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# Thai exports: Love thy neighbour

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## The growing importance of Cambodia, Laos, Myanmar and Vietnam (CLMV)

**While the CLMV economies are small, they are becoming increasingly important for Thai exporters. We explain why, investigate whether this will continue and look at some potential implications.**

- **CLMV countries have emerged as a new major export destination for Thailand.** Exports to CLMV now account for about nearly 8% of Thailand's total exports, only slightly smaller than the share of exports to the EU**.** Exports to this region account for about half of Thailand's total export growth this year – more than contribution from the ASEAN 4 and China combined.
- **Led by shipments to Myanmar and Laos, Thai exports to these economies saw stronger average growth rates and with lower volatility compared with shipments to other destinations.** Thailand also registered a large and growing trade surplus against these economies (USD8bn in 2011 while total custom trade balance was a negative USD6bn).
- **We find that Thai exports to CLMV serve as a better source of diversification than exports to the other ASEAN economies or China.** While Thailand's exports to the West are highly correlated with those to the ASEAN 4, that correlation is much less so with shipments to CLMV. Given sluggish growth in the West, exports to CLMV can serve as a source of diversification.
- **These exports go to end users rather than re-exporters, in our view.** Large portions of exports to these economies consist of commodity products (including rubber, refined petroleum and vegetable oil), chemicals, vehicles (excluding auto parts) and other consumption goods – all of which are more likely to be used for final consumption rather than re-exported.
- **Thailand is in a better position than others to export to CLMV compared with other ASEAN economies.** Thai exporters have enjoyed a marked rise in the market share of CLMV imports especially in the area of rubber, food, electronics and fuels. Thai exports are well placed for a further boost as these economies further reduce tariffs on several products (e.g., food and vehicles) as they move towards the ASEAN Economic Community deadline in 2015.
- **The Thai government's plans to improve transport linkage to these economies should also enhance Thailand's trade with these economies further.** Given that export growth to CLMV is already strong despite poor existing transport linkage to these countries, the Thai government's plans to improve road and rail connectivity with these economies could provide an additional major boost to trade.

# Cambodia, Laos, Myanmar and Vietnam (CLMV) – the 'new' markets for Thai exports

While a lot has been written about business opportunities in Cambodia, Laos, Myanmar and Vietnam (CLMV), most market commentators do not believe they are big enough to matter for Thailand's export performance. This is understandable given that the combined CLMV is still only equivalent to about half of Thailand's GDP, with Vietnam being the largest economy (36% of Thailand's GDP – see Appendix). As a result, it is only natural to focus on Thailand's exports to 'traditional destinations' including the US, the EU, Japan, China and ASEAN 4 (Indonesia, Malaysia, the Philippines and Singapore).

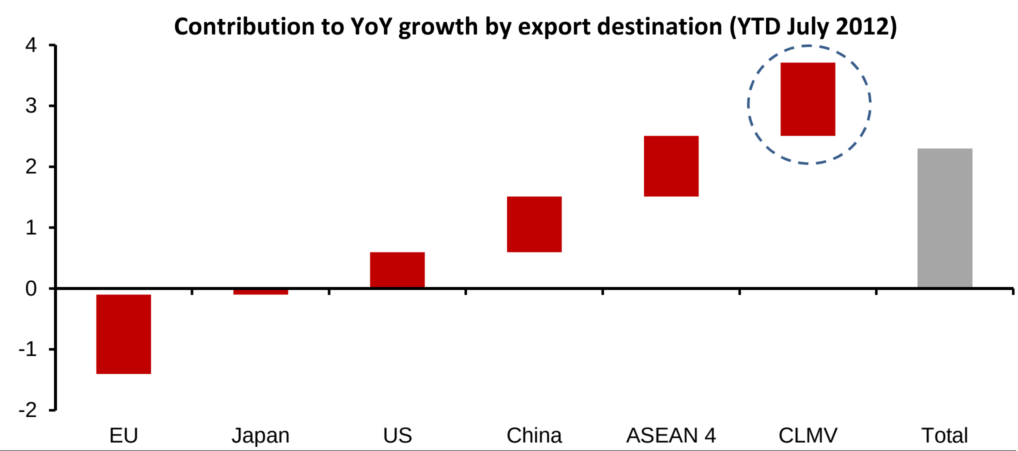
However, we think the tide is turning and that in fact the CLMV countries have now become and will continue to be some of the key important export destinations for Thailand, especially in the context of the weak global growth environment.

