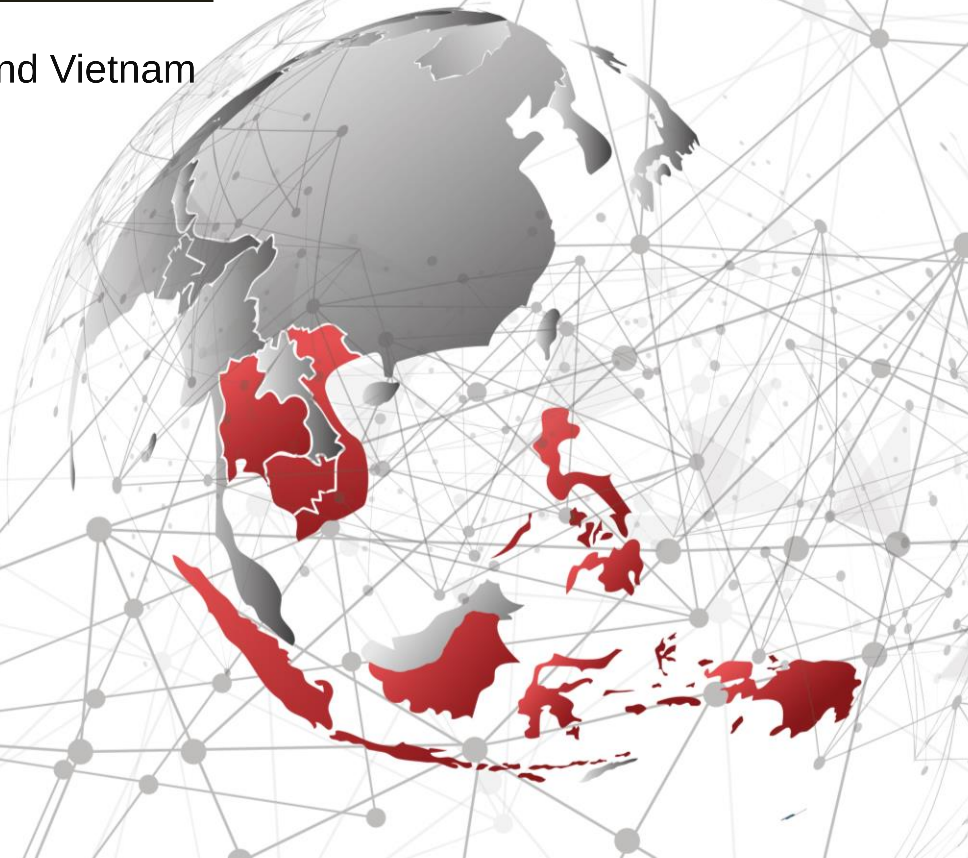
FUNG BUSINESS INTELLIGENCE

January 2021

Asia Sourcing Update

Cambodia, Indonesia, the Philippines, Thailand and Vietnam

Southeast Asia | South and West Asia



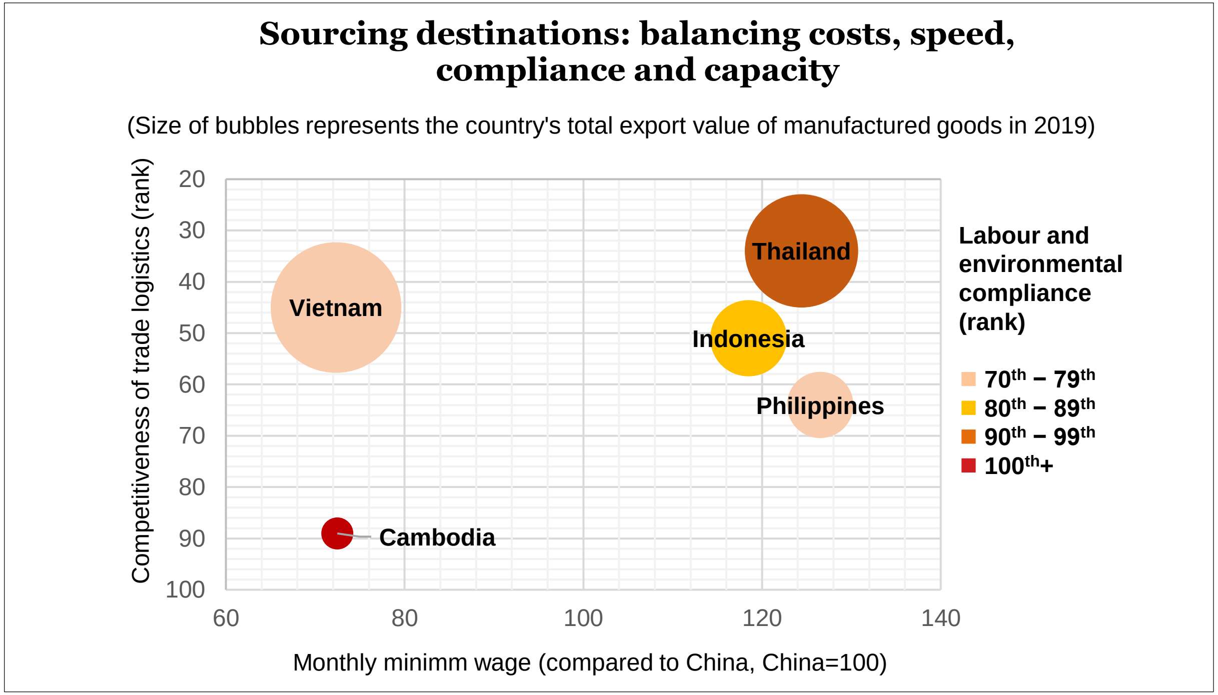
Highlights: Evaluating sourcing destinations

