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MONTHLY REGIONAL UPDATE

Aug 2020

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Regional Economic and Policy Developments in August

ASEAN

- Total remittances are expected to drop by between 9.9% and 18.6% from baseline in 2018.

Myanmar

- Government creates special economic zone in Mon State, capitalizing on strategic location to attract FDI.
- Japanese retailers are tapping into Myanmar's retail market, affirming vast opportunities.

Lao PDR

- To construct ASEAN's largest wind farm in the country, diversifying its energy generation mix.

Vietnam

- Vietnam re-imposing lockdown in Danang could retard recovery but full-year growth would remain positive.

Cambodia

- Cambodia launches measures to boost tourism; rising COVID-19 cases worldwide could delay travel bubble program.

Philippines

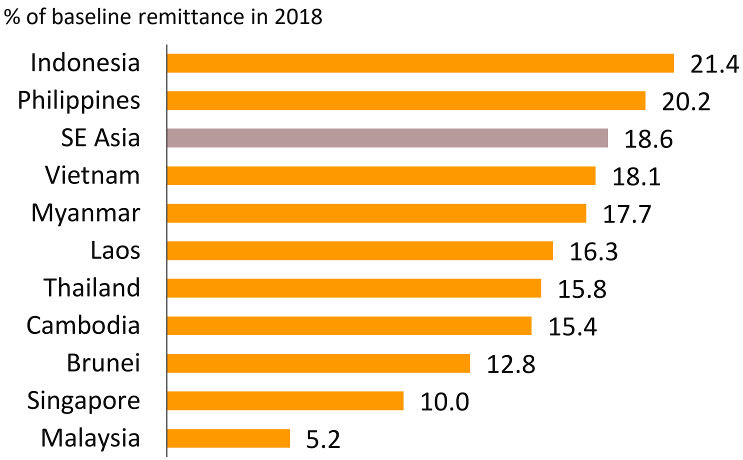
- Economy is in recession after GDP shrank by 16.5% in 2Q20; growth outlook could be derailed by a surge in COVID-19 cases.
- Real interest rate is now negative, but further monetary easing is likely.

Indonesia

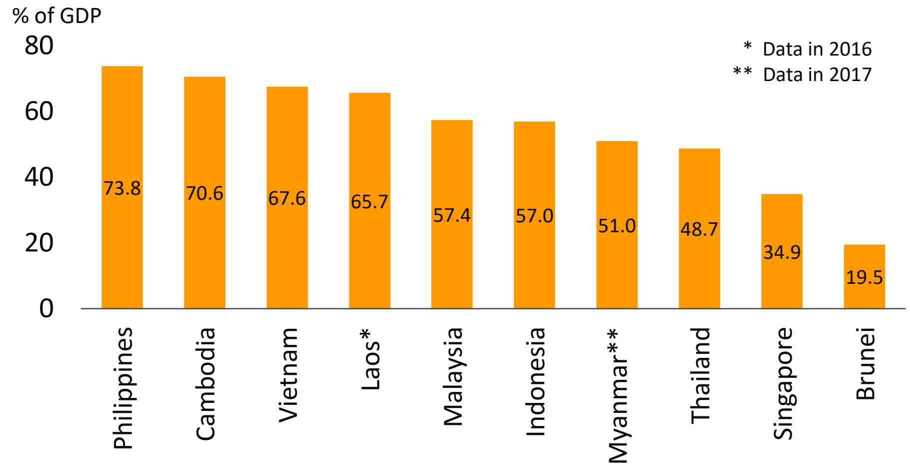
- 2Q20 GDP contracts by 5.3% YoY, the sharpest drop since 1Q99, but economy should have bottomed-out.

ASEAN: Total remittances are expected to drop by between 9.9% and 18.6% from baseline in 2018

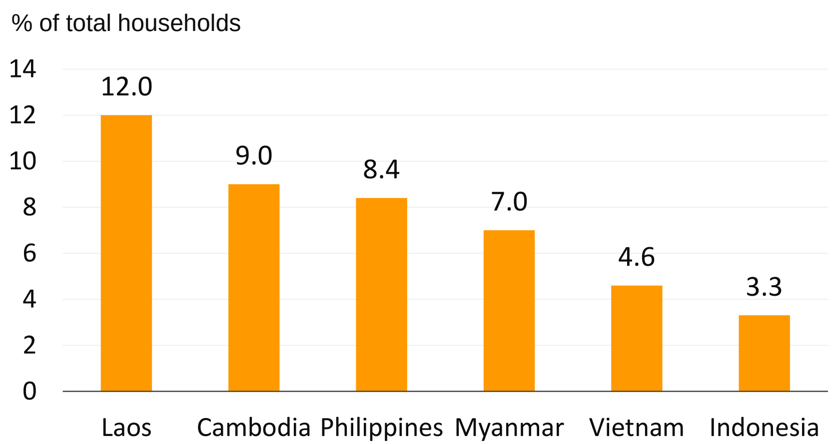
Remittances lost under worst-case scenario



Household consumption in ASEAN countries (2018)



Share of households with international remittance*



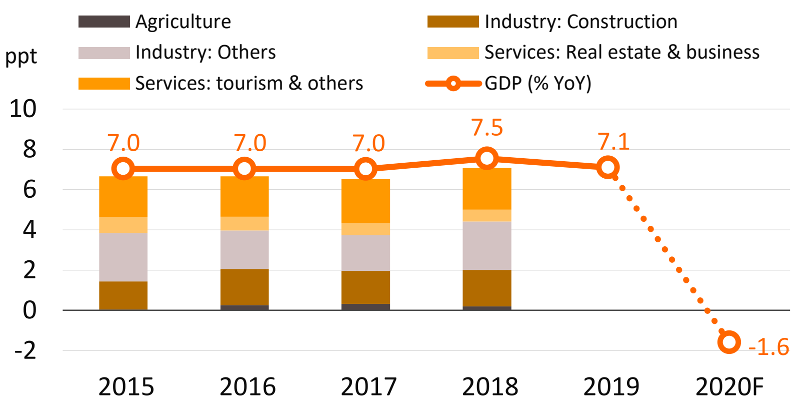
Note: * ADB compilation using data from Mahabub Hossain Panel Data 2014
Source: ADB (August 2020), CEIC, Krungsri Research