**CLMV as a new major export destination for Thailand**

Exhibit 1 shows the average contribution to Thailand's year-on-year nominal export growth up to July this year (the latest data available). We note that CLMV added more to the total than was the case for the ASEAN 4 and China combined. Indeed, half of Thailand's total export growth seen this year came from shipments to these small economies.

**Exhibit 1: Biggest contributor to export growth year-to-date**

CLMV = Cambodia, Laos, Myanmar and Vietnam. ASEAN 4: Indonesia, Malaysia, the Philippines and Singapore




Source: CEIC, Credit Suisse

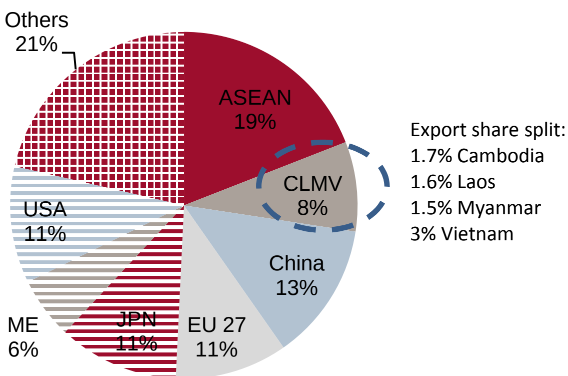
Exports to CLMV now account for about 7.8% of Thailand's merchandise total exports (Exhibit 2), only slightly smaller than the share of exports to the EU (roughly 10%). What is also noteworthy is how fast these countries rose to prominence as key export destinations – only five years ago, the share of CLMV was 4.8%.

**This is not merely a reflection of weak demand in EU and the US – it also reflects strong import demand from CLMV economies.**

Exhibit 3 compares the average year-on-year growth rates of Thai exports to different destinations during 2007-11. While poor export growth to the EU and the US contributed to the increase in the export share of other countries, it is clear that exports to CLMV itself also saw strong absolute growth rates of just under 20% during that period. Exports to Myanmar and Laos, in particular, saw particularly big increases.

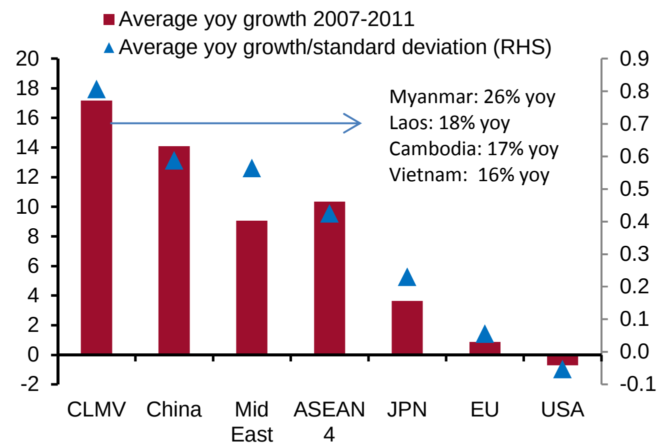
In addition, exports to these countries had relatively low volatility. The ratio of average year-on-year export growth to its standard deviation is the highest among the key destinations (Exhibit 3). We think this partly reflects the nature of what Thailand exports to these economies (see below).

