



Research Briefing

Emerging markets

New Asian frontier markets

Bangladesh, Cambodia, Lao PDR, Myanmar

October 18, 2012

Authors

Syetarn Hansakul
+65 6423-8057
syetarn.hansakul@db.com

Donata Wollensak

Editor

Maria Laura Lanzeni

Deutsche Bank AG
DB Research
Frankfurt am Main
Germany
E-mail: marketing.dbr@db.com
Fax: +49 69 910-31877

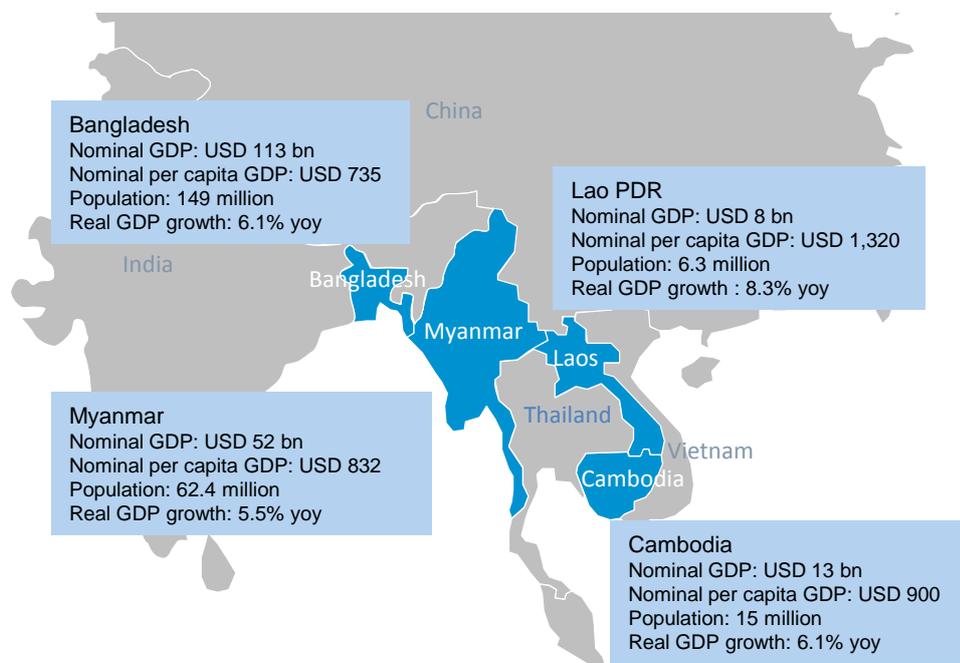
www.dbresearch.com

DB Research Management

Ralf Hoffmann | Bernhard Speyer

This note seeks to put in perspective the economic development of Bangladesh, Cambodia, Laos and Myanmar. All of these countries have very low per capita income but have been experiencing high growth rates, with annual average GDP growth of 6.3% in the 1990s and almost 8% in the 2000s. In the medium term, we expect real GDP growth to remain strong at 6-8% p.a. At a time when developed market economies are still recovering from the financial crisis, Europe is slipping into a second recession and even large emerging markets such as China and India are slowing down, it is worthwhile to take a closer look at countries in an early stage of “emergence”.

The new Asian frontier markets form a region of promising potential. Nominal GDP of the four countries together is comparatively low at USD 187 bn, around one-fifth of the ASEAN-5¹ total and less than one-tenth of the Asian Tigers². But fast growth has enabled the group’s economic size to more than double since 2005, and it is projected to reach USD 294 bn by 2017, roughly the current size of Malaysia.



Source: DB Research; 2011 data

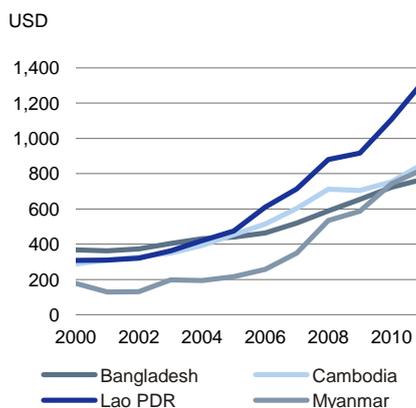
¹ Indonesia, Malaysia, Philippines, Thailand and Vietnam
² Hong Kong, Singapore, South Korea, Taiwan



New Asian frontier markets

Rapid growth in GDP per capita

1



Sources: IMF, DB Research

Energy wealth, low labour costs and trade concessions are main competitive advantages. The main industry of Bangladesh and Cambodia is textiles, while the energy sector features prominently in Myanmar and Laos. The region's labour costs are attractive, and there are also special concessions for the import of goods from these markets. For example, their goods enjoy duty-free access to the EU. These advantages make them attractive as a manufacturing base.