12-month Sourcing Outlook

Positive: Cambodia, Vietnam

Slightly negative: Indonesia, Thailand

Negative: the Philippines



Source:
Exports of manufactured goods (2019): WTO database;
Minimum wage (as of mid-January 2021): Cambodia (exclusively for the garment and footwear sector), Indonesia (Jakarta), Philippines (National Capital Region), Thailand (Bangkok), Vietnam (Ho Chi Minh City/Hanoi), China (Dongguan), converted to US dollar terms based on exchange rates from Bloomberg on 18 January 2021;
Competitiveness of trade logistics (rank): measured by the aggregated Logistics Performance Index released by the World Bank;
Labour and environmental compliance (rank): measured by the average ranking of two index components 'environmental-related treaties in force' and 'workers' rights' in the World Economic Forum's 2019 Global Competitiveness Index

Cambodia

Fast facts

CPI (Sep 2020)
+2.9% yoy ▲

Exchange rate (USD: KHR, as of 20 Jan 2021)
4,056 (0.3% depreciation year-to-date)

Merchandise exports (Sep 2020)
+29.3% yoy ▲

Garments
-24.0% yoy ▲

Footwear
-24.9% yoy ▲

Electrical parts
+317.3% yoy ▼

Bicycles
+45.5% yoy ▲

Note: Arrows indicate an improvement (▲) or deterioration (▼) compared to the previous period
Source: National Bank of Cambodia, Bloomberg

12-Month Sourcing Outlook: Positive

Despite dozens of community cases of COVID-19 in the past two months, the country has managed to contain the outbreak swiftly. The government has issued stricter guidelines on COVID-19 prevention measures for factories and enterprises to follow.

The sourcing outlook for Cambodia remains positive. Amid challenging and highly uncertain economic environment, the country has achieved better-than-expected export performance and robust foreign investment inflows. The World Bank predicted that the Cambodian economy would return to 4% growth in 2021, after an estimated contraction of 2% in 2020, supported by an improvement in economic activities and the government's effective measures to keep the economy afloat during the pandemic.

Cambodia

Macroeconomic Trends	Latest Developments	FBIC's take
	In 2020, 221 new factories opened in Cambodia, while 100 were closed due to the COVID-19 pandemic, according to Cambodia's Ministry of Industry, Science, Technology and Innovation. The new factory openings represent a diversity of production ranging from traditional labour-intensive sectors such as garment to high-technology manufacturing such as solar panels and electronic components.	• Despite unprecedented uncertainties caused by the prolonged pandemic, the large number of new factory openings reflects investors' continued confidence in Cambodia. In particular, the wide-ranging sectors that absorbed new investment show a trend of industrial upgrade and export diversification. • In 2020, the Council for the Development of Cambodia approved 178 new foreign investment projects — mostly in the textile and garment sector, with a total investment capital of US$4.15 billion. • The majority of factory closures in the year were garment factories and sub-contractors supplying semi-finished products.
	Cambodia's exports of garments, footwear and travel goods amounted to US$8.2 billion in the first ten months of 2020, a decline of 9% compared to the same period of 2019, according to data from the General Department of Customs and Excise. By category, exports of garments fell 10.7% yoy to US$6.2 billion in the ten-month period, while exports of footwear and travel goods dropped by 6.9% yoy and 11% yoy, respectively, to US$0.93 billion and US$0.79 billion. By destination, the highest value of garment, footwear and travel goods exports went to the US, which accounted for 37% of the total, followed by the EU (27%) and Japan (9%). Exports of this product group witnessed an increase of 6.3% yoy to the US market, while those to the EU and Japan markets went down by 22.1% yoy and 10.5% yoy, respectively.	• While Cambodia's exports of garments, footwear and travel goods will probably suffer a setback due to the EU's partial withdrawal of duty-free preferences under the Everything But Arms scheme, the increased demand for Cambodian products in the US market will likely make up for some of the loss incurred. • It is expected that export demand for garments, footwear and travel goods from the country will gradually normalise following massive vaccine rollout in many countries in the world, including the US, the UK, Italy and Germany.