Krungsri Research's view

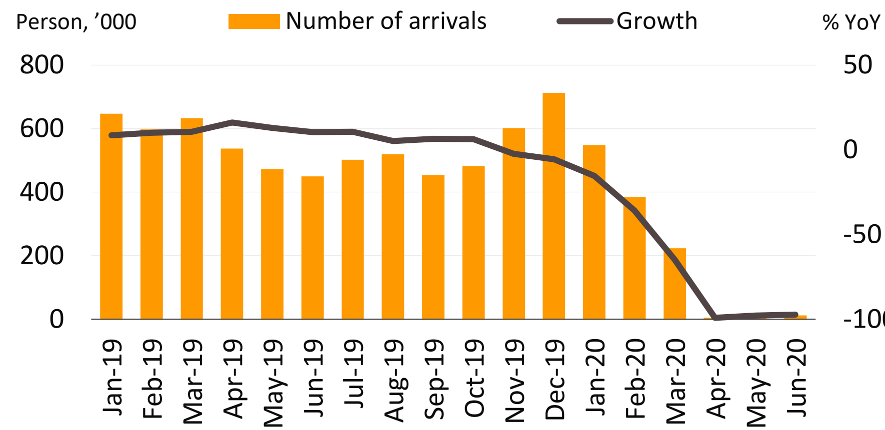
- The Asian Development Bank (ADB) estimates the pandemic would reduce total remittances in Southeast Asia (SE Asia) by between USD6.2bn (baseline scenario) and USD11.7bn (worst-case scenario) in 2020, equivalent to 9.9% and 18.6% of baseline in 2018, respectively.
- **SE Asian economies are driven substantially by household consumption, from more than 50% of GDP in Myanmar to 74% in the Philippines. Many households in these countries also depend on international remittances, from 3.3% of total households in Indonesia to 12.0% in Laos.** Hence, the sudden drop in remittance inflows due to the pandemic will hurt consumption of these countries, and the respective economies in 2020.
- **Philippines' economy would be hardest hit by the sudden drop in remittance inflows because household consumption accounts for 74% of GDP – the highest in ASEAN. Remittances are estimated to drop by 20.2% from baseline.**

Cambodia launches measures to boost tourism; rising infections worldwide could delay travel bubble program

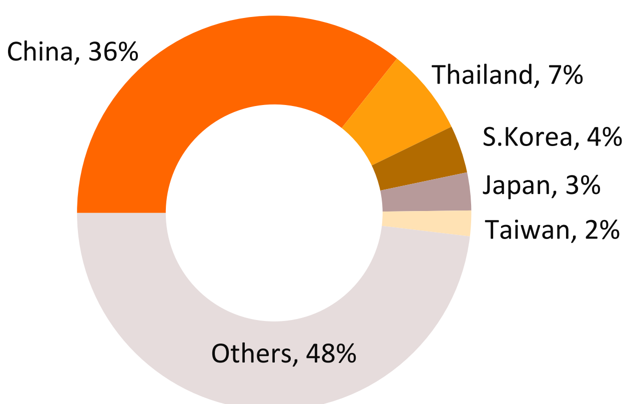
Cambodia: Contribution to GDP - Production side



Tourist arrivals



Major sources of tourists in Cambodia (2019)



Source: IMF, Ministry of tourism, Local media, CEIC, Krungsri Research

Krungsri Research's view

- **Cambodia's tourism sector contributes 18% of GDP. The COVID-19 impact is expected to cause the country to lose up to USD3bn of tourism revenue in 2020** (or 12.2% of GDP), according to the Ministry of Tourism. **Cambodia's government recently launched additional relief measures for tourism businesses**, including (i) tax exemption (including corporate income tax) in August and September, and (ii) USD40/month cash aid for suspended employees in tourism-related businesses. The government also plans to mobilize USD1.16bn (4.7% of GDP) to restore and help businesses weather the COVID-19 impact, including a USD500m loan program to help SMEs and a USD200m credit guarantee scheme.
- **The government also plans to attract more foreign tourists under the travel bubble scheme, initially focusing on ASEAN+3 (China, Japan, and S. Korea). These countries accounted for 68.4% of total visitors in 1H20.** Cambodia's international borders are opened but there are very few airlines flying to Phnom Penh and Siem Reap, except for repatriation flights for Cambodians returning home or for foreigners stranded in Cambodia. Since reopening its borders and allowing inbound international flights (restrictions apply) in late-May, Cambodia welcomed only a handful of foreign visitors in June. It would be difficult to boost international tourism, especially given the risk of a second COVID-19 outbreak in several countries and rising cases globally.