**Exhibit 2: Now commanding a significant share**




Source: CEIC, Credit Suisse

**Exhibit 3: Strong growth over the years with less volatility ...**

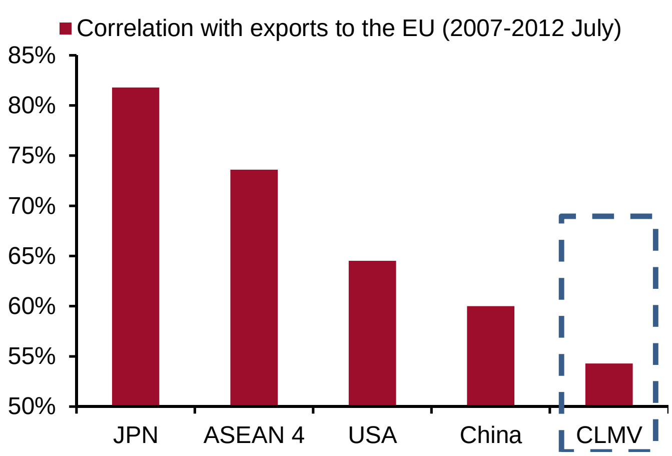



Source: CEIC, Credit Suisse

**Exports to CLMV as a 'true' source of export diversification?**

In *Asian decoupling: Is intra-Asia trade overrated?* (21 September 2012), we argue that the diversification benefit of intra-Asia trade is overrated because at the end of the day a significant portion of ASEAN exports to other ASEAN countries and China end up in the Western world anyway. As a result, Thai exports to the ASEAN 4 or China are also highly exposed to the slowdown in the EU and the US.

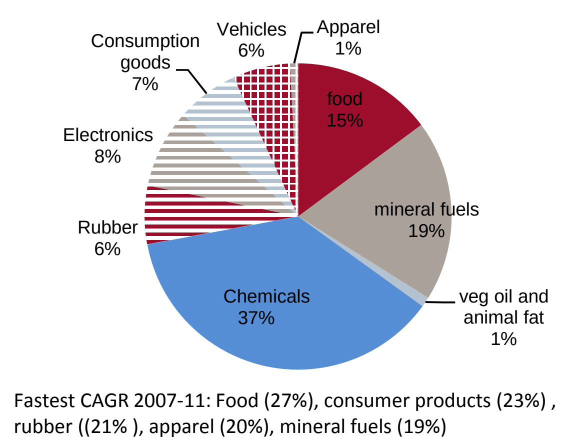
**Exhibit 4: … and offering better diversification**




Source: CEIC, Credit Suisse

**Exhibit 5: Export products to CLMV are less cyclical and mainly for end users**

Vehicles exclude auto parts




Source: UNCTAD, Credit Suisse

Interestingly, we do not find this to be the case for exports to CLMV. While the correlation between Thailand's exports to Japan (or ASEAN 4) and that to the EU is high, the correlation between shipments to CLMV and the EU is much lower (Exhibit 4). Given that we expect EU growth to remain sluggish in the near future, exports to CLMV can serve as a source of diversification, unlike exports to the ASEAN 4 or China.

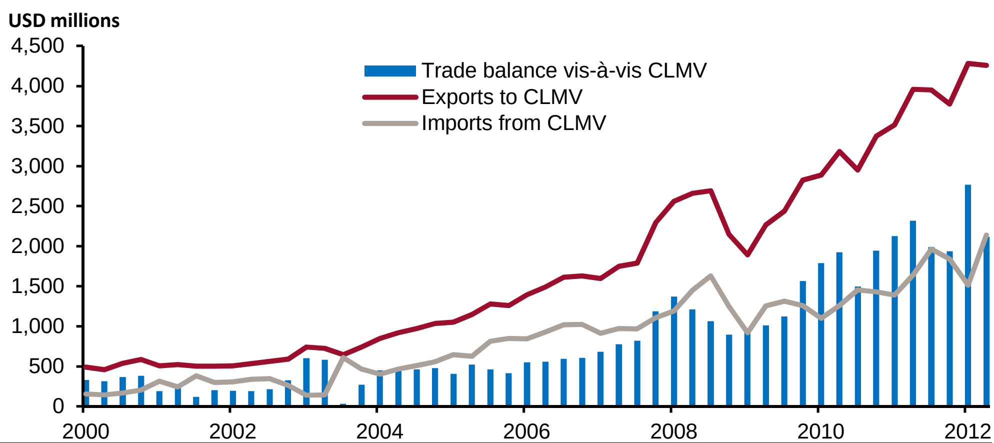
We also suspect that one of the key reasons why the correlation between Thailand's exports to China and the EU is relatively low is due to China's huge infrastructure spending boost in 2009 which allowed China's import demand to 'decouple' temporarily from the global trade cycle (see *Asian decoupling: Is intra-Asia trade overrated?*). Given that our China economist does not expect another major infrastructure boost anytime soon, we doubt that China will be able to serve as a source of export diversification for Thailand.