Macroeconomic stability has improved over the years. These economies have seen declining or stable public debt as a percentage of GDP. Fiscal deficits have stayed below 6% of GDP. The external debt profile reveals a high proportion of long-term debt, which mitigates refinancing risks. Current account deficits are high, except in Bangladesh.

Trade with the world looks set to grow. Laos and Myanmar mainly trade with other Asian countries. Bangladesh and Cambodia exports are more global than regional; their main destination is the US. Laos is seeking WTO membership by the end of 2012 and Myanmar just returned to international markets last April as the US lifted its sanctions. In addition, as Cambodia, Laos and Myanmar are part of ASEAN, they stand to benefit from the ASEAN Economic Community (AEC) which is set to start in 2015, leading to a lifting of intra-ASEAN barriers on labour and capital movements.

Underdeveloped infrastructure, financial markets and institutions. Physical infrastructure in these countries is very limited, capping the growth potential. Social indicators remain poor, and in Myanmar and Bangladesh political conflicts need to be managed. State ownership limits competition in the banking sector. Rapid credit growth should be monitored, since it could potentially cause overheating and lead to a hard landing if not properly managed. These shortcomings notwithstanding, the countries' early stage of development should allow for "easy" productivity gains during an initial investment-led growth phase.

Key economic indicators

2

2011 data

	Bangladesh	Cambodia	Lao PDR	Myanmar
Nominal GDP, USD bn	113.0	12.9	7.9	51.9
Real GDP growth, % yoy	6.1	6.1	8.3	5.5
Nominal GDP per capita, USD bn	735	900	1,320	832
Population	148.5	15.1	6.3	62.4
CPI, % yoy	10.7	5.5	8.7	4.2
Fiscal balance, % of GDP	-4.1	-4.1	-2.9	-5.9
Current account, % of GDP	0.0	-8.1	-21.4	-2.6

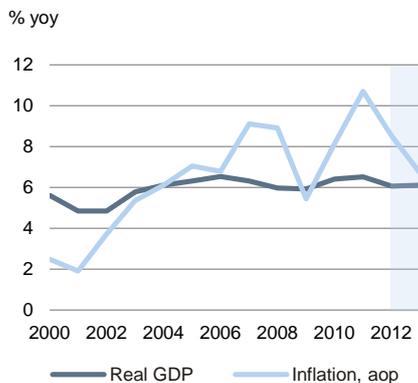
Sources: IMF, DB Research



Bangladesh: Large population, strong growth supported by workers' remittances

Bangladesh: Growth & inflation

3



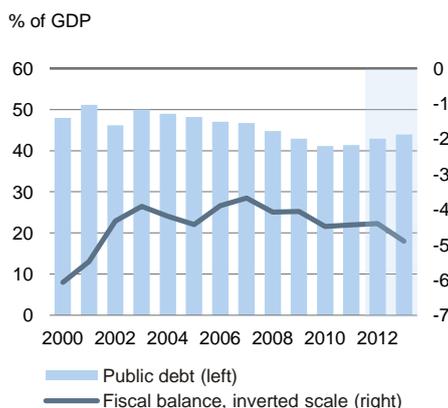
Source: IMF

Key facts

Bangladesh, a parliamentary democracy since 1991, has a population of nearly 150 million people, comparable to Pakistan's 175 million. Nominal GDP is USD 114 bn, the largest of the countries in this study. However, its nominal GDP per capita is the lowest, at USD 735 in 2011. The country's large population size provides opportunities not only as a huge pool of labour, but also as a big domestic market. Bangladesh's main industry is textiles, which accounts for 67% of total exports. This heavy reliance on a single industry increases the vulnerability of the export sector. The main export markets are the US and the EU, which take 80% of total exports, another concentration risk source. In the past five years Bangladesh experienced stable and robust growth rates of about 6%.

Bangladesh: Public debt and fiscal balance

4



Sources: WEFA, DB Research

Political outlook

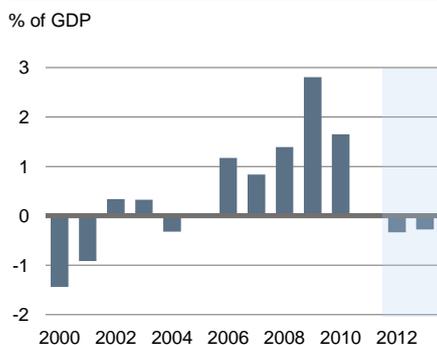
The overall political situation is stable but there are risks that high inflation could aggravate social tensions. The ruling party, Awami League, won the elections in 2008 with a large majority (more than 75% of votes) and is expected to stay in power throughout the current legislative period until 2014. A key problem that needs to be addressed is poverty, as about one-third of the population lives below the poverty line. Food prices and income distribution, especially for farmers, need to be addressed. Occasional violence between religious and ethnic groups is also a threat.