Cambodia

	Latest Developments	FBIC's take
Policies & regulations	The Cambodian government decided to cut customs tariff rates and special tariffs on various imported goods and raw materials used in the manufacturing industry, effective 1 January 2021. Among the goods and raw materials that received tariff reduction or exemption were electromechanical equipment, production materials, electrical appliances, lubricants, and solar photovoltaic panels.	• The move, which reduces tariffs on imported goods and raw materials critical to food and beverage processing, textile, electronic and home appliance manufacturing, will help lower production costs for local manufacturing, encourage more investment in the manufacturing industry, and support the country's small and medium enterprises — which are hit hard during the pandemic. • Foreign investment is seen as a driving force for Cambodia's industrial upgrade and export diversification. To maintain its competitiveness as a destination for manufacturing investment, Cambodia needs to continue to reduce production costs, including lowering import duties on machinery and spare parts.

Indonesia

Fast facts

GDP (Jul–Sep 2020)
-3.5% yoy ▲

Manufacturing PMI (Dec 2020)
51.3 ▲

CPI (Dec 2020)
+1.7% yoy ▲

Merchandise exports (Nov 2020)
+9.4% yoy ▲

Textiles and textile products
-18.4% yoy ▼

Footwear
+15.8% yoy ▲

Sports requisites
+0.8% yoy ▲

Furniture
+10.6% yoy ▼

Exchange rate (USD: IDR, as of 20 Jan 2021)
14,035 (0.1% appreciation year-to-date)

Note: Arrows indicate an improvement (▲) or deterioration (▼) compared to the previous period
Source: Statistics Indonesia, Bank Indonesia, IHS Markit, Bloomberg

12-Month Sourcing Outlook: Slightly Negative

The Indonesian economy is expected to grow in the range of -2% to 0.6% year-on-year in the fourth quarter of 2020. If the momentum of recovery that began in the third quarter is maintained, the projected growth could be achieved. A positive sign of recovery is that the IHS Markit Indonesia Manufacturing PMI increased to 51.3 in December from 50.6 in November, the fastest pace of expansion since February 2020.

However, the negative impact of the pandemic is lingering. In the third quarter, unemployment rate and underemployment rate of Indonesia rose to 7.1% and 10.2% compared to 5.3% and 6.4% the year before, respectively. The economy faces very high downside risks, due to the reimplementation of large-scale social restrictions (PSBB) coping with the pandemic since the third quarter in 2020.

Indonesia

	Latest Developments	FBIC's take
Macro-economic trends	Indonesia's exports in November 2020 increased to US$15.3 billion, up 9.5% yoy and 6.4% mom. Imports amounted to US$12.66 billion in the same month, down 17.5% yoy but up by 17.4% from October, according to the Central Statistics Agency.	• The increase in exports was supported by rising demand and increasing prices for major commodities, especially coal and palm oil. • In terms of non-oil and gas exports, the country's largest export destination in November was China, followed by the US, Japan and the EU.
FTAs & trade preferences	In December 2020, Indonesia and Turkey agreed to continue negotiations on the Indonesia–Turkey Comprehensive Economic Partnership Agreement (IT-CEPA), which is targeted for completion by 2021. The two countries commenced negotiations on the IT-CEPA in January 2018 in Jakarta. So far, both nations have concluded the fourth round of IT-CEPA negotiations held in January 2020 in Ankara, Turkey.	• Through IT-CEPA, Indonesia and Turkey agreed to boost the total bilateral trade value to US$10 billion. • Both countries have explored cooperation in the defence industry and the technology and industry sectors. They are currently discussing on several cooperation projects in the areas of shipping, agriculture and infrastructure.
	Indonesia and South Korea signed the Indonesia–South Korea Comprehensive Economic Partnership (IK-CEPA) in December 2020. The IK-CEPA targets a total trade value of US$20 billion between both countries. Trade between the two nations reached US$15.7 billion in 2019, though it reduced to US$10.1 billion during the COVID-19 pandemic in 2020.	• In 2019, South Korea was the eighth largest export destination and the sixth largest import partner of Indonesia. • Under the agreement, South Korea will eliminate 95.54% of its tariff lines and Indonesia will remove 92.06% of its tariff lines. • Apart from tariff reduction, the IK-CEPA also covers other areas such as rules of origin, customs procedures, trade facilitation, trade remedies, trade in services, investment, economic cooperation and institutional arrangements.