**Thai exports to CLMV are less cyclical, also targeting end users rather than re-exports.**

We believe the key reason why exports to CLMV are less volatile and less correlated with exports to the EU is due to the nature of the export products. As we show in Exhibit 5, electronics, the usual source of re-exporting, only account for 8% of total exports to CLMV (compared to a 21% share in exports to ASEAN 4). Instead, large portions of exports to these economies consist of commodity products (including rubber, refined petroleum and vegetable oil), chemicals, vehicles (excluding auto parts) and other consumption goods[1], all of which are more likely to be used for final consumption. These products also saw very strong growth rates over 2007-11 (Exhibit 5), despite weak global growth.

**Exhibit 6: Thailand also has large and growing merchandise trade surplus against these economies**

Nominal USD mns




Source: IMF, Credit Suisse

**Thailand has a large and growing merchandise trade surplus versus CLMV.**

Exhibit 6 shows that Thailand's exports of goods to the CLMV countries have been growing faster than the imports from these countries, with the divergence becoming more stark after 2009. This has resulted in the expansion in the Thailand merchandise trade surplus against these economies – reaching USD8bn in 2011 (while Thailand's total merchandise custom trade balance was a negative USD6bn in the same year).

[1] This product category includes: pharmaceutical products, materials for cleaning preparations, household equipment (excluding parts), furniture and building fixtures.

## Thailand: Key beneficiary

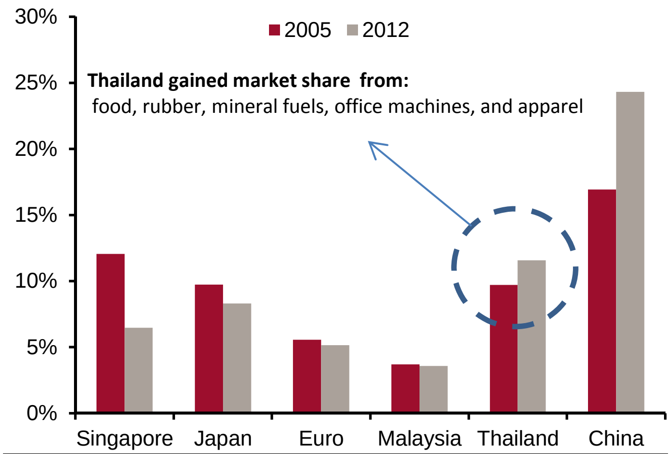
**We consider Thailand to be in a better position than others to export to CLMV compared with other ASEAN economies.**

Exhibit 7 shows that the share of total exports going to CLMV is about four times higher for Thailand than the other major ASEAN economies. In addition, Thai exports also saw faster average growth during 2009-July 2012. This suggests that Thailand is in a better position to leverage the import demand of these economies, probably reflecting its geographical proximity as well as language/cultural links.

**Exhibit 7: Thai exports are roughly four times more exposed to CLMV than the second most exposed economy in ASEAN, Malaysia**