Economic outlook

Bangladesh faces two major economic challenges – limited energy supply and high inflation. As energy demand exceeds supply, power rationing is unavoidable. The shortage in energy is caused by outdated power plants and miscalculation of power demand. Inflation may decline from its peak, but it will persist at one of the highest rates in Asia (about 10% in 2012), driven mainly by high energy prices and structural inefficiencies, similar to India.

Bangladesh: Current account

5



Source: IMF

Macroeconomic stability compares favourably to peers in the area of external liquidity, since the current account has been in surplus in recent years due to large remittances, although a small deficit is projected during the next few years. Bangladesh's fiscal deficit is high compared to that of other countries covered in this note, at around 4% of GDP. Public debt is above 40% of GDP and projected to rise moderately. While the fiscal outlook is not deteriorating significantly, consolidation is not assured either.

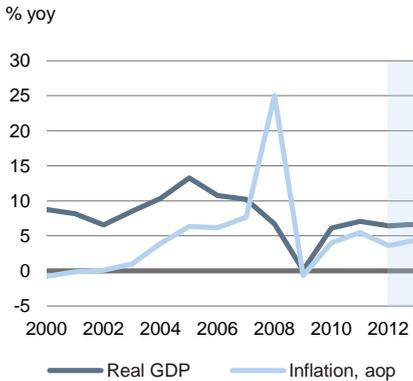
All in all, Bangladesh's economic outlook is positive. Real GDP growth is likely to stay around 6% yoy and may accelerate further in the medium term if investment in infrastructure takes off. Remittances, mainly from workers in the Middle East, bolster external revenues, but they are dependent on the situation in the Gulf region. At 10.5% of GDP, Bangladesh's remittances/GDP ratio is the highest in the world.



Cambodia: Positive growth outlook with diversification challenges

Cambodia: Growth & inflation

6



Source: IMF

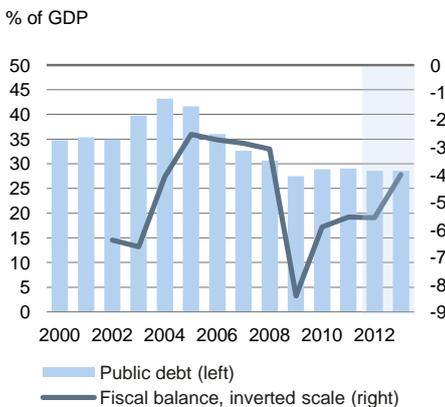
Key facts

Cambodia has a small economy, with nominal GDP of USD 13 bn in 2011, around 10% of Bangladesh's. Per capita income is also low, at USD 900. The economy is heavily dependent on the garment industry, which accounts for around 70% of total exports. Over-dependence on textiles caused Cambodia's growth to dip from 6.7% in 2008 to 0.1% yoy in 2009, during the global recession. The government now tries to promote rice exports to diversify the export sector.

Agriculture's share in GDP has been declining but remains substantial at 36%. Around 80% of the total population work in agriculture. Within services, tourism is a key sector, accounting for 12.5% of GDP. Around 2.5 million tourists visited Cambodia in 2010 and brought USD 1.4 bn in revenue. The local economy is heavily dollarised; more than 95% of the broad money supply is in US dollars.

Cambodia: Public debt and fiscal balance

7



Sources: WEFA, IMF

Political outlook

Democracy was established in Cambodia in the early 1990s, but in practice it resembles a one-party-state, with the ruling party having a strong grip on parliament. Political challenges could, however, come from demands for economic reform and governance. Economic diversification will likely have repercussions on land and property rights. A sound legal framework will be needed in order to prevent lands grabs and social discontent.

Border relations between Cambodia and Thailand have been tense. A clash over the territory surrounding the Preah Vihear temple was solved in June 2011, but the sovereignty dispute over the Gulf of Thailand has yet to be fully resolved.

Economic outlook

Cambodia's economic outlook is positive with real GDP back on track for 6% annual growth in the near term and the potential to accelerate to 7%+ in the medium term, assuming successful economic diversification and continued inflows of foreign investment.