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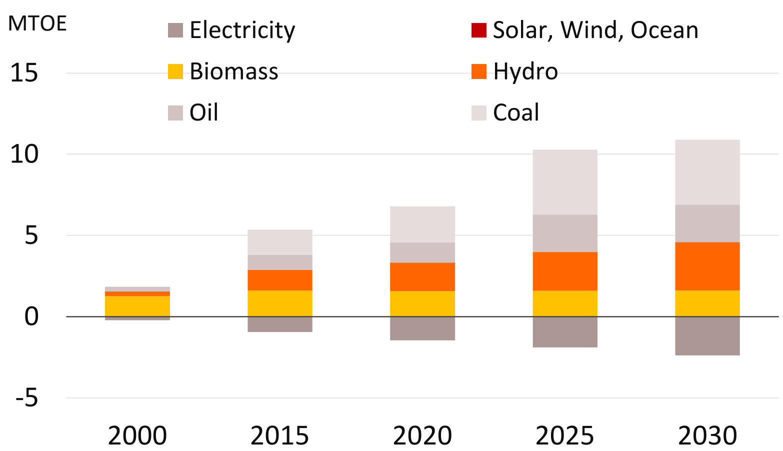
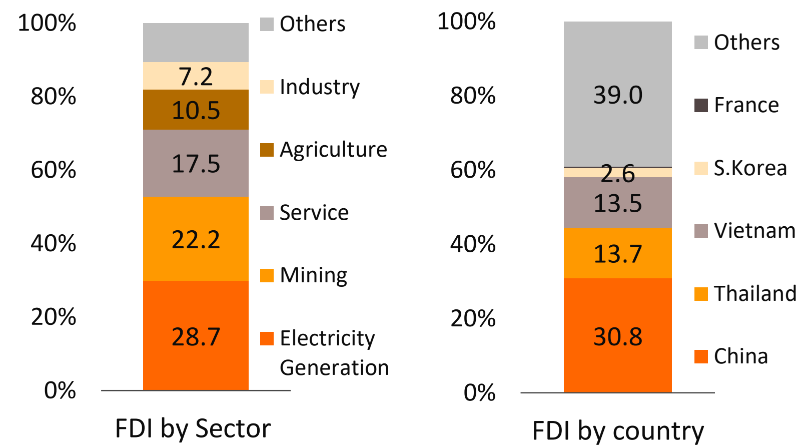
Lao PDR: To build ASEAN's largest wind farm in the country, diversifying its energy generation mix

Energy generation mix in Laos

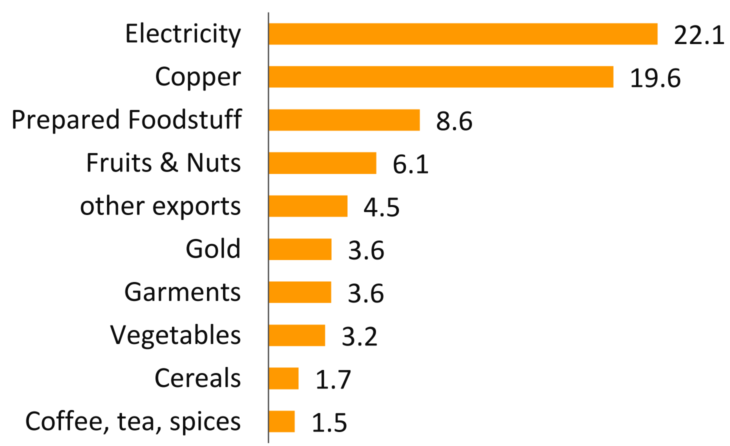


Cumulative FDI in Laos (1989-2018)



Top 10 Export Products (2018)

Unit: % of total exports



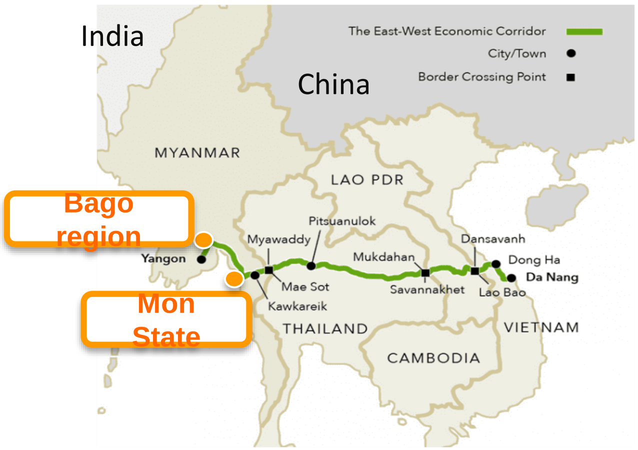
Source: Economic Research Institute for ASEAN and East Asia (ERIA), CEIC, Krungsri Research

Krungsri Research's view

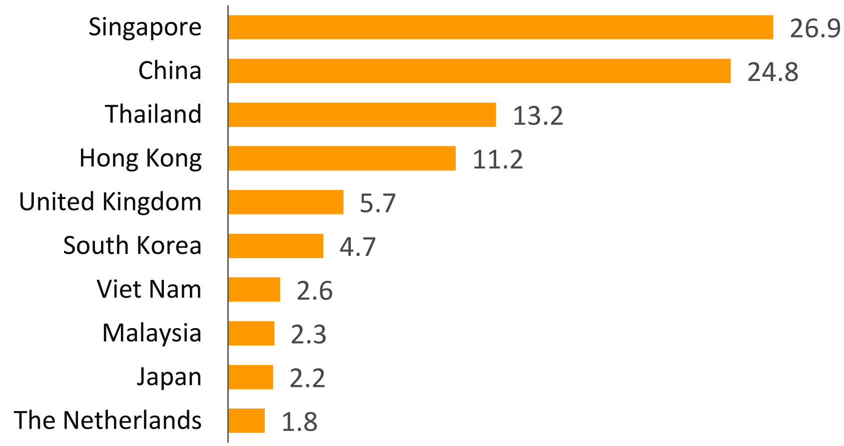
- One of Thailand's energy company (BCPG) has announced it would invest USD840m to build a 600 MW wind farm - ASEAN's largest wind farm - on a 64,000 hectare site in southern Laos, across from Ubon Ratchathani in Thailand.
- The wind farm will produce electricity for sale to state-run Electricity Vietnam (EVN). The purchase agreement will be signed in October 2020. Construction will start after the signing and the project is expected commence operation in 2023.
- **Electricity generation is the largest FDI destination in Laos, supported by the country's abundant natural resources for energy production. The wind farm project will support Laos' lead position in producing and exporting electricity in ASEAN.**
- **This could help increase FDI inflows and improve the labor market in Laos amid the COVID-19 impact on its economy. In the longer-term, the wind farm project could help the country diversify its electricity generation mix, from largely hydropower currently, which is raising a lot of environmental issues. It could also diversify its export markets and reduce its dependence on Thailand.**

