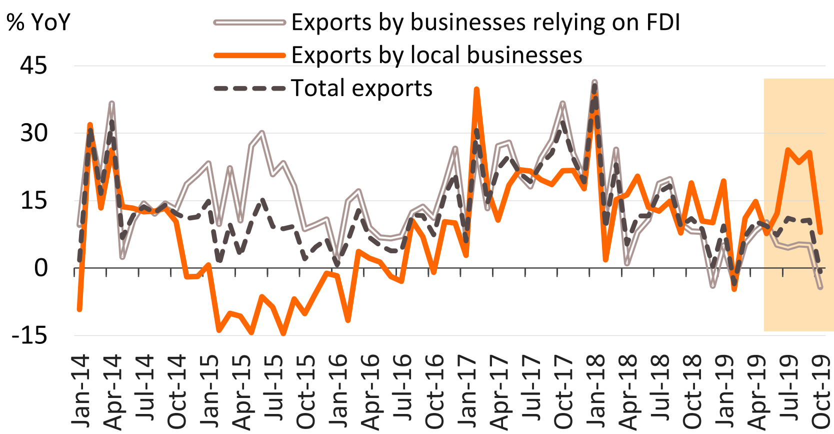
Source: GSO, CEIC, Krungsri Research

Krungsri Research's view

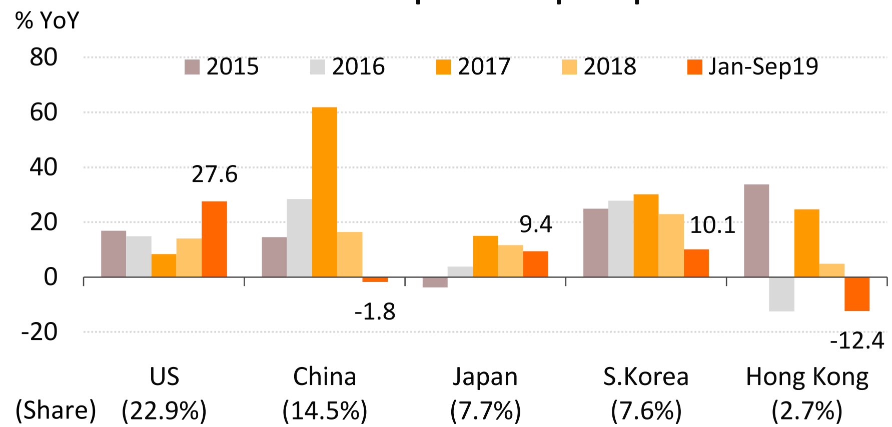
- Vietnam's retail sales have continued to grow strongly with a double-digit percentage, almost twice its GDP growth rate. This is underpinned by rising income and low unemployment rate.
- In addition, the State Bank of Vietnam (SBV) has run supportive economic growth policies with (i) a surprise reduction in its policy interest rate by 25 bps in September 2019 (the first cut in two years), (ii) cutting its interest rate cap for dong deposits and order lenders to lower interest rates to 5.0% from 5.5%, as well as (iii) reducing the maximum dong lending rate for short-term loans to 6.0% from 6.5%.
- Looking ahead, we expect Vietnam's retail sales to continue to expand driven by its strong consumer market, supported by a labor force that accounts for half of the total population, rising monthly income, declining unemployment, and a 5.5% increase in minimum wages in 2020. The country will also gain from its *2020 ASEAN Chairmanship*. This will not only boost domestic consumption, but also spur tourism spending across the country.

Export growth will remain moderate while other exporter countries show weaker growth

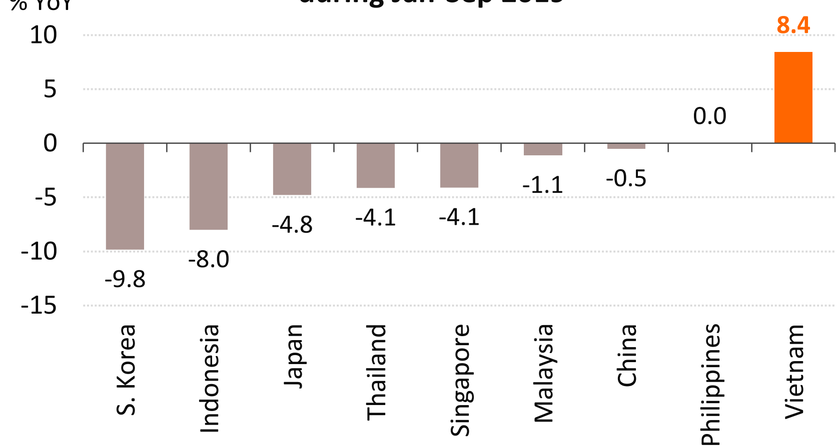
Vietnam's exports growth



Growth of Vietnam's exports to top 5 export markets



Growth of Asian countries' exports during Jan-Sep 2019

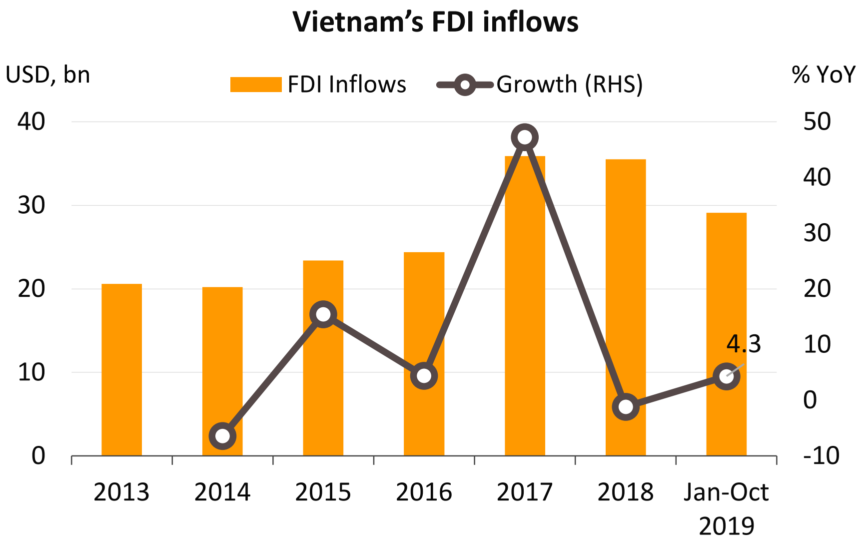


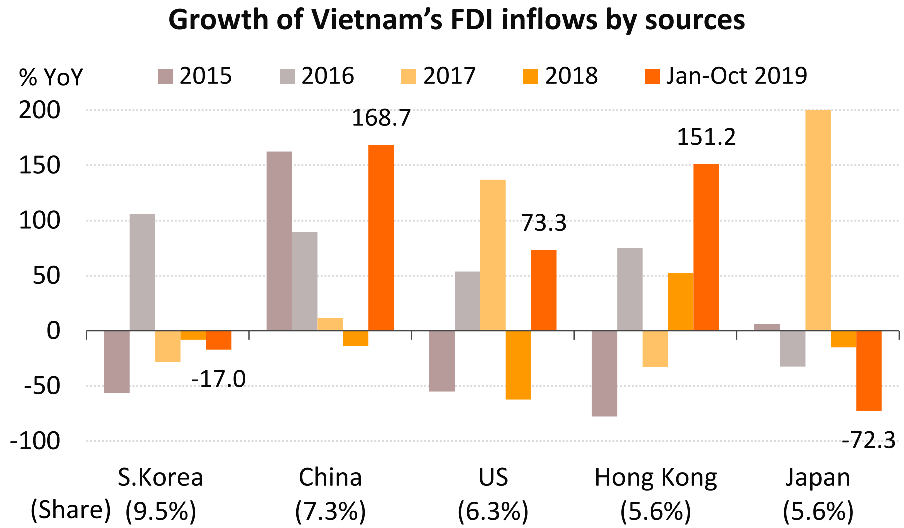
Note: *Exports by FDI sector refers to exports relying on foreign investment businesses. Exports by domestic sector refers to exports relying on local businesses.
Source: GSO, CEIC, Krungsri Research

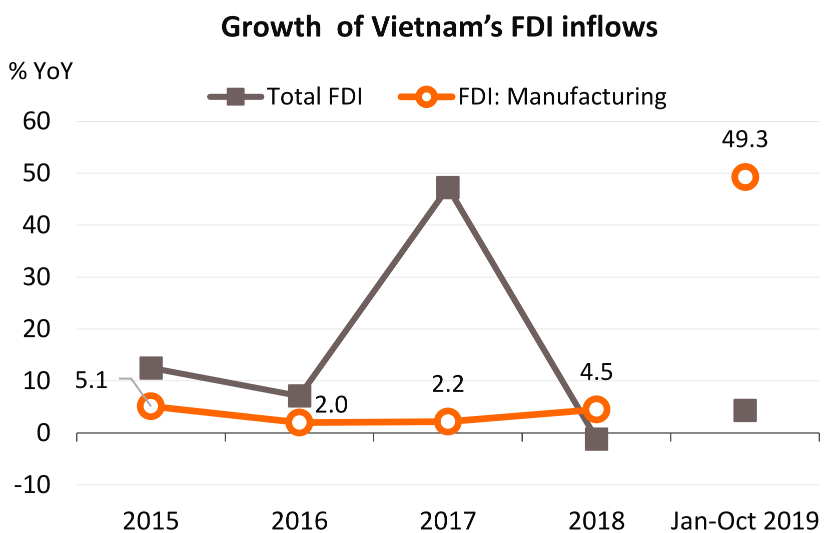
Krungsri Research's view

- While Vietnam's exports registered 7.4% YoY growth for Jan-Oct 2019, it is slower than in the same period last year. This was partly due to the ongoing US-China trade spat and weakening global trade. Except the US, Vietnam's exports to some other markets saw broadly slower growth or contraction, including China and Hong Kong, partly due to the relocation of supply chain companies to Vietnam.
- More importantly, exports by FDI sector* have been growing at a slower pace than exports by domestic sector (local businesses) and posted negative growth for the first time since 2009. This raises concerns over the outlook for exports in 2020 as exports of the FDI sector accounts for up to 70% of Vietnam's total exports.
- However, we expect Vietnam's exports to continue to grow but at a more moderate pace, driven by improving export performance of local businesses as well as the country's rising competitiveness (Vietnam leapt 10 places in the Global Competitiveness Index 2019 vs 2018). It would also have better comparative advantage with new FTAs, including the EU-Vietnam FTA (EVFTA) which is likely to come into effect in 2020.