Indonesia

	Latest Developments	FBIC's take
Other topics	Indonesia and the US signed a US$750 million agreement on various trade and infrastructure projects in November 2020. US firms invested over US$480 million in 1,024 Indonesian projects during the first three quarters of 2020, making Indonesia the eighth-highest beneficiary of private US funds, after Singapore and China.	• It is expected that the agreement will further strengthen the economic partnership between Indonesia and the US and expand cooperation in investment and the procurement of goods and services. • The agreement also aims to expand opportunities for both countries to work together on government projects and for business development in infrastructure, transportation and energy.

The Philippines

Fast facts

GDP (Jul–Sep 2020)
-11.5% yoy ▲

Manufacturing PMI (Dec 2020)
49.2 ▼

CPI (Dec 2020)
+3.5% yoy ▲

Merchandise exports (Nov 2020)
+3.0% yoy ▲

Woodcrafts and furniture
-8.2% yoy ▲

Garments
-31.1% yoy ▼

Travel goods and handbags
-37.9% yoy ▲

Exchange rate (USD: PHP, as of 20 Jan 2021)
48.058 (0.06% depreciation year-to-date)

Note: Arrows indicate an improvement (▲) or deterioration (▼) compared to the previous period
Source: Philippine Statistics Authority, IHS Markit, Bloomberg

12-Month Sourcing Outlook: Negative

The Philippines has continued to struggle with the COVID-19 pandemic, with daily case counts still hovering around 1,500 since early January. All regions in the country remain under some level of quarantine restrictions. General community quarantine (GCQ) has been further extended in Metro Manila and several other provinces or cities until 31 January.

The Philippine economy is estimated to contract deeply by 8.1% in 2020, among the worst performers in the East Asia and Pacific region due to prolonged lockdown, according to the World Bank. As indicated by the IHS Markit Manufacturing PMI, the country's manufacturing sector has remained in the contractionary territory in the past three months. Unless there is a full easing of quarantine restrictions, a protracted recovery of the Philippine economy is expected to be seen.

The Philippines

Macroeconomic Trends	Latest Developments	FBIC's take
	Exports recorded an increase of 3.0% yoy to US$5.79 billion in November 2020, a rebound from the 1.2% yoy contraction posted in the previous month and the fastest growth rate since January 2020, according to the Philippine Statistics Authority. Seven of the top ten commodity groups by export value registered year-on-year increases, led by cathodes and sections of cathodes, of refined copper (+83.2% yoy), gold (+59.5% yoy) and coconut oil (+40.4% yoy). Exports of electronic products, which accounted for around 60% of the country's exports in November, grew by 4.6% yoy.	• Export growth in November is mainly attributed to higher shipments to the Chinese Mainland and Taiwan, to which the Philippines' exports jumped by 32.5% yoy and 18.4% yoy, respectively. Exports to the US, the No.1 export destination of the Philippines, also increased by 6.2% yoy in November. • Due to slow recovery in the local economy and lower-than-normal production capacities amid the prolonged COVID-19 outbreak in the country, the Philippines' imports recorded a double-digit contraction in November for the tenth month running, leaving the monthly trade deficit to a five-month low.
	Total investments, either from home or abroad, approved by the Philippine Board of Investments (BOI) amounted to 1.02 trillion Philippine pesos (US$21.2 billion) in 2020, down 10.5% compared to US$1.14 trillion pesos in 2019. However, the 2020 figure was still the second highest level in history, showing investors' confidence in the country despite the pandemic. .	• Even though it is the worst hit by the pandemic in Southeast Asia, the Philippines has managed to retain investors' confidence, thanks to the country's still strong medium-term economic growth prospects and improved ease of doing business. • In January, credit rating agency Fitch Ratings maintained the Philippines' credit rating at BBB with stable outlook, despite the country's deep economic recession caused by the pandemic. The unchanged rating will probably deliver more confidence to potential investors in the country. • The long-stalled Corporate Recovery and Tax Incentives for Enterprises Act ("CREATE"), which seeks to lower corporate income tax rates and rationalise fiscal incentives, was approved by the Senate in November last year. The bill is expected to give investors more certainty on the future tax and incentive scheme and bring more investment to the country.