Myanmar: Government creates special economic zone in Mon State, capitalizing on strategic location to attract FDI

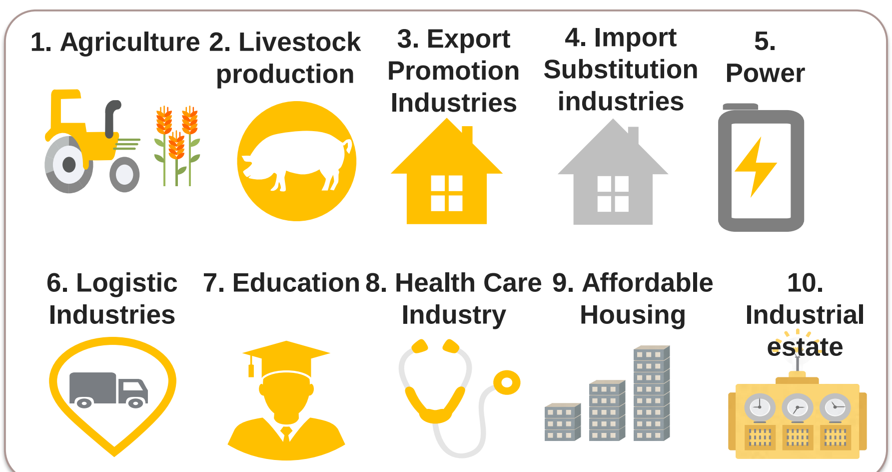
Major cities in the East-West Economic Corridor (EWEC)



Share of cumulative FDI inflows (approved) by source*



Priority sectors for foreign investors



Note: *% share of cumulative Permitted Enterprise (PE): Approved Amount, data as of June 2020
Source: Myanmar Investment Commission, Myanmar Business Today, CEIC, Krungsri Research

Krungsri Research's view

- Myanmar is developing a special economic zone (SEZ) in Mon State. The plan was unveiled by the State Counselor and Foreign Minister Aung San Suu Kyi in a Myanmar-Japan Investment Promotion online event on 31 July. Japan will support the new SEZ, which will allow Japanese manufacturers operating in Thailand and the Mekong basin to expand their production units there.
- **Mon State is a major trading center and seaport in south-eastern Myanmar. The new SEZ would promote intra-regional connectivity as part of the East-West Economic Corridor that would link Myanmar with Thailand, Laos, Cambodia and Vietnam.** In addition, the country has recently received loans from the Asian Development Bank (ADB) to construct an expressway between Mon State and Bago Region, in the northern part of Yangon city. This would improve the transportation and logistic networks for the new SEZ. **This project offers opportunities for investors and is a priority for the current government, covering major investment sectors from agri-business to export promotion, logistic services and industrial estates.**

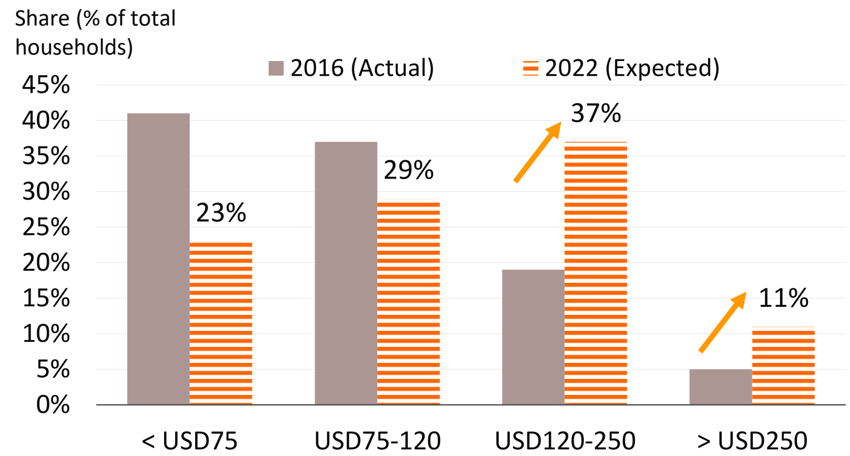
Japanese retailers are tapping into Myanmar's retail market, affirming vast opportunities

Investment criteria in Myanmar's retail & wholesale sector

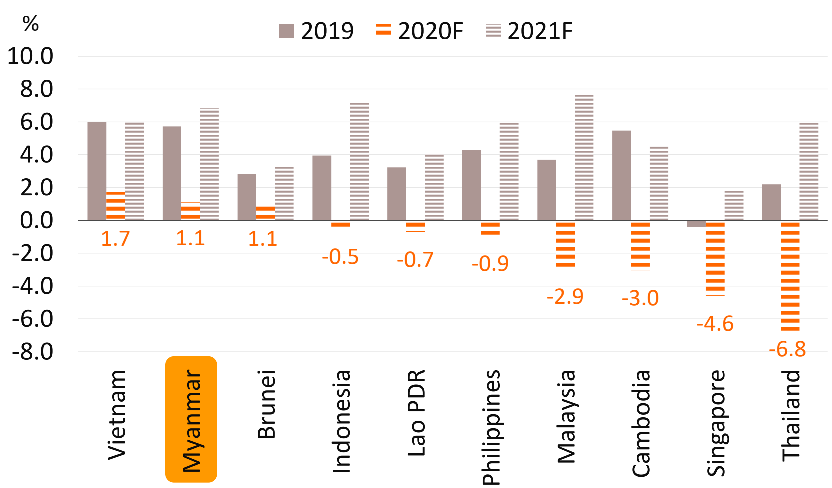
Criteria	Retail		
	Myanmar-owned company	**Joint venture**	**100% foreign-owned company**
Initial investment	Not specified	More than USD700,000	More than USD3m
Myanmar's shareholding	100%	> 20%	-

Criteria	Wholesale		
	Myanmar-owned company	**Joint venture**	**100% foreign-owned company**
Initial investment	Not specified	More than USD2 m	More than USD5m
Myanmar's shareholding	100%	> 20%	-