Investment prospects remain positive on the back of a more favourable business climate







Source: CEIC, Krungsri Research

Krungsri Research's view

- FDI inflows in Vietnam have been rising in recent years and in 2019. This is underpinned by structural trends (relocation investment) away from China in search of lower costs, as well as acceleration of investment outflows from China to avoid the impact of US tariff hikes. This is reflected by the drastic increase in FDI inflows from China into Vietnam in 2019, which almost double China's share to 7.3% of Vietnam's total FDI inflows. And, the manufacturing sector remains the top FDI destination in Vietnam with robust growth, which suggests Vietnam is an attractive production hub.
- In 2020, we expect FDI inflows into Vietnam to continue to increase. Key drivers include (i) a solid and large domestic market, (ii) efforts to reform state-owned enterprises which cover broad-based sectors, (iii) the expected implementation of EVFTA, and (iv) improving competitiveness. These would support the country's further integration with the global investment and supply chain.

Comprehensive policies and economic integration will attract more FDI

Vietnam's attractiveness as an FDI destination has been supported by a favorable environment including economic and institutional reforms, increasing international integration through FTAs, and its improving competitiveness. Looking ahead, the country continues to promote FDI with a bolder plan. It not only wants to attract more FDI, but also aims to attract "quality" FDI under the *Industry 4.0* and the *Make in Vietnam* programs. Specifically, the government has identified priority industries to represent its more practical strategies, including automotive, high-tech manufacturing industries, pharmaceutical & medical related industries, as well as high value-added services.

	Current status	**Short-term (2021-2025)**	**Long-term (2026-2030)**
Goals	• **FDI:** USD29.3bn per year • **Local content:** 20-25% of total value	• **FDI:** USD30-40bn per year • **Local content:** to increase 30% by 2025	• **FDI:** USD40-50bn per year • **Local content:** to increase 40% by 2030
Priorities	• **Manufacturing**: Textile & garments, footwear, mobile phone assembly, home appliance	• **Manufacturing**: Automotive and transport equipment OEMs and suppliers • **Technology**: High-technology industry • **Environmental-friendly technology**: Water conservation, solar, wind investments	• **Manufacturing**: Pharmaceuticals & medical equipment • **Services**: Education and health services, financial services, and financial technology (Fintech) • **Information technology and intellectual services**
Policies	**"Industrial economy"**	**"Industry 4.0"**	**"Make in Vietnam"**
	"Quantity FDI"	***"Quality FDI"***	

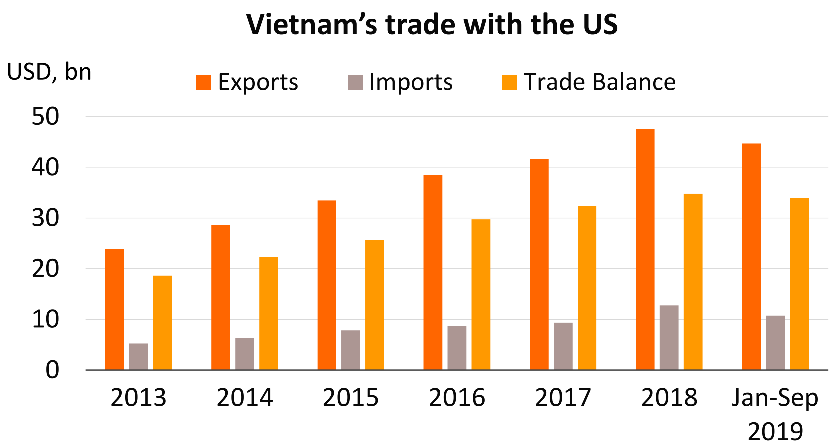
A Competitive Production and Investment Base

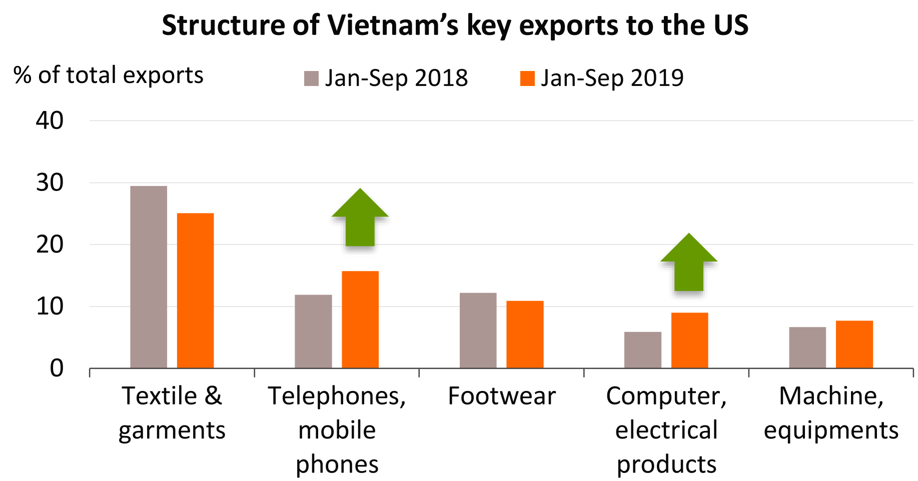
on the back of growing market-oriented economy

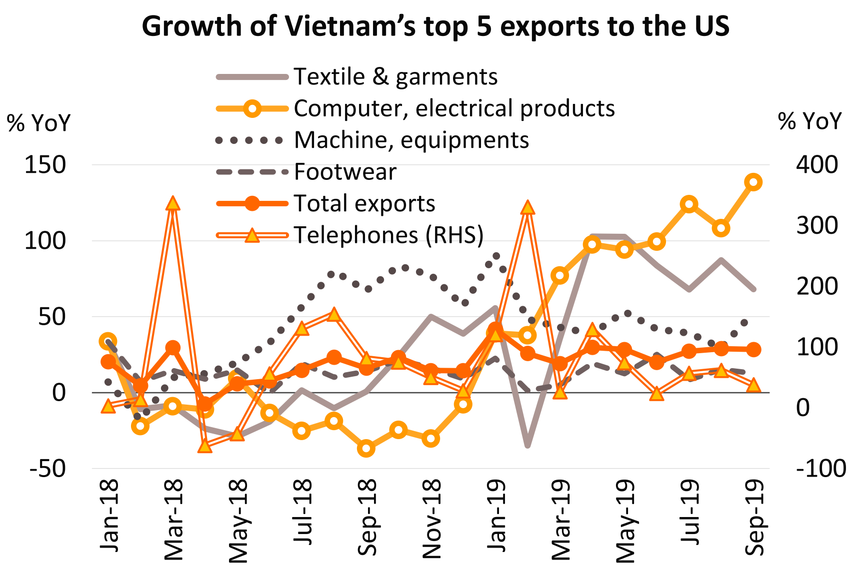
- Expand market with Free Trade Agreement strategy (newly launched: FTAs including CPTPP, EVFTA)
- Improving broad-based competitiveness

Source: Vietnam local news media, Krungsri Research

Large trade surplus with US means Vietnam would be influenced by US protectionist policies; strong FDI inflows could cause labour shortage







Source: Vietnam's General Statistics Office, CEIC, Krungsri Research

Krungsri Research's view

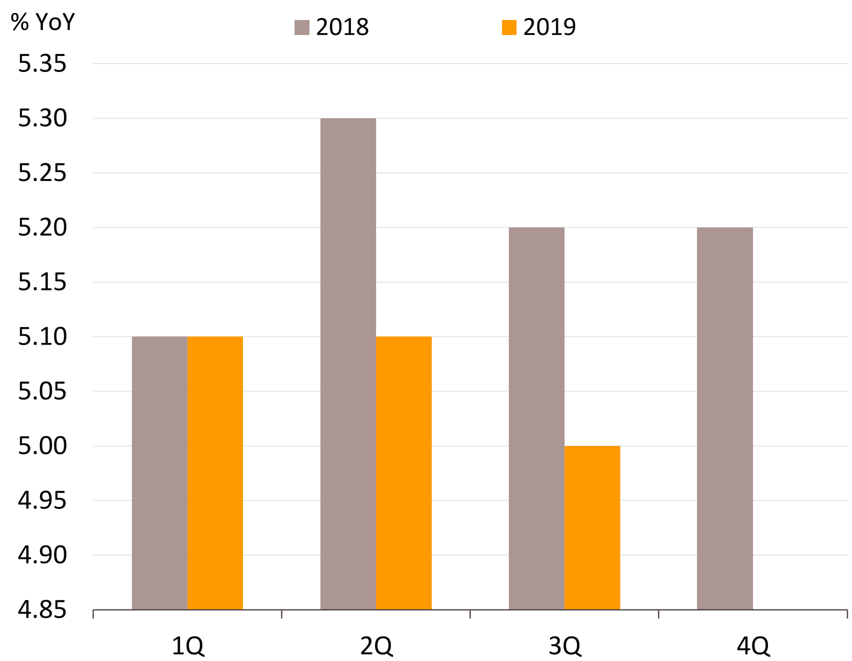
- Escalating US-China trade tension has made things more challenging for Vietnam given (i) Vietnam's rising trade surplus with the US, and (ii) labor shortage due to a sudden increase in demand for labor (especially skilled labor).
- Vietnam is in a *one-sided relationship* because of its rising trade surplus with the US and the surplus will widen further. Specifically, exports of smartphones - the key item subject to US tariffs with effect from December 15, 2019 - has surged to account for one-fifth of Vietnam's exports to the US. Driven by high export growth (+27.4% YoY) and import growth (+12.2% YoY) during Jan-Sep 2019, Vietnam's trade surplus with the US is expected to hit a new high in 2019.
- Given robust domestic demand, Vietnam's increasing competitiveness, and relocation interest to Vietnam, FDI inflows will continue to rise, which would lead to a surge in demand for labor– especially skilled labor– within a short period. This would lead to labor shortage in the near future.