The Philippines

	Latest Developments	FBIC's take
Industry developments	The country's exports of soft goods, mostly garments, are estimated to reach US$900 million in 2020, far below the initial estimate of US$1.5 billion–US$1.6 billion, according to the Foreign Buyers Association of the Philippines (FOBAP). For 2021, export value of soft goods is estimated to be close to last year. FOBAP confirmed that as much as US$220 million worth of orders had been placed up to the first quarter.	• The COVID-19 pandemic has had a severe impact on the Philippines' garment industry, cutting exports by almost 40% and affecting more than 600,000 workers, according to the International Labour Organisation (ILO). • Production volume of the Philippines' footwear and wearing apparel industry has recorded year-on-year contraction since the start of 2020, with a plunge of 90.2% yoy in April and a 32.9% yoy decline in November last year, according to the Philippine Statistics Authority. The deep contraction of the industry reflects the strict and prolonged lockdown imposed by the government to curb the spread of COVID-19.

Thailand

Fast facts

GDP (Jul–Sep 2020)
-6.4% yoy ▲

Manufacturing PMI (Dec 2020)
50.8 ▲

CPI (Dec 2020)
-0.3% yoy ▲

Merchandise exports (Nov 2020)
-3.6% yoy ▲

Textiles and apparel
-16.4% yoy ▲

Furniture
+9.0% yoy ▼

Footwear
-16.9% yoy ▲

Exchange rate (USD: THB, as of 20 Jan 2021)
29.978 (0.1% depreciation year-to-date)

Note: Arrows indicate an improvement (▲) or deterioration (▼) compared to the previous period
Source: National Economic and Social Development Council, Ministry of Commerce, Bank of Thailand, IHS Markit, Bloomberg

12-Month Sourcing Outlook: Slightly Negative

Due to a heavy reliance on exports and tourism, Thailand's economy has suffered heavy blows amid the COVID-19 pandemic. GDP growth is estimated to contract by 6.5% in 2020, according to the World Bank.

The sudden resurgence of local COVID-19 infections since last December has posed fresh downside risk to the country's economic recovery. The Thai government has tightened restrictions on 28 red-zone provinces that have high levels of new infections by closing schools and some entertainment venues and banning public gatherings. Retail shops are allowed to open under strict disease control measures, while private enterprises are urged to implement work-from-home arrangements or stagger office hours. The government has not ruled out more stringent measures or lockdowns if the situation worsens.

Thailand

	Latest Developments	FBIC's take
Macroeconomic Trends	Thailand's manufacturing production index (MPI) rose unexpectedly by 0.35% yoy in November last year, putting an end to an 18-month sequence of contraction, according to the Office of Industrial Economics. Bolstered by output expansion of cars, petroleum products, electrical equipment and electronics, the growth in MPI was in line with the improved capacity utilisation rate, which increased to 64.8 in November from 63.5 in October.	• Thailand's manufacturing production has been on a recovery path since May last year. Industrial products account for around 80% of the country's exports, a key driver for Thailand's GDP growth. • The latest MPI performance was also consistent with the recent trend shown in the IHS Markit Thailand Manufacturing PMI, which stood at 50.8 in December — the third consecutive month that the index reading was above the 50.0 no-change mark. • The recent spike of COVID-19 cases in the country since December last year and the tightening of restrictions on business may pose downside risk to the country's economic outlook. However, the tightened restrictions have not impacted factory operations so far.
Policies & regulations	To ease the impact of the new COVID-19 outbreak that linked to a seafood market in a coastal province southwest of Bangkok, the Thai government has rolled out a new set of urgent relief measures. These include a reduction in electricity and water bills for the next two months, cash handouts of 7,000 baht over two months for informal workers, freelancers and farmers, and soft loans worth 200 billion baht in total for eligible individuals and businesses.	• The abovementioned measures, if implemented effectively, are expected to boost liquidity, lower the cost of living for people affected by the outbreak, and sustain the country's recovery impetus. • As no nationwide lockdown has been implemented so far for the new outbreak, we anticipate that the latest tightened restrictions on 28 red-zone provinces may not make a severe impact on economic activities if they are only implemented for a short period of time. If a nationwide lockdown is imposed, however, Thailand's economy could see a steep contraction similar to the second quarter last year.