Average monthly income distribution



ASEAN: GDP per capita (purchasing power parity)



Source: Eurocham Myanmar: Business Guide 2020, Colliers International, CEIC, Krungsri Research

Krungsri Research's view

- In early August, the Myanmar Investment Commission approved a joint venture (JV) investment of USD180m between Aeon Mall Myanmar Co., Ltd. (70% of total investment) – a Japanese retail arm - and Shwe Taung Real Estate Co., Ltd. (30%) – a leading conglomerate in Myanmar. The first AEON MALL in Myanmar will be in Dagon Seikkan Township in Yangon. It will be a five-storey shopping mall with 1.2 million square feet of gross floor area and 2,300 parking lots. Construction will start in 2021 and the mall expected to open in 2023.
- **This latest move by Japanese investors reflects the huge opportunities in Myanmar's consumer market as it continues to open up its economy to foreign investors. We anticipate greater FDI inflows into the country over the medium-to long-term to capture the growing consumer market.** Myanmar's retail sector, especially modern trade, would continue to expand supported by rising household income. Myanmar is among few countries in ASEAN that is projected to see positive growth in per capita income this year, and has a large consumer market with a 60-million population. In May 2018, the country opened up its retail and wholesale sector to foreign investors by allowing 100% foreign ownership. The Ministry of Commerce has approved up to 34 foreign wholly-owned and 27 JV (foreign and Myanmar citizens) retail and wholesale businesses between July 2018 – December 2019. And, since the market opened up, modern trade has grown and currently accounts for 10% of Myanmar's retail sector. That share is expected to increase to 25% in 2020 (source: EuroCham's Consumer Goods Guide 2020).

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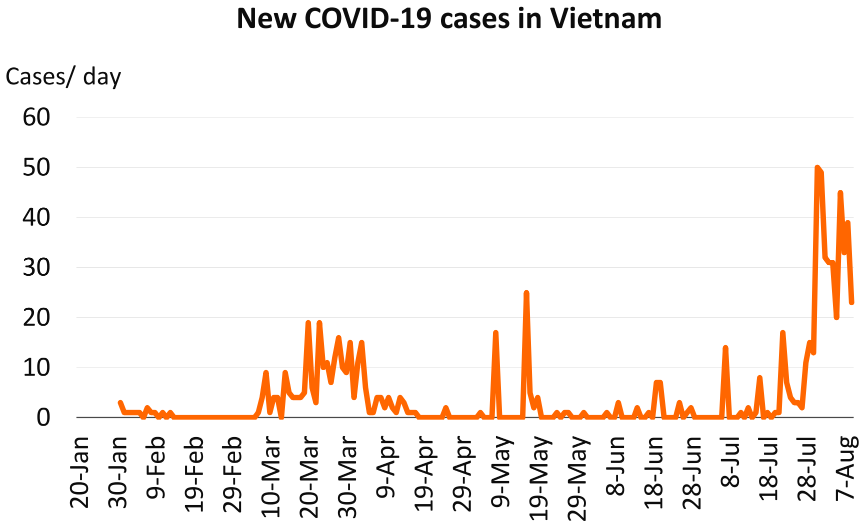
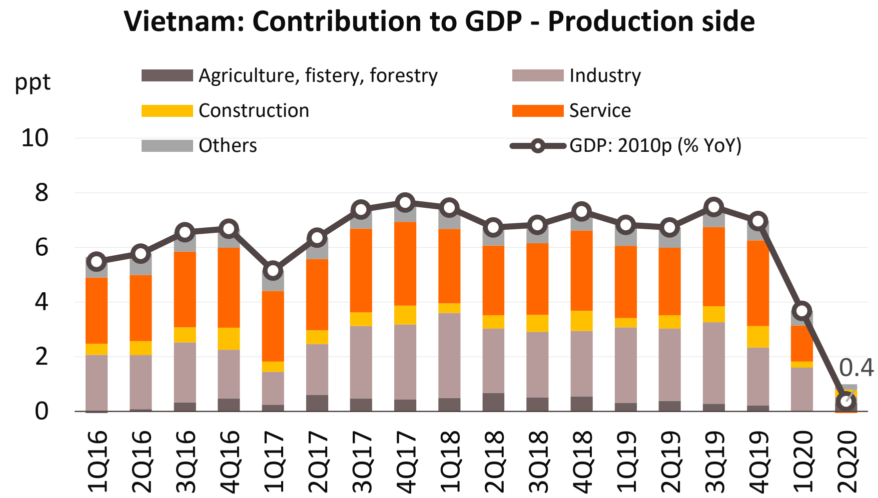
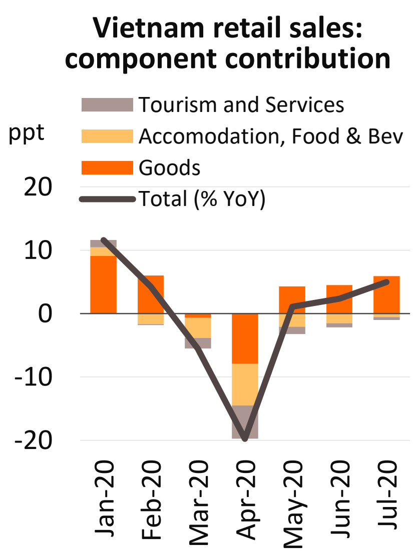
Vietnam: Re-imposing lockdown in Danang might drag recovery but full-year growth would remain positive







Source: WHO, GSO, CEIC, Krungsri Research

Krungsri Research's view

- Vietnam has re-imposed lockdown measures in Danang province, its 3rd largest city which accounts for 1.8% of national GDP. The 15-day lockdown starting 25 July is meant to contain a new cluster in the city. **The swift measure was prompted by fears of a second outbreak because the country has allowed domestic flights.**
- **The latest cluster has created uncertainty over Vietnam's economic recovery trajectory, and we project slower-than-expected growth in 2H20. However, we anticipate full-year growth would remain positive, driven by (i) solid fundamentals to support consumer spending, and (ii) positive prospects for FDI inflows** thanks to a favorable investment environment and the recently-signed European Union – Vietnam FTA (EVFTA). Recent data show a strong recovery in both retail sales and FDI inflows in Vietnam, rising for the third consecutive month since reopening the economy in late-April.