INDONESIA
ECONOMIC OUTLOOK
2020

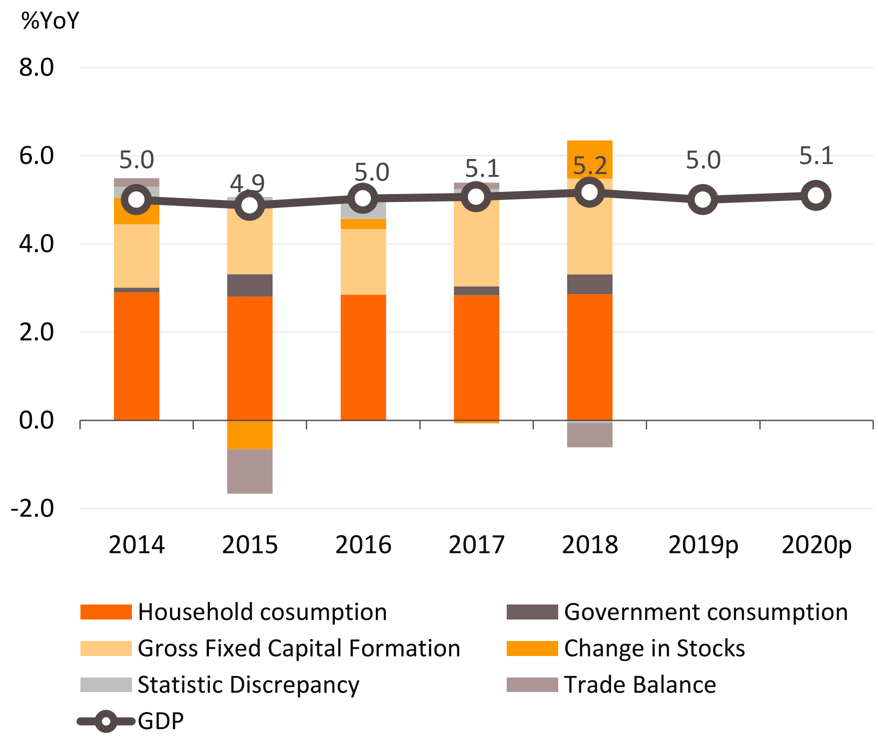
Indonesia: Growth momentum is intact; domestic demand should offset impact of slower exports

Indonesia's GDP has continued to grow modestly in the first three quarters of 2019, by about 5%. This is mainly because exports have slowed on the back of weaker commodity prices and a slowdown in China's economy. Though the government has increased spending leading to the presidential election in April, the economy only gained marginally in 1H19. At the start of 2H19, we observed a gradual slowing down of domestic spending and the central bank is trying to stimulate the economy by cutting key interest rates. Looking ahead, we expect Indonesia' economy to continue to grow, but at similar pace to recent quarters, supported by comprehensive stimulus policies to spur domestic demand.

Quarterly GDP growth

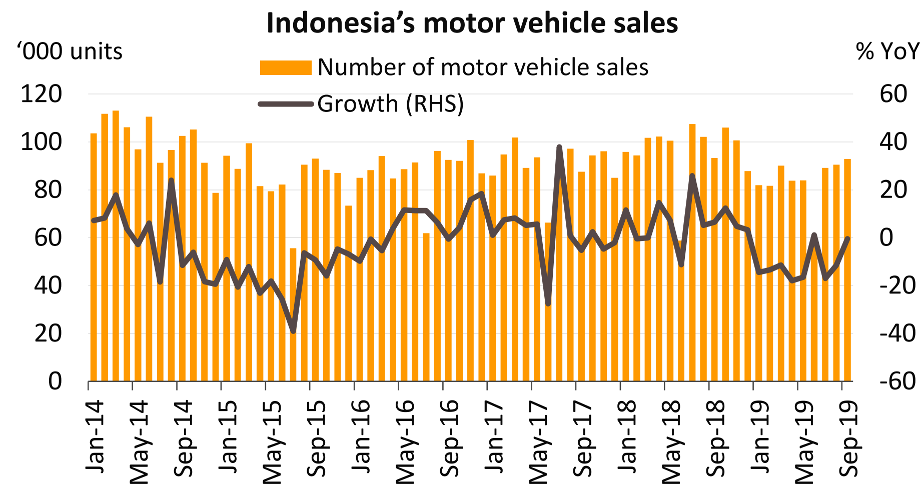


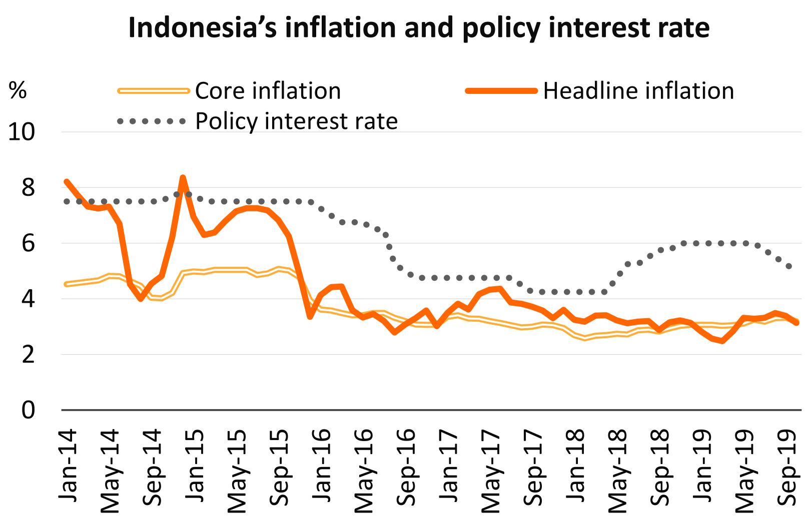
Contribution to GDP: expenditure side



Source: IMF, Bank Indonesia, CEIC, Krungsri Research

Domestic demand will improve driven by easing monetary policy and more stimulus measures





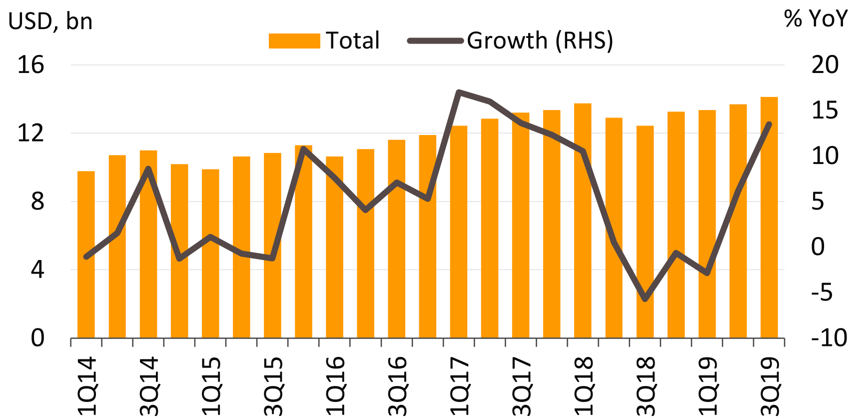
Source: Central Bureau of Statistics, CEIC, Krungsri Research

Krungsri Research's view

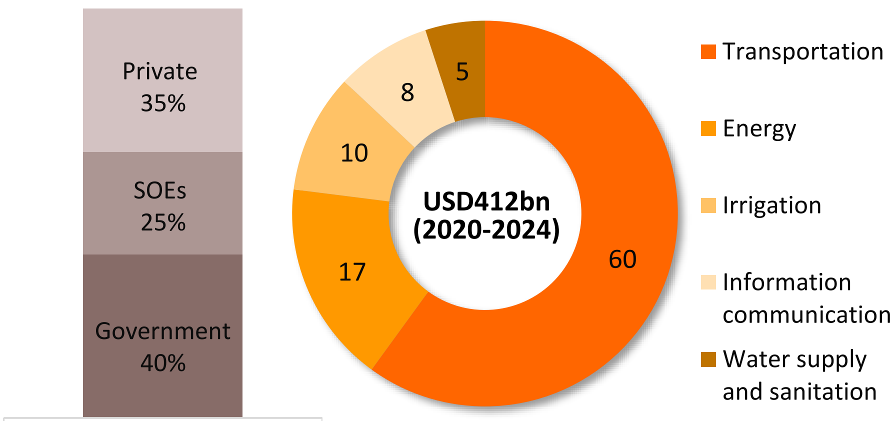
- Indonesia's domestic consumption – the largest contributor at 57% of GDP – has been softening since mid-2019, reflected by slower retail sales and motor vehicle sales, compared to average growth of +6.6% in 2018.
- The authorities have taken steps to support growth of household consumption. The Bank Indonesia (BI) has loosened its monetary policy by (i) cutting interest rates for the fourth month in a row (July to October 2019) and keeping it at 5.0% in November, and (ii) relaxing macroprudential policies to increase liquidity and enhance growth of consumption credit by reducing loan-to-value (LTV) ratios for real estate. In addition, the government has added stimulus measures, including cutting VAT for imported machinery & equipment and reducing tax rate for R&D activities.
- Looking ahead, we expect domestic consumption to increase further driven by additional stimulus measures. We expect BI to continue with its accommodative monetary policy with another rate cut, by at least 25 bps. The government also plans to increase its expenditure budget by 3% in 2020 as well as introduce a series of tax incentives for labor-intensive businesses.