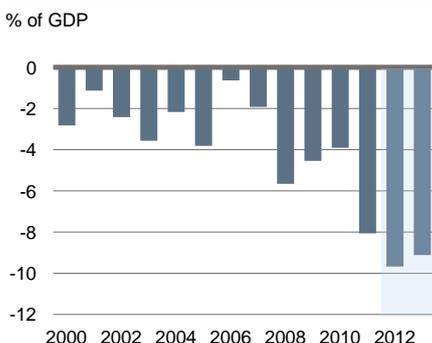
Macroeconomic stability in general is not at risk. In the near to medium term, CPI inflation is expected to stay below 5% yoy (annual average) while the fiscal deficit is expected to remain at 2-3% of GDP. Cambodia's public-sector debt compares favourably to peer levels at below 30% of GDP.

The banking sector has been resilient in the wake of the 2009 global recession and the recent sharp correction in property prices. According to the IMF, the NPL ratio declined to 3% in 2011 from 4% in 2009-10. However, rapid growth in credit to the private sector (around 30% of GDP in 2010-11) could pose challenges.

External liquidity is weak. The current account deficit shot up to 10% of GDP in 2011 from 4% in 2010, and is expected to remain high over the next few years. Financing requirements will remain large, and Cambodia will remain heavily dependent on foreign investment. More than 50% of FDI comes from China and

Cambodia: Current account

8



Source: IMF

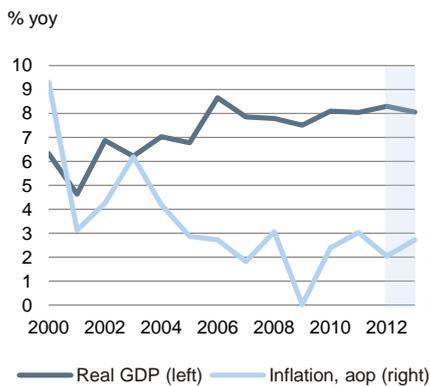


overseas Chinese investors. The external debt profile is supported by the overwhelmingly long-term tenor.

Laos: Smallest economy but highest per capita income

Lao PDR: Growth & inflation

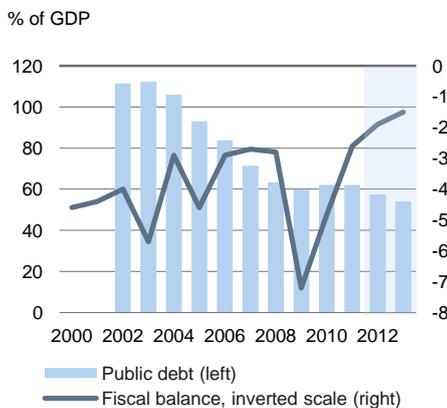
9



Source: IMF

Lao PDR: Public debt and fiscal balance

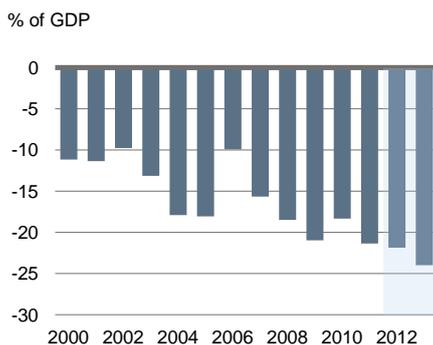
10



Sources: WEFA, IMF

Lao PDR: Current account

11



Source: IMF

Key facts

Lao People's Democratic Republic (PDR) is the smallest economy in this peer group with nominal GDP of only USD 8 bn but with the highest nominal per capita income at USD 1,320.

In the past 10 years Laos experienced consistently strong GDP growth of 6.2-8.7% p.a. Even the global financial crisis in 2009 had little impact on the country, as it is economically quite isolated. Real GDP increased by 7.6% yoy in 2009 and around 8% yoy in 2010-11. The economy rests almost equally on 3 pillars: the industry and the service sectors each have a share of around 35% of GDP and the agriculture sector another 30%. Within the industry sector, hydropower and mining are significant. Laos exports hydropower to neighbouring countries. The garment and tourism industries are also relevant.

Lao PDR's main trading partner is Thailand, with a share in total imports of 65% and exports of 40%. Therefore, the Laos authorities pay special attention to managing the exchange rate between the Laos currency, the kip, and the Thai baht.

Political outlook

Lao PDR is one of the few remaining single-party Marxist socialist republics. The only legal party since the establishment of the Republic in 1975 is the Lao People's Revolutionary Party. Laos is seeking WTO membership by the end of 2012 and ASEAN free trade area membership by 2015, also aiming to leave the group of the least developed countries by then. With a GDP per capita of USD 1,320 in 2011, the country has the potential to achieve this goal.

In the past 10 years, urbanisation increased by 10%, which means that today one-third of the population lives in cities. As urbanisation accelerates, inequality in income distribution has increased, with the rural population being left behind. This is a potential source of social tensions.