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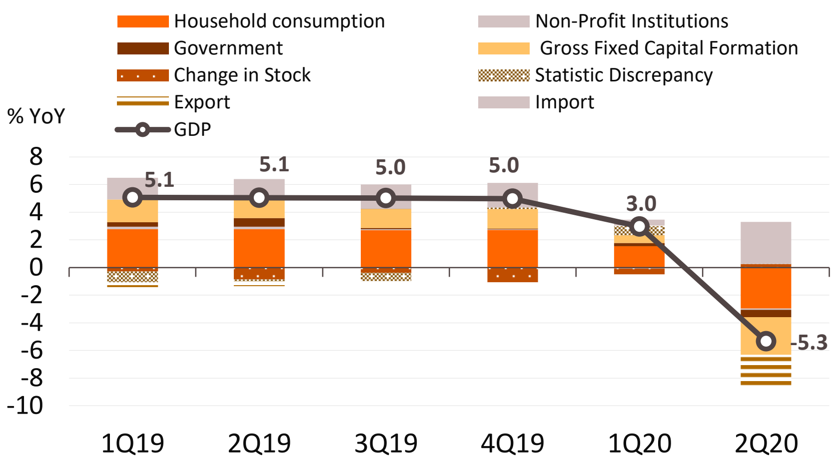
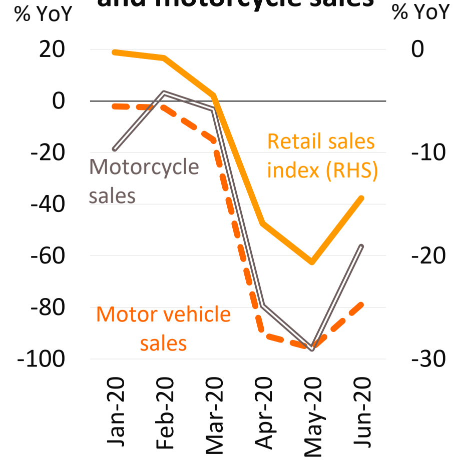
Indonesia: 2Q20 GDP contracts by 5.3% YoY, the sharpest drop since 1Q99; economy has bottomed-out

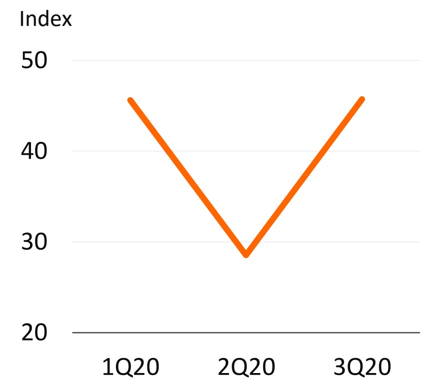
Indonesia: Contribution to GDP - Expenditure side



Indonesia's motor vehicle and motorcycle sales

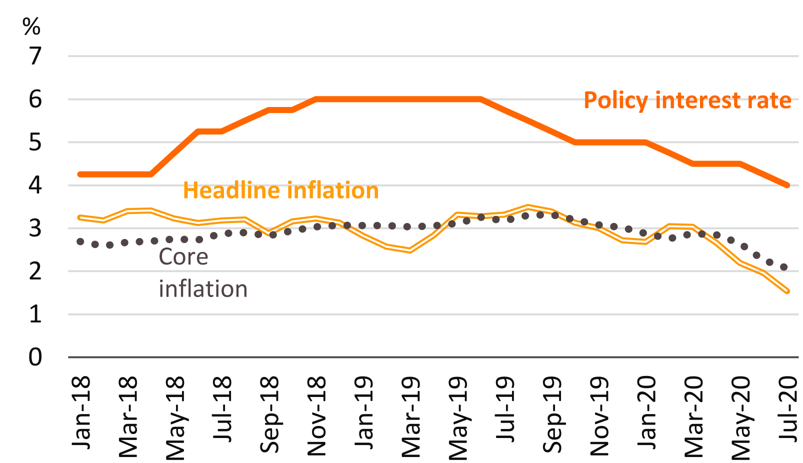


Bank Indonesia's Prompt Manufacturing Index* (PMI-BI)



Note: * the level below 50 means contraction

Indonesia's policy interest rate and inflation



Source: Bank Indonesia, Central Bureau of Statistics, CEIC, Krungsri Research

Krungsri Research's view

- Indonesia's economy contracted by 5.3% YoY in 2Q20, the sharpest drop since 1Q99. Key drag was the large-scale social distancing policy which had slowed down overall economic activity, consumption and investment.
- **Looking ahead, the economy has bottomed-out but would remain weak and register negative growth in 2H20. We expect a gradual recovery ahead, supported by (i) gradual relaxation of lockdown measures, (ii) further easing of monetary and fiscal policies to boost business liquidity and consumer spending.** Bank Indonesia has cut policy interest rate by a total of 100 bps this year, and we expect them to cut rate by at least 25 bps at the next meeting on 19 August to support growth, given benign inflation. The government has also recently announced it would accelerate disbursement of USD50bn expenditure. This includes IDR28.8trn (USD1.96bn) to pay an extra month salary to civil servants and state pensioners, and IDR37.7trn (USD2.7bn) in cash incentives for 16 million formal workers. Recently, there have been signs of improving economic activity, such as a rise in domestic retail sales and Bank Indonesia's *Prompt Manufacturing Index* (a survey of enterprises' expectations of manufacturing sector performance in the next quarter).