Investment will play a bigger role, boosted by fiscal spending in infrastructure development projects

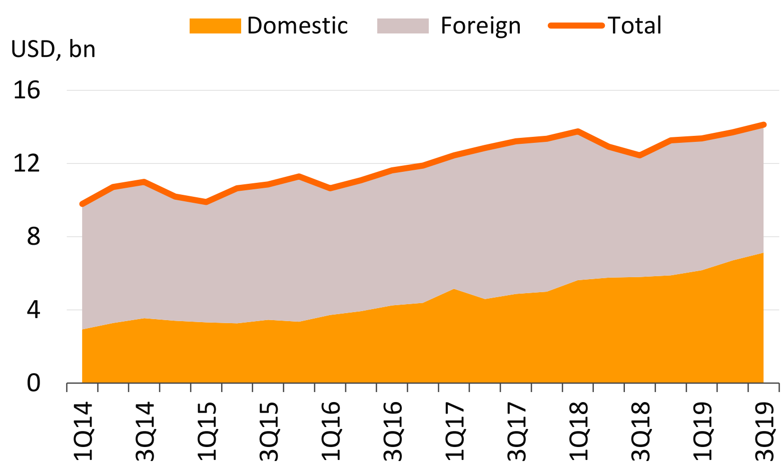
Indonesia's quarterly investment realization under BKPM* privilege



Indonesia's 2020-2024 investment plan by sector



Structure of investment realization



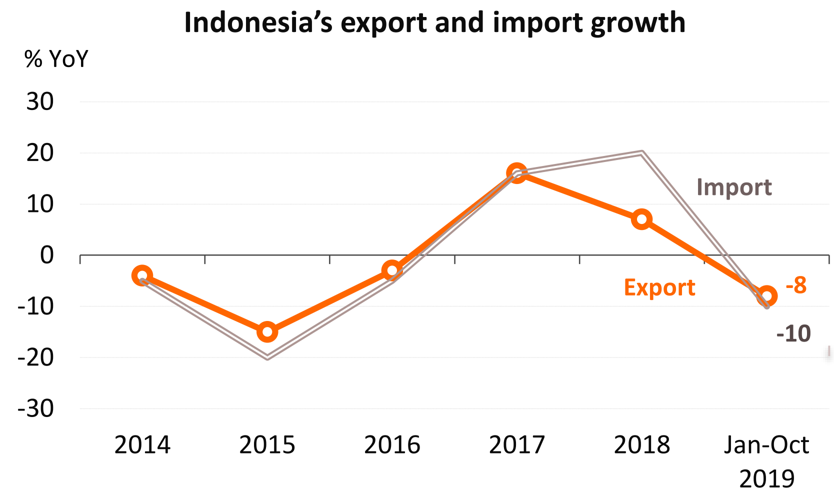
Note: *BKPM refers to Badan Koordinasi Penanaman Modal
Source: Bank Indonesia, The Insiders Stories, Krungsri Research

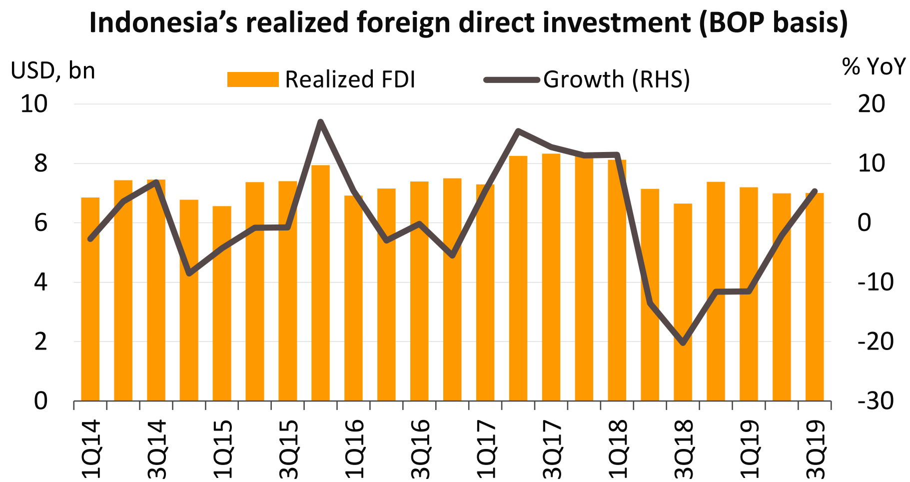
Krungsri Research's view

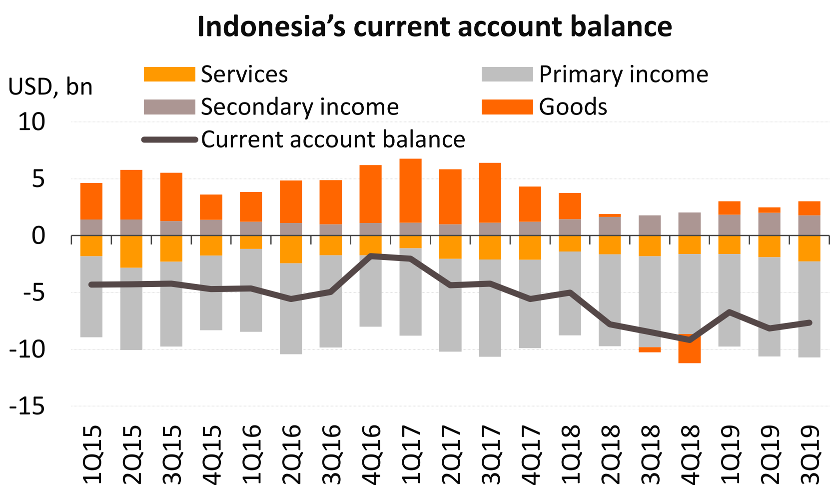
- We expect investment in Indonesia to rise further, underpinned by domestic investment – led by the government's investment plan for 2020-2024 which focuses on infrastructure projects.
- Investment has been recovering since early 2019, thanks to rising domestic investment – which is playing a bigger role with its share increasing to 50% of total investment in Indonesia.
- In the next five years starting 2020, Indonesia will pour more than USD400bn into the country, mainly in infrastructure development projects, to lift the country's competitiveness. It would also gain from capital relocation from Jakarta to East Kalimantan worth USD33bn as well as a development to modernize the Jakarta cost around USD40bn – including lengthening the track for the Mass Rapid Transit (MRT) system, an extension of water pipes and a new sewage system. In addition, FDI in Indonesia is expected to increase moderately given a more favorable investment climate including relaxing rules for restricted businesses, and new investment in priority sectors, e.g. electric vehicle, ICT and e-commerce.

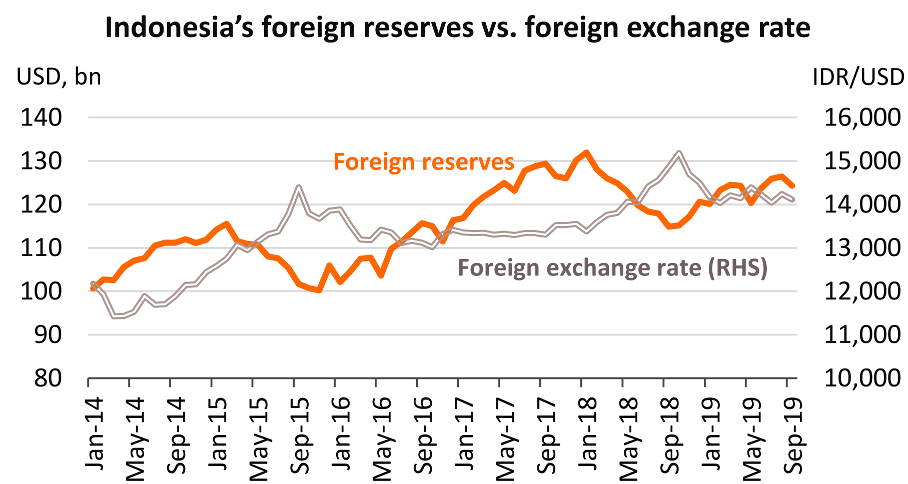
External stability is expected to improve further; IDR should be stable

We expect Indonesia's external sector to remain resilient, supported by (i) a slowing decline in exports premised on an increase in manufacturing exports, e.g. automotive and electrical machinery, to specific markets such as Vietnam – its major markets for these products; (ii) a further recovery in FDI; and (iii) sustainable increase in foreign reserves which would support a stable IDR.









Source: Bank Indonesia, CEIC, Krungsri Research

Five Priorities for 2020-2024: Improve investment climate

The government has been improving Indonesia's competitiveness in recent years, mainly through infrastructure development. From now on, the government under the second term of President Joko Widodo will focus on creating a more favorable business climate through the "Five Priorities for 2020-2024", which comprises broader targets. The priorities are infrastructure development to enhancing investment climate, simplifying the bureaucratic process, human capital development, and economic transformation. Looking ahead, these moves will level up the country's investment climate and make Indonesia more competitive to attract FDI in the future.