Economic outlook

Severe floods in late 2011 damaged the irrigation system, which resulted in poor rice harvests. The floods highlighted Laos' vulnerability in food security and aggravated inflationary pressure. Its medium-term growth outlook is supported by increasing demand for hydropower on the part of neighbouring countries such as China and Thailand. Real GDP is expected to grow at a rate of around 8% in 2013. Greater openness will help to enhance growth prospects further.

Macroeconomic stability is not a concern from a domestic angle. Inflation has been on a downtrend after the flood impact. The fiscal deficit has been narrowing in recent years to around 3% of GDP in 2011 and is expected to narrow further in 2012-13. However, a major drawback is the large current account deficit, which was a whopping 21% of GDP in 2011, making Laos heavily dependent on external financing.

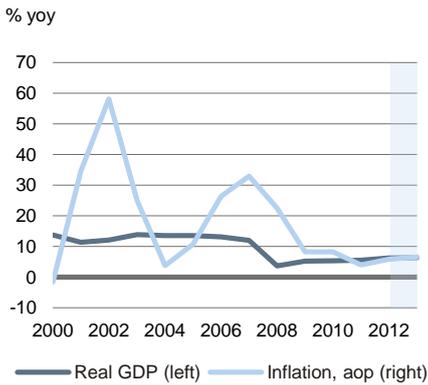


Ascension to WTO membership, which Laos hopes to attain by end-2012, should help the country strengthen reforms and thus make it more attractive to foreign investment.

Myanmar: Resource-rich country opening up

Myanmar: Growth & inflation

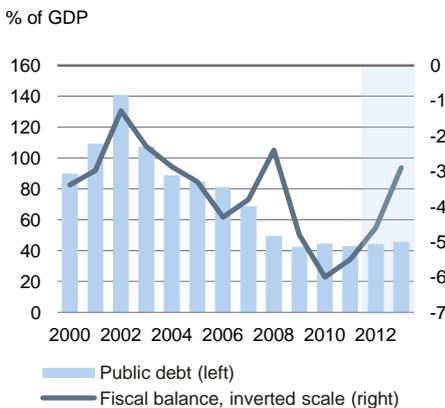
12



Source: IMF

Myanmar: Public debt and fiscal balance

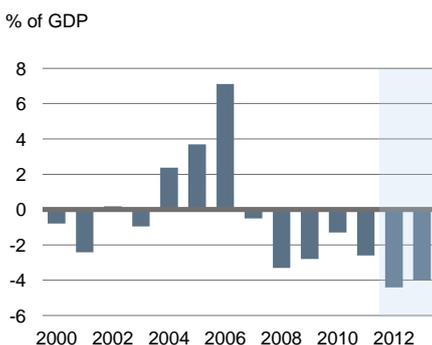
13



Sources: WEFA, IMF

Myanmar: Current account

14



Source: IMF

Key facts

Myanmar has the 2nd largest economy in this peer group, at USD 51 bn in 2011. It is also the 2nd poorest after Bangladesh, with nominal per capita income of just USD 832. Myanmar is a country of more than 60 million people with vast natural resources and an attractive geographical position between China and India. Its gas reserves are large, estimated at 22.5 trillion cubic feet. The economic structure is changing, with the share of agriculture in GDP declining, and that of services and industry expanding. Nevertheless, agriculture continues to generate the largest share of GDP at 40%, with two-thirds of the workforce employed in this sector.

Political outlook

In the by-elections held on April 1, 2012, the opposition party, National League for Democracy, won a stunning majority. In the past, an array of international sanctions had been imposed on Myanmar, but with the reform of the political system this year part of the sanctions were lifted. Along with further reforms, more sanctions are expected to be suspended in 2013. To ensure sanctions will be lifted and to avoid social turmoil, the government needs to address internal problems that range from minority conflicts to the plight of landless farmers. Although political and financial reforms are steps in the right direction, the country's fundamental power structure is likely to remain unchanged, with the military and its allies retaining a legislative majority.

Aung San Suu Kyi is the leader of the opposition National League of Democracy, and hence the head of the democratic movement. How she strikes a balance in achieving democratic progress while maintaining a workable relationship with the military-backed government will be influential in charting Myanmar's political course.

Myanmar, being a multi-ethnic country, often witnesses conflicts that could delay economic progress. Minority rights and inter-ethnic relations thus need to be managed carefully.

Economic outlook

An exchange-rate reform of the kyat was launched earlier in 2012. A multiple exchange rate system was replaced by a unified managed float, which led to an initial depreciation of the kyat. Changes in economic policy have been aimed at increasing the role of market forces and improving transparency, which is favourable for economic development at a time when the West starts to re-engage with Myanmar. Further economic engagement is, however, conditional on steady political reform progress.

