

Cambodia, Laos and Myanmar Business Forecast Report Q1 2015

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Abstracts

Political Concerns To Weigh In 2015

Cambodia

Chinese assistance for Cambodia's economic development has ramped up considerably over recent years, and we believe that this is a trend that is set to continue. During Hun Sen's visit to China earlier in 2014, the Prime Minister secured an agreement that will see China provide USD500mn in grants and loans per annum to assist Cambodia in developing its woefully lacking infrastructure. Domestically, however, Cambodia continues to face significant political challenges despite the fact that the opposition has rejoined parliament. In particular, a group of Cambodians has lodged a complaint with the International Criminal Court (ICC) against a group of politicians, security chiefs, and business tycoons. The complaint alleges that Cambodia's ruling elite has systematically seized land from its rightful owners, and that in many cases this land has been sold to multinational firms. Given the strong vested interests associated with Hun Sen's regime, we believe that the probable inaction on the part of the government to address these issues will result in a further deterioration of support for the ruling CPP.

Laos

We believe ongoing efforts by the Laotian government to develop and strengthen the country's banking sector should help to place domestic banks on a much stronger footing over the coming years. Continued development of the sector would in turn provide the impetus for domestic banks to tap on the immense growth potential the underbanked local market has to offer. Strong economic growth momentum over the

coming years should also bode well for banks' earnings. We forecast the country to grow at an annual average growth rate of 6.7% from 2015 to 2024. In terms of politics, we expect a largely stable political environment, owing to the tight rein on power by the Lao People's Revolutionary Party (LPRP). That said, it is also precisely the desire of the LPRP to hold on to power that will lead to continued political repression against any kind of opposition to its rule. Growing public dissent against the government will therefore continue to weigh on the country's long-term political trajectory.

Myanmar

November's ASEAN summit in Myanmar shone the spotlight on the country's political reform drive, which we believe has lost considerable momentum over recent months. In particular, the government has not shown the willingness to make substantive amendments to the constitution, suggesting that opposition leader Aung San Suu Kyi will not be allowed to run for president in 2015's general elections. Furthermore, it looks increasingly likely that the military (Tatmadaw) will retain its automatic 25% share of seats in parliament. Combined with efforts from the ruling USDP to adopt a proportional voting system rather than the first-past-the-post system that has been used in the past, it is likely that the USDP and Tatmadaw will maintain a considerable preference beyond the upcoming elections. At the same time, we also note rising risks that general elections may be postponed, as the government has tied the elections to a nationwide ceasefire which is looking more tenuous by the day.

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Heightened Scrutiny Over Land Policies

The increased international scrutiny of the Cambodian government's land policies, including a petition filed at the International Criminal Court, is likely to deter foreign investors from undertaking projects in the country. However, we believe that a change in government policy remains a long way off, as the continuation of the current system of patronage is crucial for Prime Minister Hun Sen to retain his tight grip on the levers of power.

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Addressing Corruption And Inequality Will Be Key To Stability

Cambodia's long-term political outlook largely depends on the ruling Cambodian People's Party (CPP)'s ability to address widespread corruption and income inequality, which have been fuelling public dissent against the government in recent years. The recent rise in support for the main opposition party shows that the CPP's grip on power is waning, which could lead to heightened political uncertainty over the coming years.

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China Assistance To Boost Growth Potential

Cambodia's infrastructure is set to benefit from an acceleration in economic support from China over the coming years. The establishment of Silk Road Fund by the Chinese government should be hugely beneficial to Cambodia's infrastructure, helping the economic to move up the value chain in industries such as garment manufacturing.

CHAPTER 2.1 POLITICAL OUTLOOK – LAOS

Domestic Politics

Unending Political Repression To Jeopardise Foreign Aid

Political liberalisation in Laos will remain hard to come by, as we expect the Lao People's Revolutionary Party to keep a tight grip on governance. Political repression will

therefore likely persist, placing downward pressure on foreign aid.

Table: Political Overview

Long-Term Political Outlook

Growing Dissent Against LPRP Poses Risk Of Upheaval

Laos's long-term political outlook will depend heavily on how well the country balances the need to spur economic growth to achieve its Millennium Development Goals and the need to address widespread corruption and dissent against the government.

CHAPTER 2.2 ECONOMIC OUTLOOK – LAOS

Economic Activity

Banking Sector Development To Progress At A Gradual Speed

The ongoing development of Laos' domestic banking sector will allow local banks to tap on the immense growth opportunities brought about by continued strong economic growth and an underbanked local market. That said, progress on this front will be gradual, as a deteriorating fiscal position will delay banking infrastructure development in the country.

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ASEAN Summit Highlights Reform Struggles

The 25th ASEAN Summit has once again shone a spotlight on Myanmar's widely-followed economic and political reform process. Although economic reforms have maintained momentum over recent months, political reforms have stalled in some areas, and we note that the struggling national ceasefire process in particular could endanger next year's crucial general elections. Should these elections not go ahead as planned, Myanmar's economy could be hit by a rapid deterioration in foreign investor perception.

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Long-Term Political Outlook

Regime Change From Within?

Myanmar remains one of very few Asian states to have withstood the tide of democratisation since the 1980s. Although Myanmar held its first elections in 20 years in November 2010, these were widely considered a sham, with the military-backed Union Solidarity and Development Party winning most of the seats. However, the government has since mid-2011 embarked on a surprisingly strong reform path that is leading to its re-emergence on the international scene.

CHAPTER 3.2 ECONOMIC OUTLOOK – MYANMAR

Economic Activity

Moderate Kyat Sell-Off In Line With Medium-Term Forecast

The Myanmar kyat's recent sell-off is in line with our expectations for the currency to gradually depreciate as a result of the country's rising trade deficit as well as moderate to high inflation. As such, we are happy to maintain our forecast for the unit to end 2014 at MMK1,015/USD before selling off further to MMK1,046/USD by the end of 2015.

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