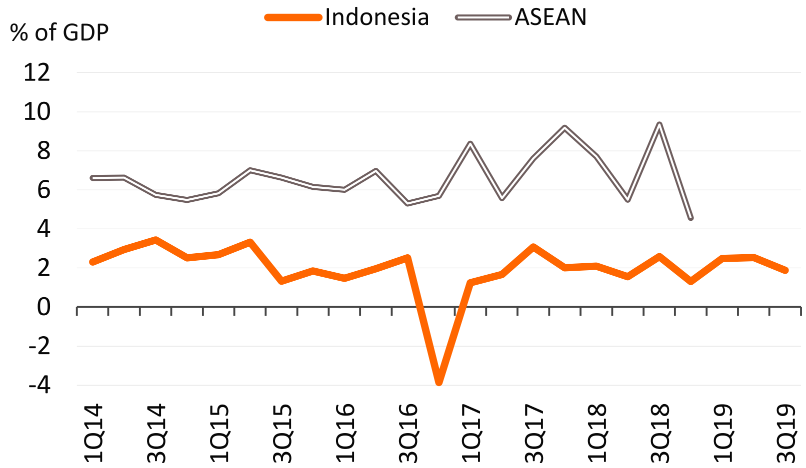
Five Priorities Towards The Year 2020-2024

Target	To level up the country's competitiveness, attract investment, and create jobs				
Strategy	Infrastructure Development	Enhancing Investment Climate	Bureaucracy simplification	Human Capital Development	Economic transformation
Action	• Develop infrastructure across the country, including roads, airports, and seaports	• Implement the Online Single Submission (OSS) licensing system • Expand supporting payment system • Expand the Macroprudential Intermediation Ratio (MIR) and scope of funding sources	• Reduce structure levels in ministry and create more functional roles • Cut long procedures and regulatory constraints	• Set endowment fund and create capacity building for human resource development	• Diversify the economy from depending on natural resources to competitive manufacturing • Promote downstream and upstream industries • Targeted industries include automotive, textile, and footwear
To do from 2020	• Road: To double total length to over 800 km. vs. 406 km. in 2019 • Railway: to increase by 240 km. vs. 270 km. • Airport: To develop 14 new airports and improve 27 airports • Ports: To develop 6 routes of pioneer shipping, 21 routes of maritime highway	• Review Labor and Investment Rules • Provide tax incentives for SMEs • Provide incentives for e-commerce	• To review and shorten procedures and regulations	• Provide tax deduction of up to 200% for businesses that invest in human resources development • Provide education subsidies to low-income students	• Promote electric vehicle industry and target to increase manufacturing contribution to 20% of GDP by 2025, from 17% recently

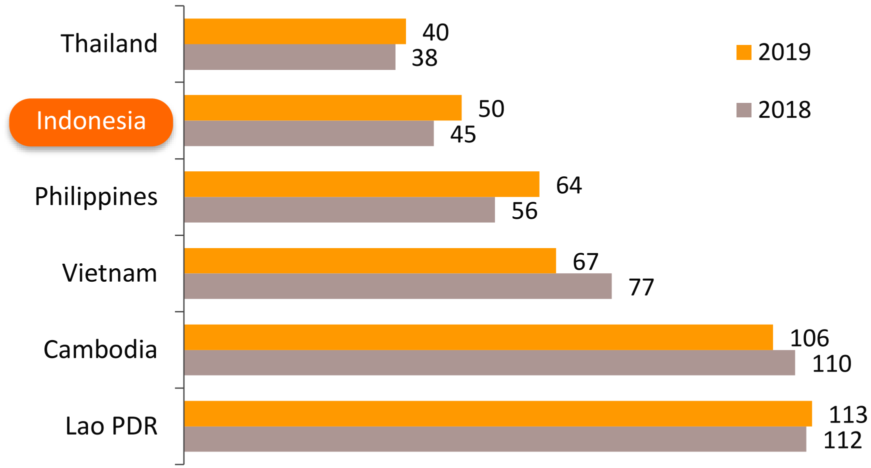
Source: Indonesia local news media (related to President Joko Widodo's inaugural address), Krungsri Research

Delay in infrastructure development would limit investment attractiveness

Foreign direct investment

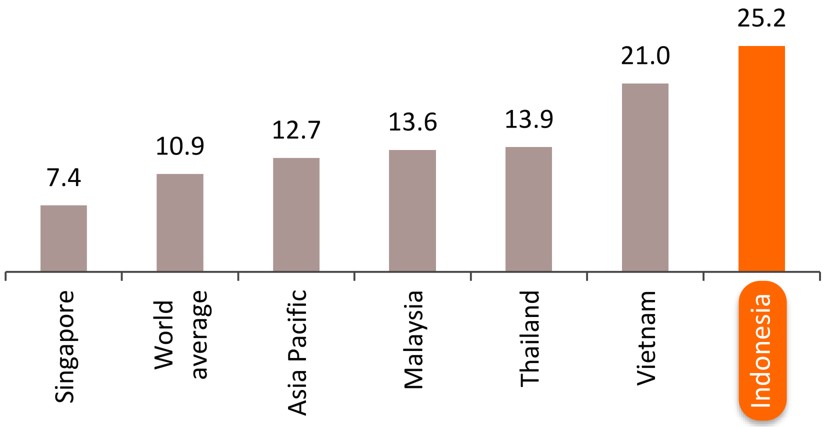


Rank of Global Competitiveness Index



Logistics Cost*

Unit: % of GDP



Note: *data as of 2016.
Source: World Bank, CEIC, Krungsri Research

Krungsri Research's view

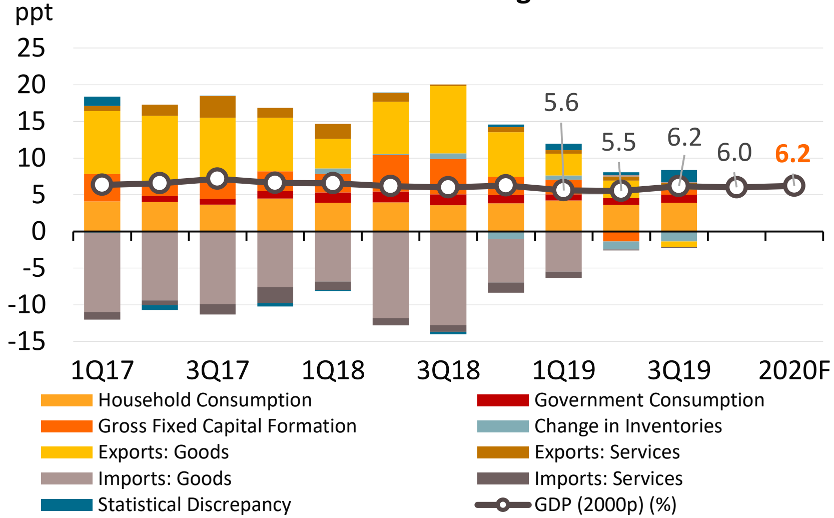
- Foreign direct investment has been slowing down in Indonesia from 2.8% of GDP in 2014 to 1.9% in 3Q19. This is partly due inadequate infrastructure, which leads to higher logistics costs than in other countries. Furthermore, the 2019 global competitiveness index also shows Indonesia ranks 50th, five places lower than in 2018, partly due to a weak score for infrastructure facilities.
- Looking ahead, to compete with other attractive FDI destinations in ASEAN amid the relocation trend from China, Indonesia is struggling to improve its infrastructure in order to get more FDI and strengthen its international position in the future.

PHILIPPINES
ECONOMIC OUTLOOK
2020

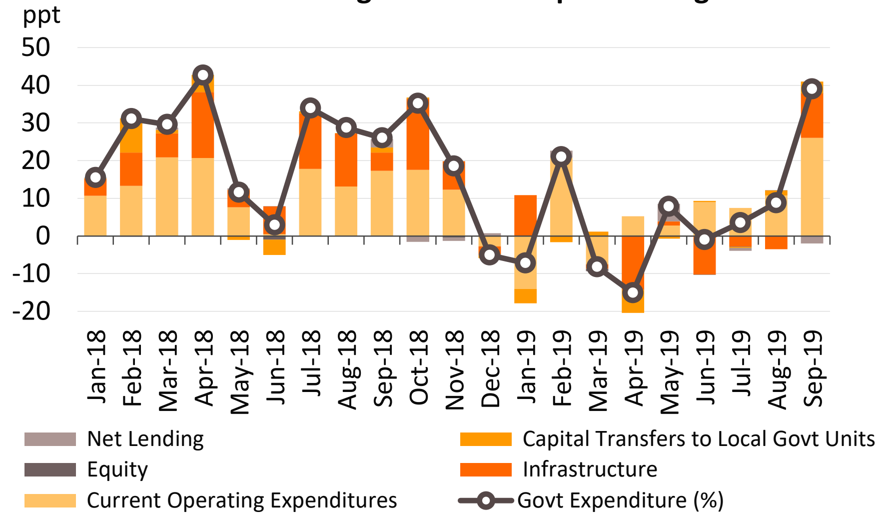
Philippines: Rebooting the fiscal engine to bolster growth

Growth in 2020 is set to rebound to 6.2% supported by accommodative macroeconomic policies, following an estimated 6.0% growth in 2019. In the absence of substantial inflationary pressure and extended uncertainties in external conditions, the priorities of macroeconomic policies will be geared towards boosting growth to meet the 6.5%-7.5% target for 2020. With the 2019 budget impasse weighing on growth, we expect the catch-up budget disbursement and accelerated infrastructure investment to help spur growth and crowd-in private investment in 2020, on the back of resilient domestic demand and easing monetary conditions which the BSP has embarked on since May 2018.