Myanmar is not only attractive for its rich natural resources but also the abundance of low-skilled workers. There is great potential for intensive export-oriented manufacturing. Given its early stage of reform and opening, productivity gains can be achieved easily because of a current lack of modern technology.



New Asian frontier markets

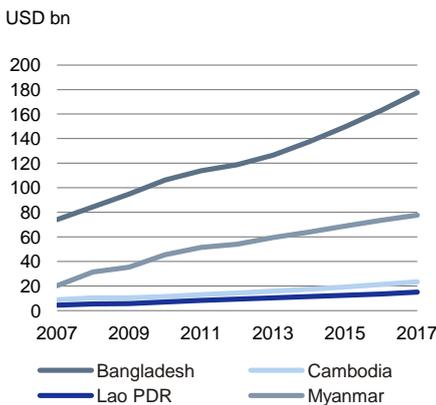
Macroeconomic stability has improved in general although pockets of risks exist. In recent years, inflation has come down from double-digit levels, but overheating remains a risk. Credit growth has been very high in recent years (35% yoy in FY2009/10). The fiscal deficit rose in recent years to around 6% of GDP in 2011 and could rise further. Public debt is estimated at around 53% of GDP in 2011 but is expected to decline in the medium term.

Exports have been rising but the current account remains in deficit. The latter is mainly financed by foreign direct investment. Therefore, the kyat is not expected to fall under strong depreciation pressure. Due to the new political situation prospects for the tourism sector are bright. In 2011 the number of visits to the country rose by 30%. This is positive for external accounts. Myanmar is in arrears on its external debt, which needs to be resolved with creditor countries. The outlook for an amicable solution has improved.

Overall, the economic outlook is positive. GDP is expected to grow by 6% in 2012-13, rising further in the medium term. Much depends on whether the regime can maintain the momentum of economic and political reform and keep societal harmony intact.

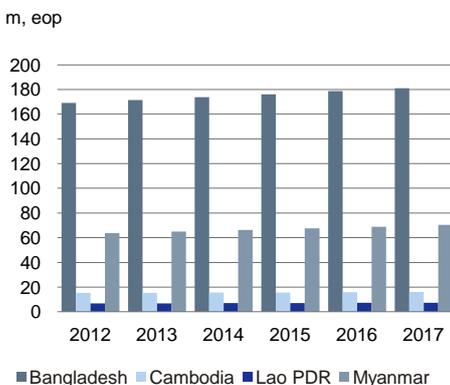
Conclusion

Asian frontier markets: Nominal GDP 15



Source: IMF

Asian frontier markets: Population 16



Source: IMF

We expect the Asian frontier markets (AFMs) to be on a solid and accelerating growth path over the next five years, with real GDP growth potentially accelerating to 7-8% annually. All of the countries are expected to be members of the WTO by 2017. Trade at the regional and international levels is expected to deepen and drive growth in these countries.

By 2017 their combined population will reach an estimated 251 million people, compared with 232 million today. Together with a rising GDP per capita, this means a much larger consumer market. The consumer market is still young and there is large unmet demand for basic consumer products, durable goods such as electrical appliances and automobiles, and services such as telecoms and IT services. The countries' currently underdeveloped infrastructure spells large opportunities for investment in basic facilities such as roads, rail and ports. The incipient boom in tourism, especially in Myanmar, is another supportive factor.

There are some risks to this constructive outlook. First, being primarily agricultural economies, these countries are vulnerable to natural catastrophes, which can depress growth and lead to higher food prices and inflation. Second, there is the issue of political instability, which is detrimental to investment and growth. Third, there are risks that economic reform may be stalled. Fourth, risks could also arise from greater interdependence with the global economy. While in general greater openness to foreign trade and investment should have a net positive impact, the AFMs must be mindful of contagion risks and manage them appropriately.

Beyond these immediate risks, there are important challenges to tackle such as poverty reduction and protection of the environment and the national heritage. Improvements on these fronts will help the AFMs maintain their attraction for FDI flows.

Finally, economic reform will need a more commercially-driven banking sector and financial markets, as well as a robust regulatory regime. There is tremendous potential in the banking sector of these countries given the currently under-served demand for both savers and depositors.