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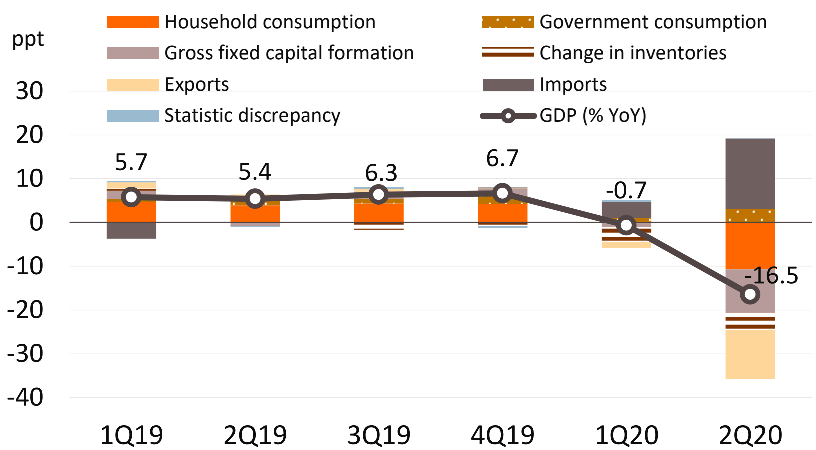
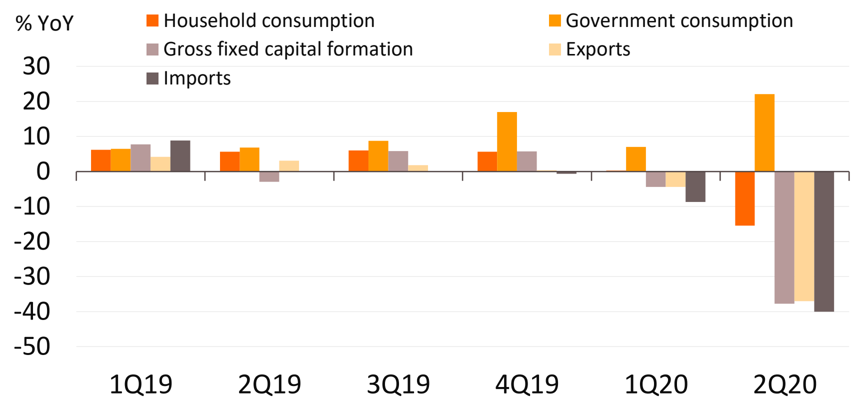
Philippines: Economy is in recession after GDP shrank by 16.5% in 2Q20; growth outlook could be derailed by a surge in COVID-19 cases

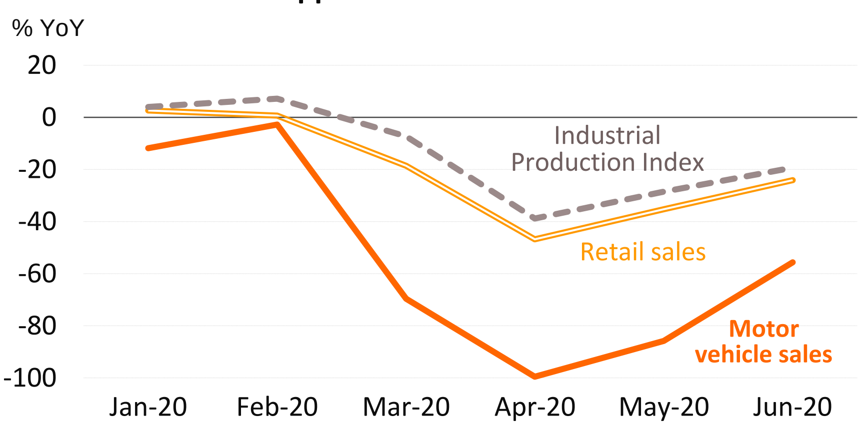
Philippines: Contribution to GDP - Expenditure side



Growth in economic activity by component



Philippines' economic activities



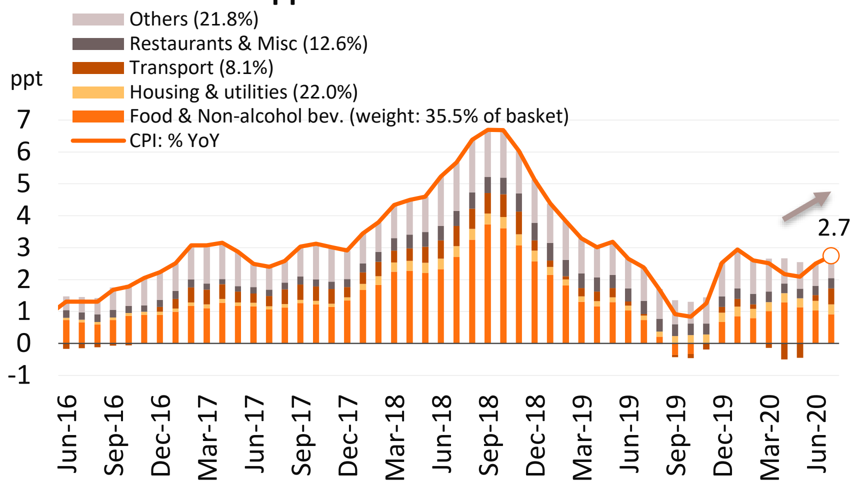
Source: Philippine Statistics Authority, Bangko Sentral ng Pilipinas, CEIC, Krungsri Research