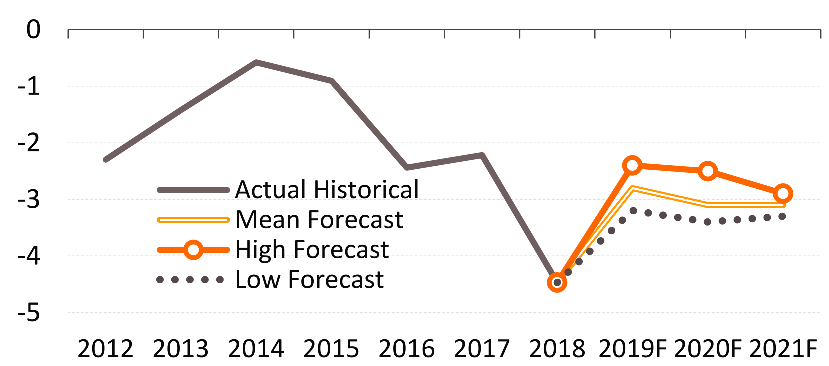
Contributions to real GDP growth



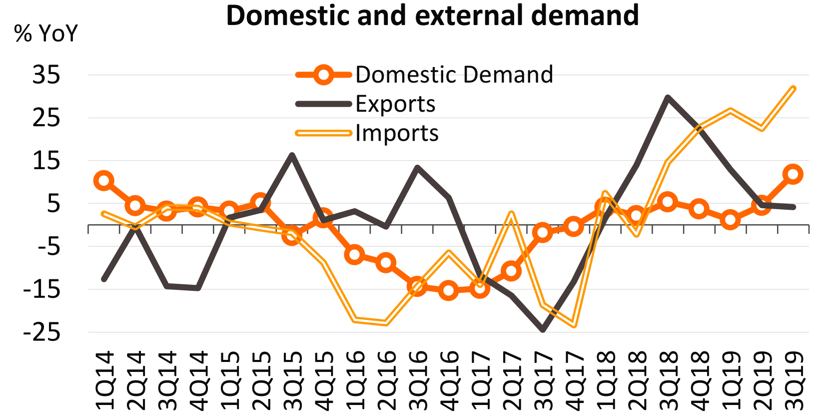
Contributions to government expenditure growth



Government budget balance forecast (% of GDP)



Domestic and external demand

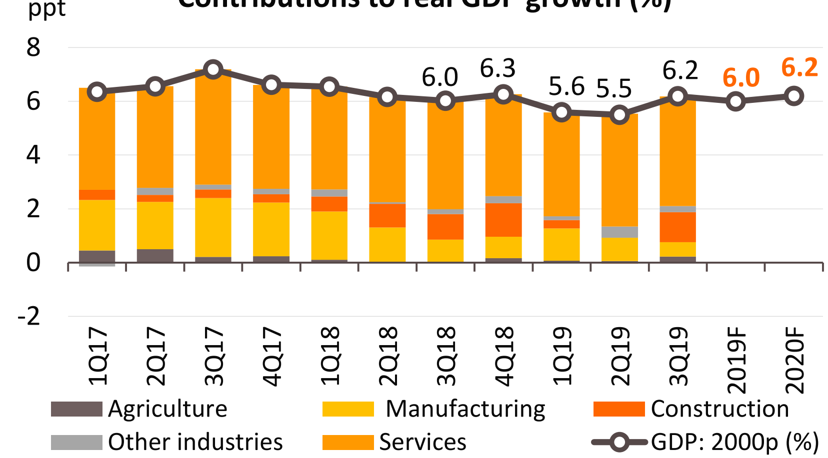


Source: CEIC, Bloomberg, Krungsri Research

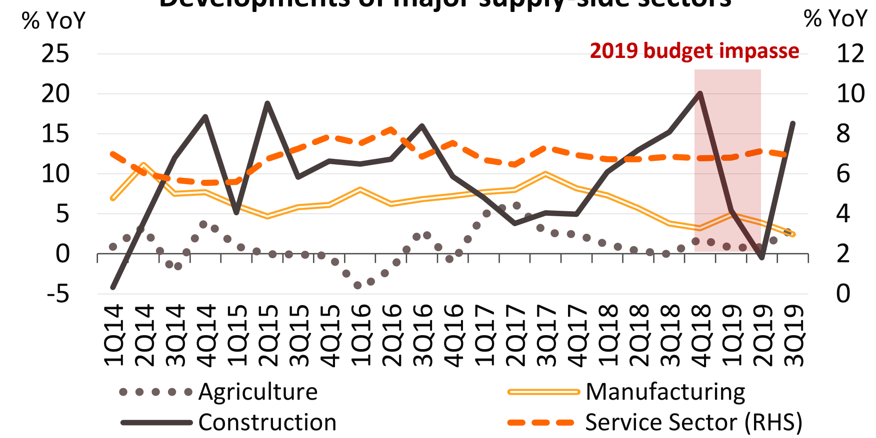
Build, Build, Build Program: Back on track to reignite growth

Against a backdrop of weakening manufacturing activity weighed on by deteriorating external conditions, catching up public spending under the *Build, Build, Build (BBB) Program* which had been impeded by the 2019 budget impasse is expected to further induce private investment and construction activity in 2020. Following the latest readings in 3Q19, construction activity is picking up and we expect the momentum to be carried over to 2020 and boost GDP growth to 6.2%, albeit below the government's target of 6.5% -7.5%.

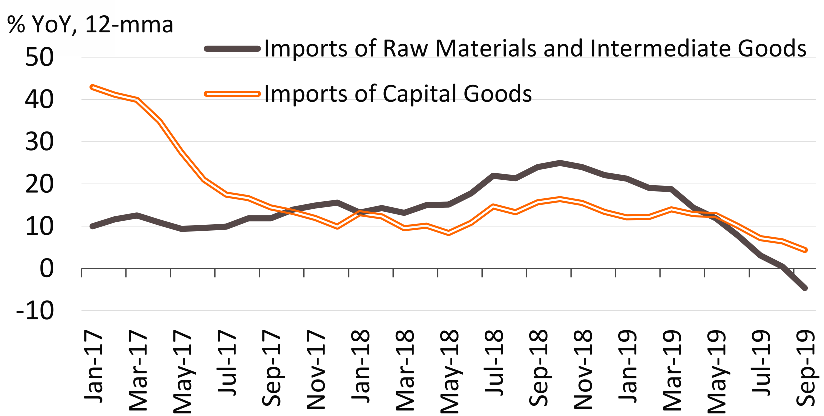
Contributions to real GDP growth (%)



Developments of major supply-side sectors



Indicators of private investment activity



Source: CEIC, Krungsri Research

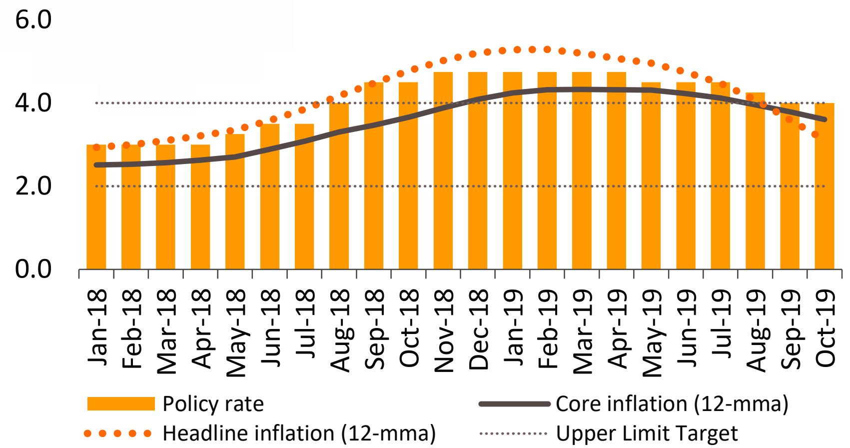
Krungsri Research's View

- Construction activity surged 16.3% in 3Q19 after contracting 9.8% in 1H19 due mainly to catch-up public spending on infrastructure projects. This should further crowd-in private investment in 2020, which has started to rebound in 3Q19 despite the latest readings being muted, especially the drop in imports of capital goods in 1H19 due to delays in infrastructure investment.
- Despite the promising approval of the 2020 budget, there are risks to the disbursement of government infrastructure spending. Weak implementation at line government agencies could cause disbursements to fall short of the target. In addition, infrastructure projects could be further constrained by the lack of both skilled and unskilled labor, especially in the construction sector.

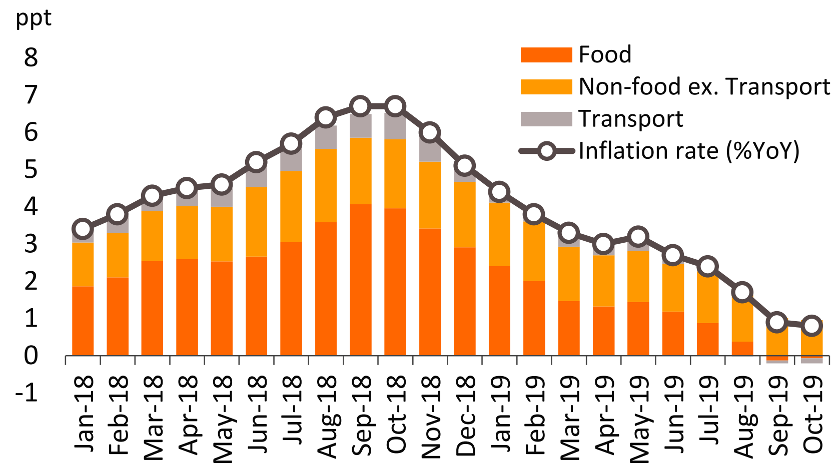
Monetary easing is not over

The Bangko Sentral ng Pilipinas (BSP), the Philippines' central bank, has signaled the rate cut for 2019 is over, but we expect the BSP to resume its easing cycle in 1Q20 by delivering another 25-bp rate cut because the growth outlook is disappointing at current policy rate of 4.0%. The resulting 3.75% policy rate is expected to remain unchanged throughout 2020. Fading upside risks to inflation, reflected by the BSP's revision of its latest baseline inflation forecast, and benign external conditions in the global financial markets, warrant the BSP's additional easing. We also expect the BSP to continue to reduce RRR to inject liquidity into the economy as banking system liquidity remains relatively tight despite the 200-bp cut in 2019. Easing monetary conditions subsequently should help to reignite private investment and support household consumption.

