

# Cambodia, Laos and Myanmar Business Forecast Report Q4 2013

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## Abstracts

Political Risks The Key Concern

### Cambodia

Following the disputed general election result at the end of July, where preliminary results showing a Cambodian People's Party (CPP) victory were strongly rejected by the Cambodia National Rescue Party (CNRP), a period of political deadlock is at hand.

With bipartisan talks to investigate the disputed polls breaking down, and rumours swirling that the CNRP may boycott parliament, we have downgraded Cambodia's short-term political risk ratings to reflect the rise in uncertainty caused by the CPP's loss of dominance. For similar reasons, however, we have upgraded the long-term ratings, as a reduced concentration of power is a positive step towards strengthening the country's democracy.

That said, we believe that Cambodia's crucial tourism industry faces risks from the political instability arising from the deadlock. While we remain bullish on the Cambodian tourism industry and do not expect these developments to curtail growth, we cannot rule out a negative shock, particularly in the event that Prime Minister Hun Sen cracks down on protesters.

### Laos

Investment flows into Laos remain strong despite concerns towards the government's decision in mid-2012 to bar new mining investment and its refusal to grant land concessions for certain agricultural purposes. We believe that the energy sector, and in

particular the hydropower sector, will continue to attract a majority of foreign investment into the economy going forward. Meanwhile, we also believe that Laos has the potential to become both a consumer and producer of electric vehicles, and Vientiane's decision to partner with the Japan International Cooperation Agency suggests that the country may witness an emerging presence of Japanese automakers going forward. Additionally, development of Laos' financial sector continues apace as the Laos Securities Exchange looks to increase the number of companies listed on the local bourse, and also expand the exchange's product offerings. That said, we expect the exchange to face an uphill task in meeting its objectives as financial education remains sorely lacking. Going forward, we expect to see a growing presence of foreign banks within the country as foreign investment continues to plough into the country and foreign investors maintain their preference for borrowing from non-domestic sources.

## **Myanmar**

Myanmar's ongoing reform story continues to impress, and has largely met our expectations thus far. Key developments include a spate of important reforms, ranging from 2012's Foreign Investment Law to more recent achievements such as the Central Bank and Telecoms laws, which were approved in July and August, respectively. While the ability to pursue continued reforms will remain one of the key pillars of Myanmar's growth story going forward, we nevertheless note that the greater overarching theme to keep an eye on is still political stability, which should not be taken for granted. In particular, we note that 2015's general elections will provide a major test of the ruling USDP's resolve to allow Myanmar to develop into a full democracy, and that free and fair elections in the style of 2012's by-elections are far from guaranteed. While our core view assumes that reforms will continue to be on a solid footing beyond 2015, we stress that political risks are still a prescient concern for anyone looking to do business in Myanmar.

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