Krungsri Research's view

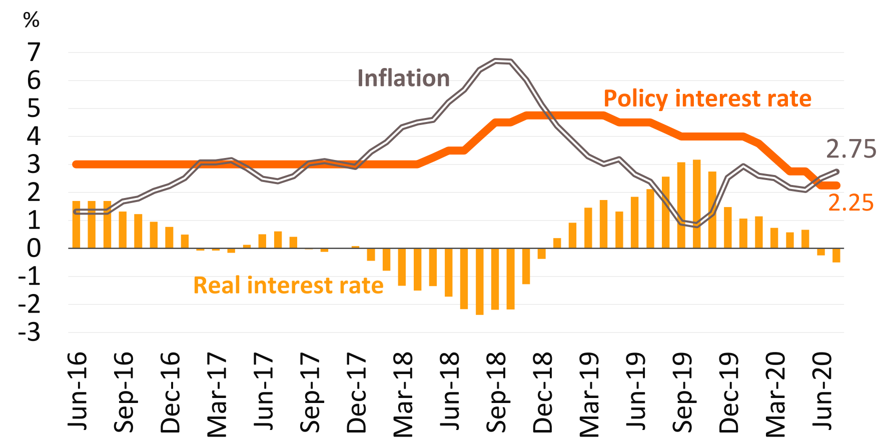
- **Philippines' 2Q20 GDP contracted by 16.5% YoY, deeper than -0.7% YoY in 1Q20 (revised) and the lowest since 1981. This was due to the lockdown during the quarter which reduced household consumption by 15.5% YoY – that component is the largest economic driver at 70% of GDP. Investment and exports also dropped by 38% and 37%, respectively.**
- **Looking ahead, we maintain that full-year 2020 GDP growth would be in negative territory because of weak demand.** Looking at 3Q20, the number of new COVID-19 cases has surged from an average of 1,700 daily in June to over 4,100 in early August. And, the government has re-imposed a 15-day lockdown in Manila and nearby provinces, which account for a combined 67% of Philippines' GDP. This would hurt the labor market and reduce consumer purchasing power further in the coming months. The ADB projects remittance inflows to the Philippines this year would drop by up to 20.2% from baseline (in 2018). In addition, the government has decided to revive the infrastructure program comprising 92 flagship projects valued at PHP4.1trn but that would take time to realize investment. These could derail a recovery in 3Q20. However, growth could accelerate in 4Q20 supported by easing monetary and fiscal policies.

Philippines' real interest rate is negative but further monetary easing is likely

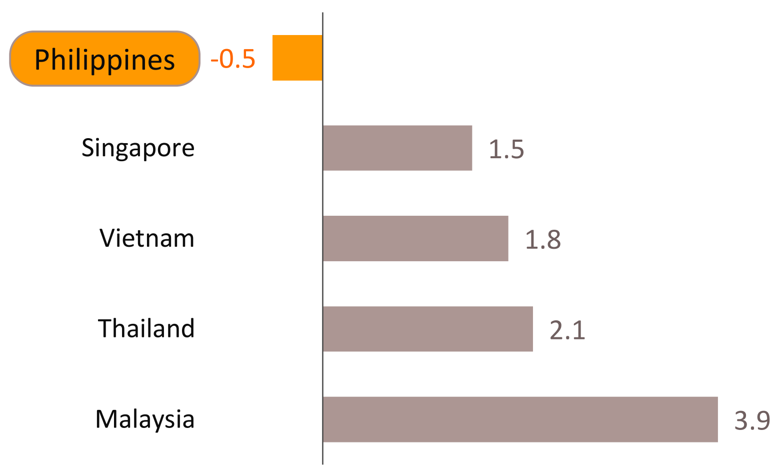
Philippines: Headline inflation



Philippines: Inflation and policy interest rate



Real interest rate (June 2020)



Note: *as of July 2020
Source: CEIC, Krungsri Research

Krungsri Research's view

- Philippines' annual inflation rate accelerated for a second straight month in July to a 6-month high of 2.7%, driven by rising costs of transportation, housing, water and gas, but remains within the government's target range of 2%-4% for the year. Meanwhile, the central bank's policy interest rate is at 2.25%. This means **real interest rate is in negative territory, the only nation in SE Asia to to register this.** However, the Philippines had experienced negative interest rates in the past few years.
- **We maintain that the authorities would continue to ease monetary policy,** such as reduce reserve requirement ratio (RRR) and cut policy interest rates, premised on the following: (i) inflation stays within the official target range of 2%-4%, and (ii) the economy falls into a recession as new COVID-19 cases continue to surge in the country.

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Somprawin Manprasert, Ph.D.	**Head of Research Division and Chief Economist**
Phornphan Phoksuphat	Head of Macroeconomic and Industry Research

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Macroeconomic Team

Sujit Chaivichayachat	Head of Macroeconomic Research
Chamadanai Marknual, Ph.D.	Senior Economist
Churailuk Pholsri	Senior Economist (Forecasting)
Soison Lohsuwannakul	Senior Economist (Regional Economy)
Sathit Talaengsatya	Senior Economist (Regional Economy)

Industry Team

Sarun Sunansathaporn	Head of Industry Research
Taned Mahattanalai	Senior Analyst (Construction Contractors)
Poonsuk Ninkitsaranont	Senior Analyst (Healthcare, Mobile Operators)
Piyanuch Sathapongpakdee	Senior Analyst (Transport & Logistics)
Narin Tunpaiboon	Senior Analyst (Power Generation, Modern Trade, Chemicals, Medical Devices)
Puttachard Lunkam	Analyst (Hotels, Construction Materials, Industrial Estate)
Wanna Yongpisanphob	Analyst (Automobile, Electronics & Electrical Appliances, Food & Beverages)
Patchara Klinchuanchun	Analyst (Real Estate)
Chaiwat Sowcharoensuk	Analyst (Agriculture)
Aphinya Khanunthong	Analyst (Energy, Petrochemicals)

Intelligence Team

Pimnara Hirankasi, Ph.D.	Senior Analyst
Talublugkhana Thanadhidhasuwanna	Senior Analyst (Financial Sectors)
Punjaphut Prasitdechsakul	Senior Analyst
Rachot Leingchan	Analyst
Arpakorn Nopparattayaporn	Analyst
Chutipha Klungjaturavet	Analyst

MIS and Reporting Team

Suratchanee Somprasong	Administrator
Thamon Sernsuksakul	Administrator
Chirdsak Srichaiton	MIS Officer
Wongsagon Keawuttung	MIS Officer

For research subscription, contact
krungsri.research@krungsri.com