Trend of inflationary pressure and policy rate



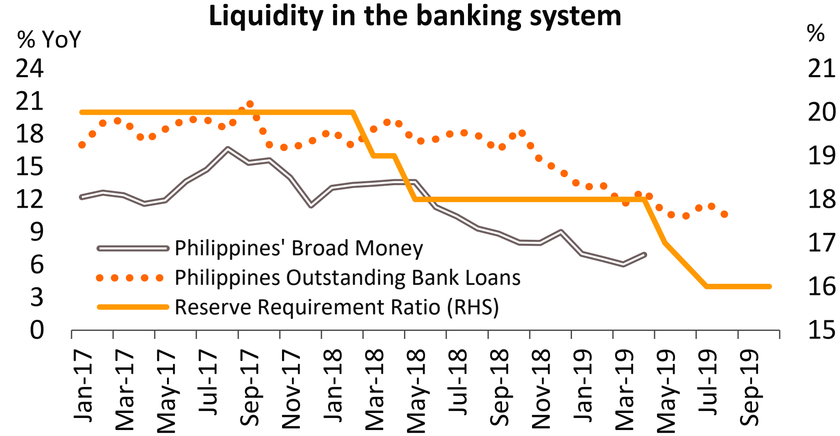
Sources of current inflation by major component



Bangko Sentral ng Pilipinas (BSP): Baseline inflation forecasts
(as of 14 November 2019)

	20 Jun Meeting	8 August Meeting	26 September Meeting	14 November Meeting
2019	2.7%	2.6%	2.5%	**2.40%**
2020	3.0%	2.9%	2.9%	**2.90%**
2021	n.a.	2.9%	2.9%	**2.90%**

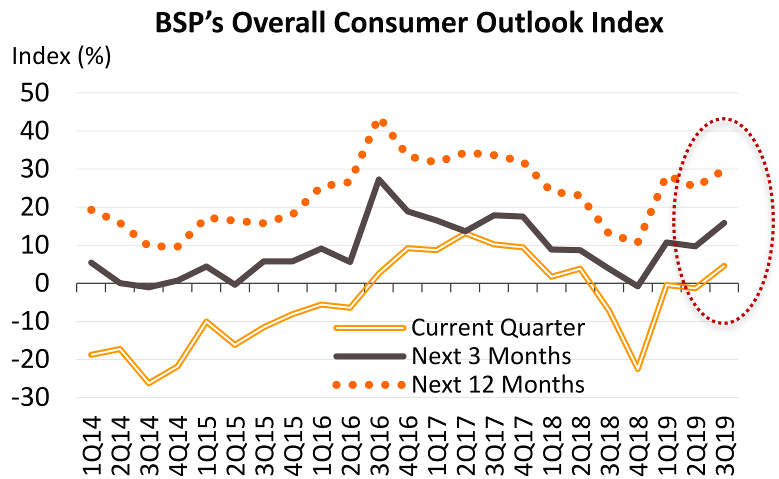
Liquidity in the banking system

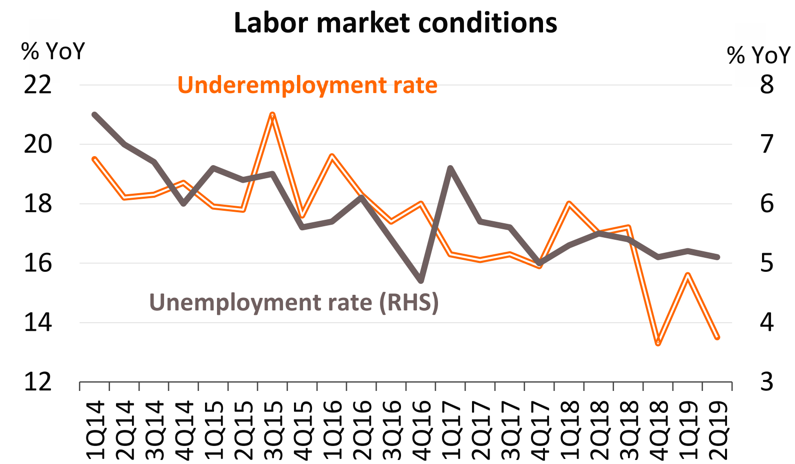


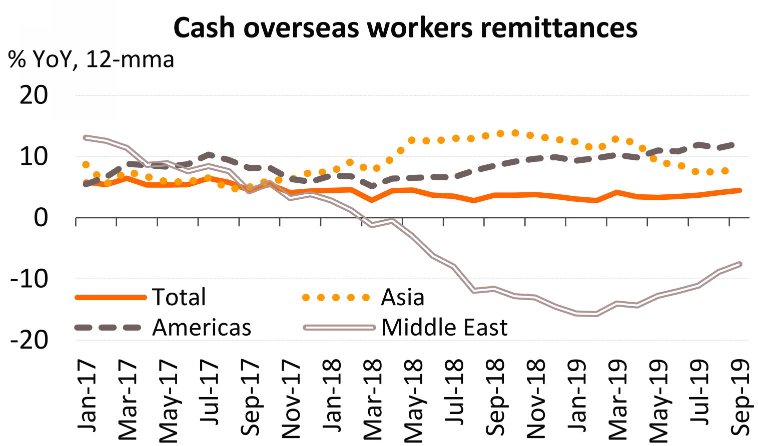
Source: CEIC, Bloomberg, Krungsri Research

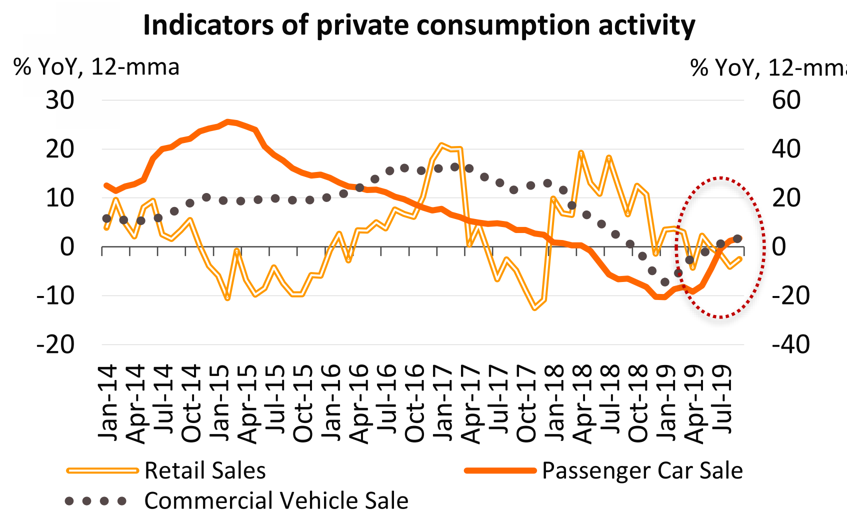
Consumption is firm, supported by benign inflation and remittance inflows

With growth averaging 6.0% in 2019, we expect household consumption which accounts for over two-thirds of GDP to remain resilient in 2020 and to continue to be one of the main growth drivers. Robust consumption should be supported by improving consumer confidence, strong labor market conditions, and inflows of overseas remittances. In addition, fading inflation and easing monetary conditions coupled with growth in loans for household consumption are also expected to boost consumption. Latest indicators for private consumption activity show signs of picking up, including vehicle sales.







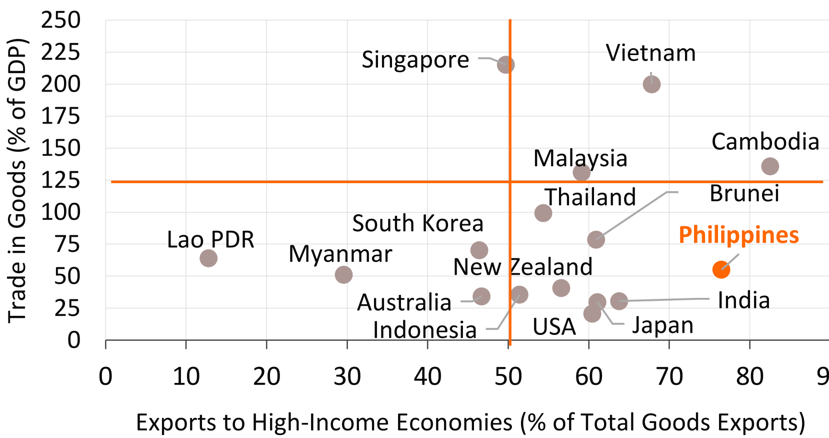


Source: BSP, CEIC, Krungsri Research

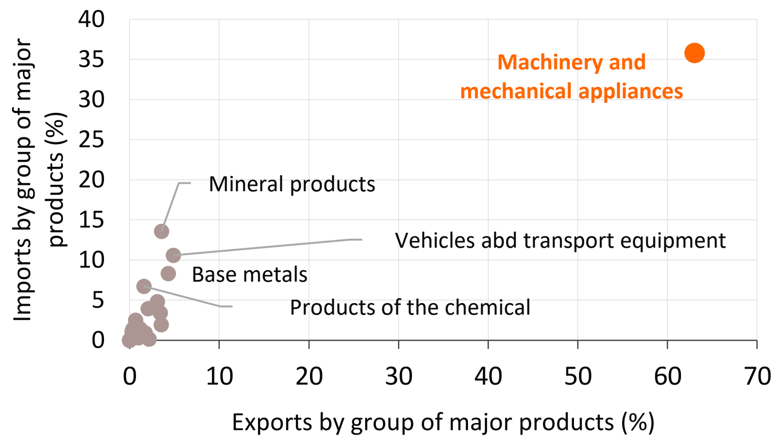
Weak demand in AEs dim the export outlook

Despite low dependence on international trade, deteriorating external conditions, especially weak demand in AEs and uncertainties over global trade policies will dim Philippines' export prospects in 2020. Structurally, the Philippines' exports rely strongly on AE markets which account for about 77% of its total exports, which means exports would be weighed on by anemic demand in these markets. In addition, its exports are concentrated in machinery and mechanical appliances (HS84 and HS85) and almost half of that is shipped to narrow markets including Hong Kong, the US, and China. This clearly poses downside risks to the total exports. Latest readings suggest that the exports of electronic products are weak. Additionally, rising domestic investment will drag the current account balance (CAB) into a negative territory in 2020.