Syetarn Hansakul (+65 6423-8057, syetarn.hansakul@db.com)
Donata Wollensak

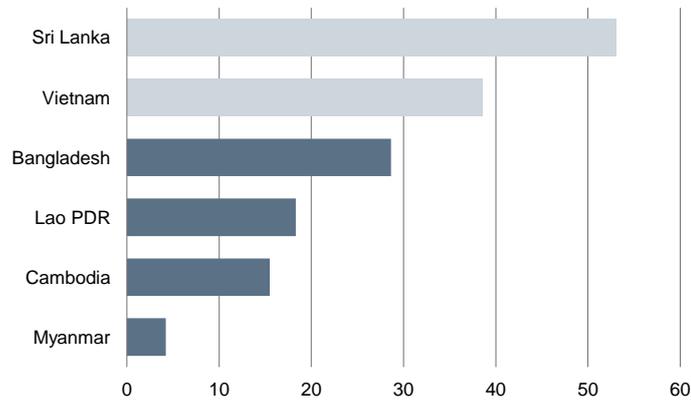


Appendix I: Governance indicators

Rule of law

17

2011 (100 = best, 0 = worst)

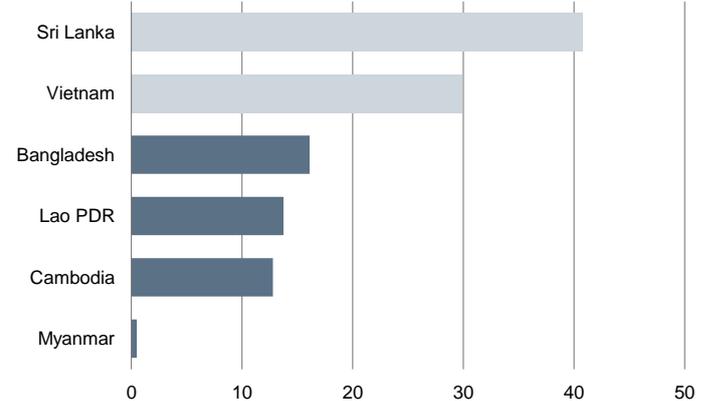


Source: World Bank

Control of corruption

18

2011 (100 = best, 0 = worst)

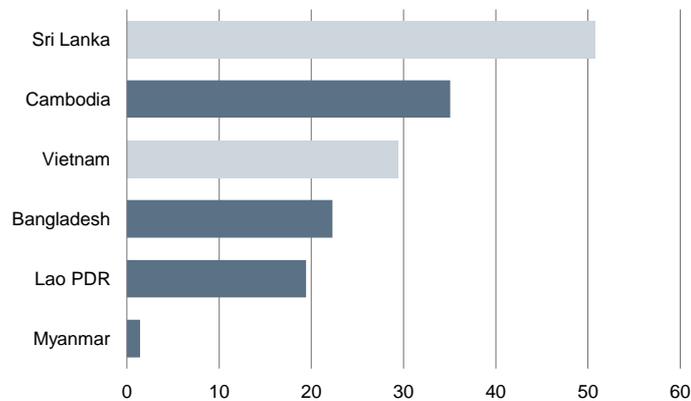


Source: World Bank

Regulatory quality

19

2011 (100 = best, 0 = worst)

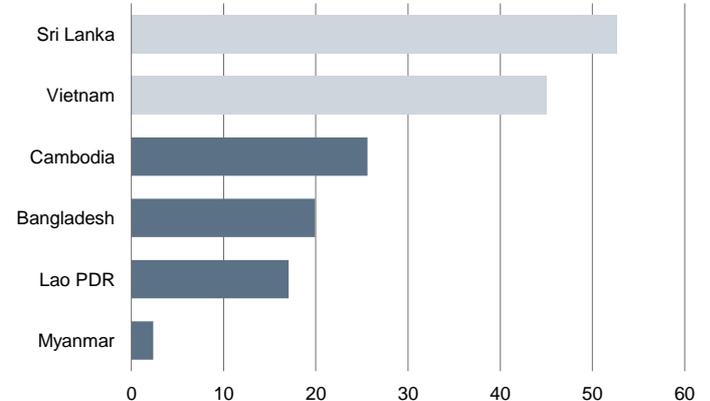


Source: World Bank

Government effectiveness

20

2011 (100 = best, 0 = worst)



Source: World Bank

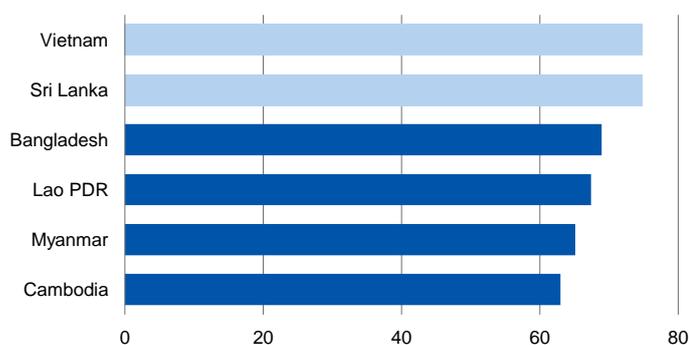


Appendix II: Social indicators

Total life expectancy

21

No. of years, 2011* (100 = best, 0 = worst)