Source: IMF, Credit Suisse

**Exhibit 8: … and also seeing its market share rising over the years**



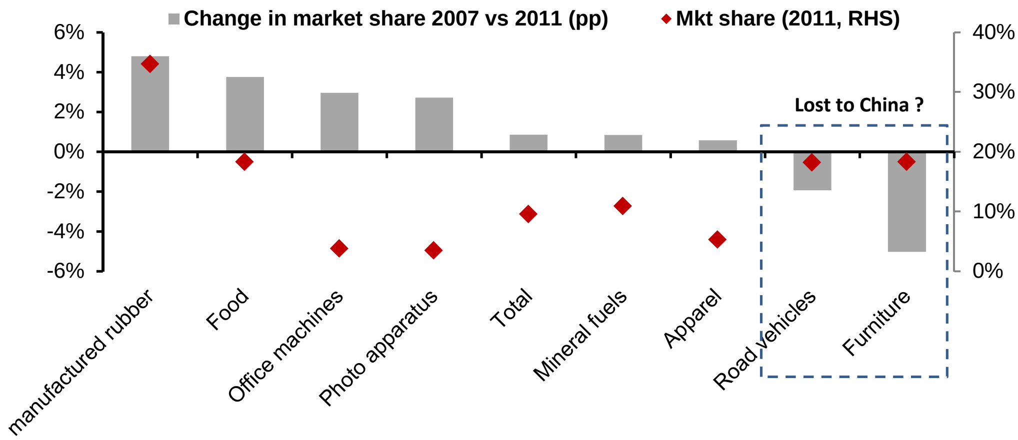

Source: IMF, Credit Suisse

## Opportunities ahead for Thai merchandise exports in these markets

We find that Thai exports to CLMV are also likely to benefit from further tariff reductions in these economies. Under the ASEAN free trade agreement (AFTA), average tariff rates among CLMV countries have come down from above 7% in 2000 to 2.6% in 2010, with 99% of all product lines having an import duty of less than 5%. Exhibit 8 shows that Thailand's export market share in CLMV economies have in fact increased over time while the share of other key ASEAN countries has been either flat or declining. Thailand now accounts for almost 15% of total imports by CLMV countries, second only to China.

A closer look at the data reveals that between 2007 and 2010, Thailand gained the most market share in manufactured rubber, food, office machinery and photo apparatus (Exhibit 9) – the first two are products in which Thailand already has sizeable market shares. On the other hand, it lost some market share in areas of furniture and road vehicles, -the products in which China has gained market share during the period.

**Exhibit 9: Thai exports of rubber, food, electronics and mineral fuels have been gaining market share in CLMV over the years**




Source: UNCTAD, Credit Suisse

**More ASEAN trade integration should further boost exports to CLMV**

Over the longer term, we see two potentially important initiatives to promote trade integration that should boost Thailand's exports to CLMV further:

1. **Further tariff reductions under ASEAN Economic Community (AEC).** Several products belong to the so-called sensitive list in which Thai exports still face significant average tariff rates, including some food items (e.g., meat and beverages) and motor vehicles (e.g., cars and motorcycles). Under the AEC framework, the tariffs on most of these items will need to be brought down significantly by 2015[2], implying more opportunities for these Thai products.

2. **Better infrastructure connecting CLMV countries.** What we find striking is the fact that exports to CLMV have been growing at an impressive rate despite relatively poor existing transport linkage to any of these countries other than Laos. Currently, Thailand does not have road, rail or water links with Myanmar's main population centres, and has limited road or rail links with Vietnam and Phnom Penh (Cambodia). If growth is already strong without transport links, it could be even more impressive in five to ten years from now if various plans (see below) to develop road or rail network are put in place.

   Indeed, the plans to develop these transport networks is well underway. The grand plan to improve transport connectivity in the region, known as the Greater Mekong Sub region[3] (GMS) Transport Sector Strategy (2006-15), developed with the assistance of the Asia Development Bank (ADB), has now gained political traction among the member countries' governments. For instance, the Thai government is prepared to invest a large sum of funds for the development of the road network called the "Southern Corridor" that will connect Dawei in Myanmar to Vung and Quy Nhon in Vietnam via Bangkok (see page 11 of the report here for a map and details on the existing transport network). While these plans will take time to be implemented, they can in time provide a major additional boost to Thailand's trade with CLMV.

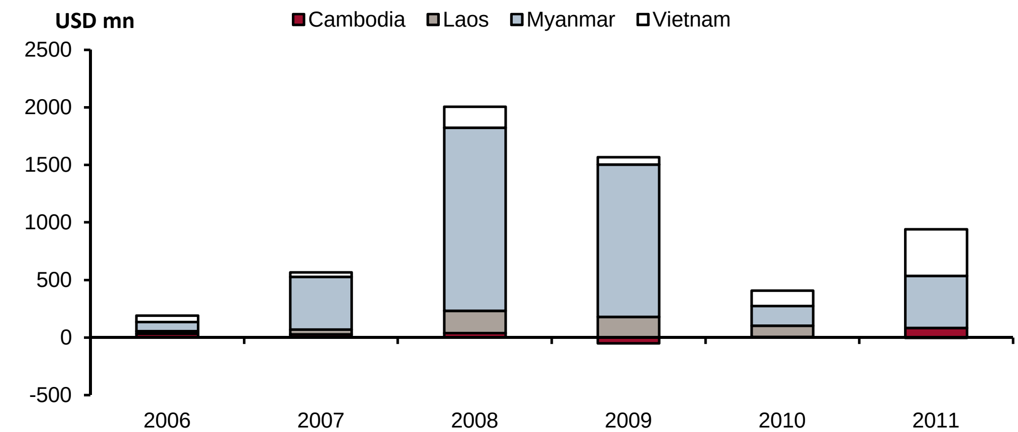
[2] CLMV countries must bring down the tariff rates for products in the "inclusion list" down to 0% by 2015. For goods listed by the respective government in the "sensitive list", the tariff rates must be reduced to 0-5% by 2013 (for Vietnam), 2015 (for Laos and Myanmar) and 2017 for Cambodia. See ASEAN Secretariat for more details.