Export dependence on advanced countries of selected countries[1/]

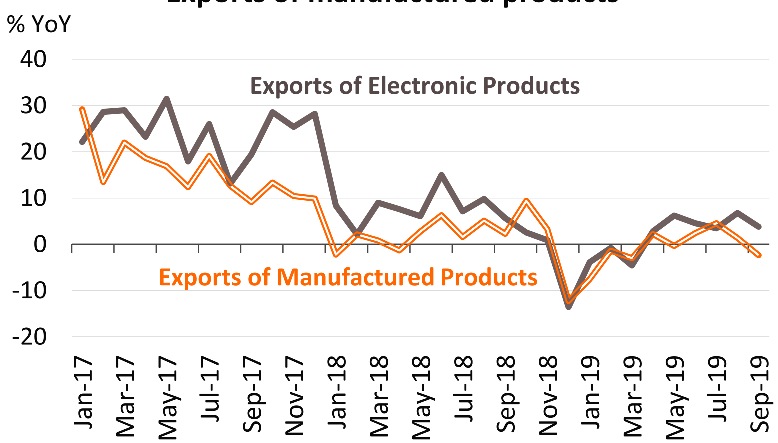


Structure of exports and imports by group of major products[1/]

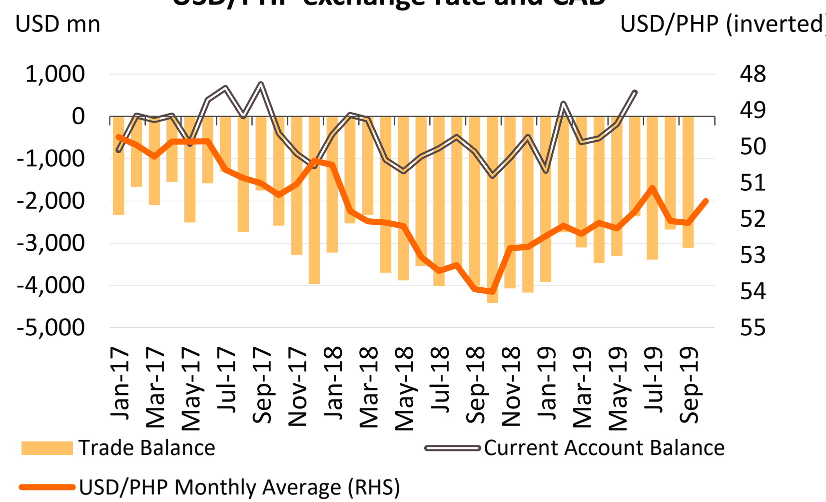


Note: 1/ Data as of 2018

Exports of manufactured products



USD/PHP exchange rate and CAB

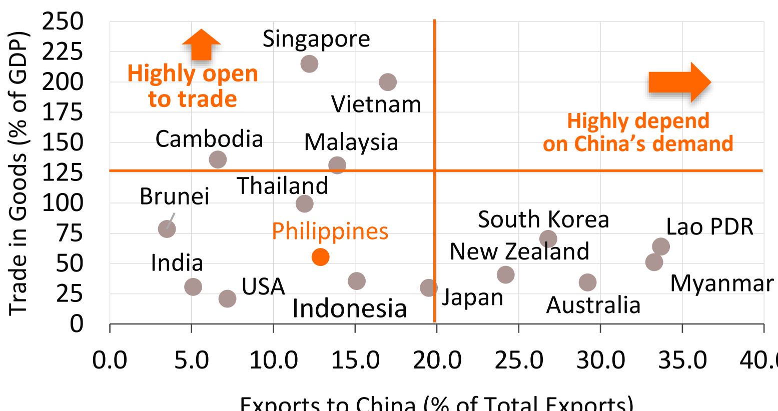


Source: CEIC, Trade Map, Krungsri Research

Trade tensions will hurt Philippines' electronics exports

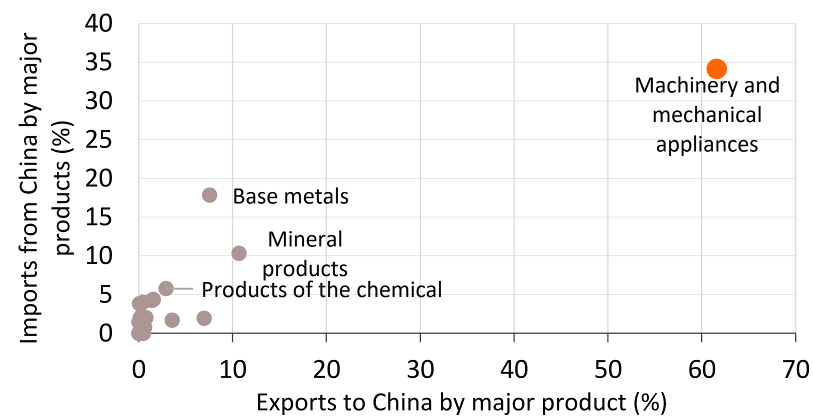
The unresolved US-China trade tension would further weigh on Philippines' exports in 2020 since its electronics industry is substantially linked to China's supply chains, despite its relatively low dependence on China as an export market compared to regional peers (about 13% of its total exports). However, China is a main market for Philippines' exports of machinery and mechanical appliances (HS84 and HS85) at more than 60% of the country's total exports to China. Trade tensions which have directly hit China's electronics manufacturing sector would be undoubtedly transmitted to China's trading partners along the supply chain, including the Philippines.

Export dependence on China[1/]

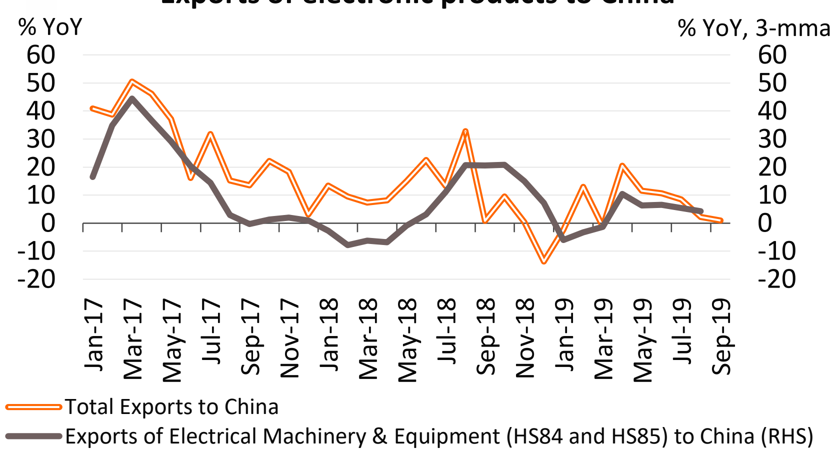


Note: 1/ Data as of 2018

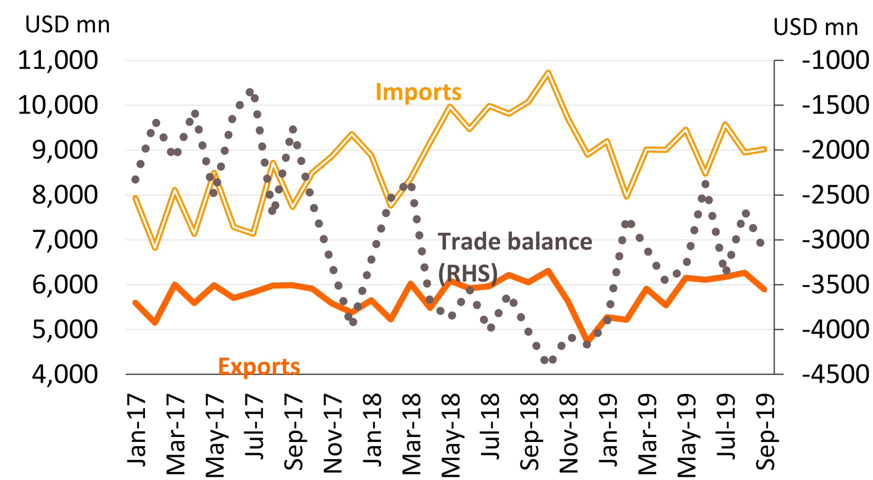
Exports to and imports from China by major product[1/]



Exports of electronic products to China



International trade and trade balance



Source: CEIC, Krungsri Research

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