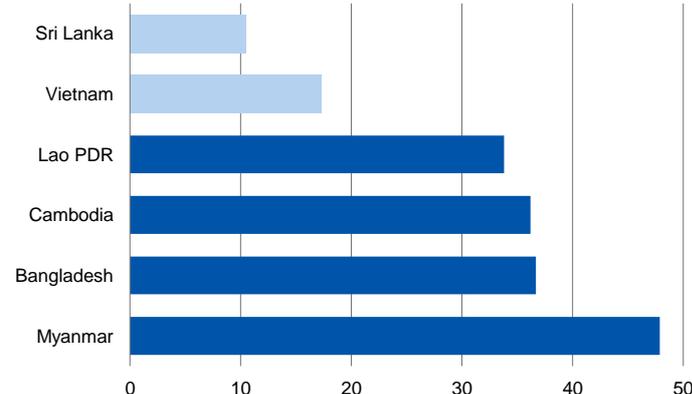
*Latest data for Sri Lanka: 2010; Vietnam: 2010

Sources: WDI, ADB

Infant mortality rate

22

Per 1,000 live births, 2011 (100 = worst, 0 = best)

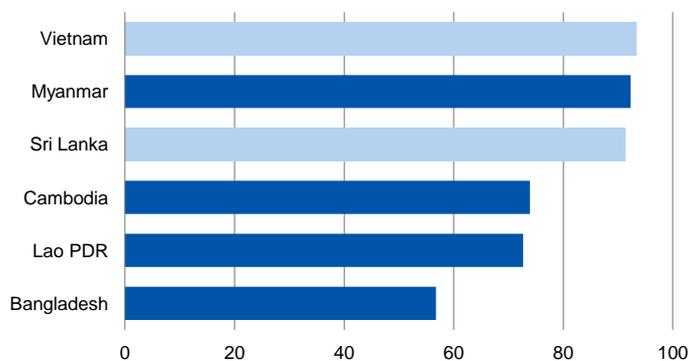


Sources: WDI, ADB

Adult literacy

23

Age >15, %, 2010* (100 = best, 0 = worst)



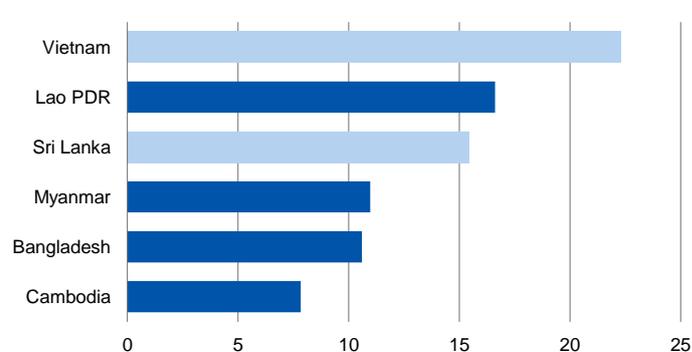
*Latest data for Cambodia: 2009; Laos: 2005

Sources: WDI, ADB

Gross tertiary enrolment rate

24

%, 2010* (100 = best, 0 = worst)



*Latest data for Bangladesh: 2009; Cambodia 2008; Myanmar: 2007

Sources: WDI, ADB

© Copyright 2012. Deutsche Bank AG, DB Research, 60262 Frankfurt am Main, Germany. All rights reserved. When quoting please cite "Deutsche Bank Research".

The above information does not constitute the provision of investment, legal or tax advice. Any views expressed reflect the current views of the author, which do not necessarily correspond to the opinions of Deutsche Bank AG or its affiliates. Opinions expressed may change without notice. Opinions expressed may differ from views set out in other documents, including research, published by Deutsche Bank. The above information is provided for informational purposes only and without any obligation, whether contractual or otherwise. No warranty or representation is made as to the correctness, completeness and accuracy of the information given or the assessments made.

In Germany this information is approved and/or communicated by Deutsche Bank AG Frankfurt, authorised by Bundesanstalt für Finanzdienstleistungsaufsicht. In the United Kingdom this information is approved and/or communicated by Deutsche Bank AG London, a member of the London Stock Exchange regulated by the Financial Services Authority for the conduct of investment business in the UK. This information is distributed in Hong Kong by Deutsche Bank AG, Hong Kong Branch, in Korea by Deutsche Securities Korea Co. and in Singapore by Deutsche Bank AG, Singapore Branch. In Japan this information is approved and/or distributed by Deutsche Securities Limited, Tokyo Branch. In Australia, retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product.