[3] The Greater Mekong Sub region (GMS) is made up of Cambodia, the People's Republic of China (PRC, specifically Yunnan Province and Guangxi Zhuang Autonomous Region), the Lao People's Democratic Republic (Lao PDR), Myanmar, Thailand and Vietnam.

## Thailand's direct investment in CLMV: Underutilized?

While the average value of Thai corporates' direct investment in the CLMV countries has picked up fourfold to USD790mn during 2006-10 compared with USD150mn during 2002-06, according to Bank of Thailand research[4], this was mainly due to investment in Myanmar during 2007-09 (Exhibit 10). Taking this aside, unlike exports to these economies, it is difficult to establish a clear upward trend in Thailand's direct investment in the CLMV countries in recent years. This could reflect barriers to investment and doing business in these economies – after all the CLMV countries rank among the bottom in terms of the World Bank's ease of doing business (2013) with Cambodia ranking 133, Laos 163 and Vietnam 99 (versus Thailand 18), out of 185 countries.

**Exhibit 10: Outward direct investment from Thailand into CLMV economies**




Source: CEIC, Credit Suisse

**This has two important implications:**

1. Growth in the CLMV economies may also benefit Thailand indirectly as multinational companies may look to use Thailand as a base to serve growing demand in these markets, thereby increasing Thailand's attractiveness as an investment destination.

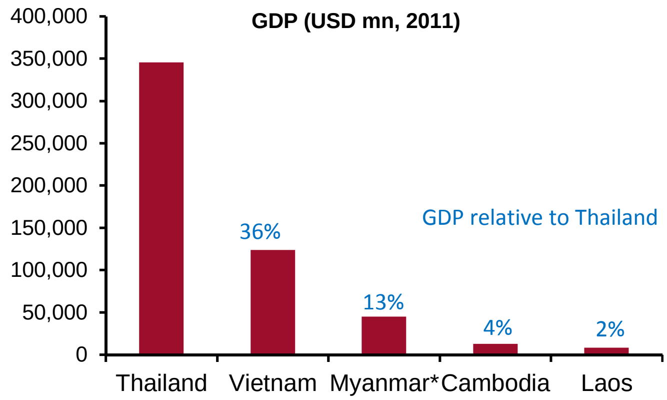
   There are only a handful of Thai firms that benefit from growing demand in these markets. **See our equity strategist's report outlining the biggest listed potential beneficiaries of CLMV growth: *Thailand Market Strategy - Cambodia-Laos-Myanmar-Vietnam stocks*.**

[4] "Thailand investment in neighboring countries" (2012) S. Chantapong and S. Dhanabodeepat (in Thai).

# Appendix: Background on the CLMV economies

**Exhibit 11: GDP of the CLMV economies**

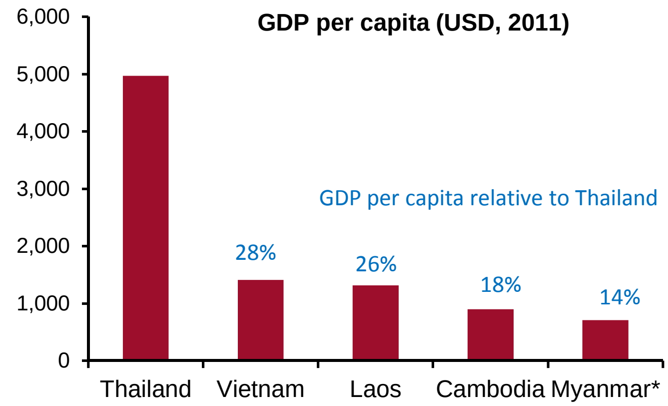
*Using IMF data




Source: World Bank, IMF, Credit Suisse

**Exhibit 12: GDP per capita**

*Using IMF data




Source: World Bank, IMF, Credit Suisse

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