Thailand

	Latest Developments	FBIC's take
FTAs & trade preferences	Effective from 30 December 2020, the US has suspended duty preferences for around US$817 million exports of goods from Thailand under the Generalised System of Preferences (GSP) programme based on Thailand's lack of sufficient progress in providing the US with equitable and reasonable market access for pork products. 147 products from Thailand will be actually affected by the GSP withdrawal, including automotive tires and parts, steering wheels, chemicals, bedding and mattresses made from rubber or plastics, wood screws, and aluminium sheets.	• The withdrawal of trade preferences will affect approximately one-sixth of Thailand's exports to the US under GSP. The affected products will now face 3% to 4% normal tariff rates to access the US market. Thai officials estimated that those products would have been subject to US$19 million more tariffs if they had not enjoyed the duty preferences. In fact, the officials expressed confidence that the country's exports of these products would remain competitive in the US market despite the withdrawal of duty preference. • Prior to the latest GSP withdrawal, the US had already revoked Thailand's GSP eligibility for 573 products (of which only 315 were actually affected), effective 25 April 2020, due to the country's longstanding labour rights issues.

Vietnam

Fast facts

GDP (Oct–Dec 2020)
+4.5% yoy ▲

Manufacturing PMI (Dec 2020)
51.7 ▲

CPI (Dec 2020)
+0.2% yoy ▼

Merchandise exports (Dec 2020)
+22.7% yoy ▲

Textiles and garments
-4.5% yoy ▲

Toys and sports goods
+21.3% yoy ▼

Wood and wooden products
+20.1% yoy ▼

Footwear
-1.8% yoy ▲

Exchange rate (USD: VND, as of 20 Jan 2021)
23,077 (0.1% appreciation year-to-date)

Note: Arrows indicate an improvement (▲) or deterioration (▼) compared to the previous period
Source: General Statistics Office of Vietnam, General Department of Vietnam Customs, IHS Markit, Bloomberg

12-Month Sourcing Outlook: Positive

Despite the disruption of the COVID-19 pandemic, Vietnam achieved a GDP growth rate of 2.9% in 2020. Total trade value of Vietnam in 2020 also jumped by 5.1% to US$543 billion. Its exports stood at US$281.5 billion and imports reached US$262.4 billion, up by 6.5% and 3.6% from the previous year, respectively. In addition, the country has earnestly signed a number of free trade agreements with its trading partners in 2020. The proactive moves have allowed the country to enjoy tariff reductions and boost exports.

However, if the pandemic is prolonged, its potential negative impact will be exerted on all economies, including Vietnam.

Vietnam

	Latest Developments	FBIC's take
Macroeconomic Trends	Vietnam's GDP in 2020 is expected to grow by 2.9% yoy, according to the General Statistics Office (GSO). In terms of quarterly growth rate, Vietnam's economy expanded by 3.7% yoy in the first quarter, 0.4% yoy in the second quarter, 2.7% yoy in the third quarter and 4.5% yoy in the fourth quarter.	• Though the 2020 record was the lowest GDP growth level in the decade, Vietnam's growth rate in 2020 was among the highest in the world amid the COVID-19 outbreak, according to the GSO. • The Vietnamese government targeted to achieve a GDP growth rate of approximately 6% in 2021. However, the openness of the economy may pose a challenge for securing the growth target, as high openness may make the economy vulnerable to market fluctuations and any changes in the regional and global geopolitical landscape.
Trade disputes	The US Department of the Treasury released a currency manipulation report on 16 December, accusing Vietnam of improperly intervening in foreign exchange markets and devaluing its currency against the US dollar. In late December, the US Trade Representative (USTR) organised a hearing for the Section 301 investigation concerning Vietnam's currency valuation accordingly. According to a report of USTR released on 15 January 2021 on findings in the Section 301 investigation related to Vietnam's currency valuation, the USTR did not mention or recommend the imposition of tariff or any sanction measures on Vietnam's exports.	• More US firms are targeting Vietnam as an alternative manufacturing base and expanding their business in Vietnam. Many US businesses and organisations participating in the hearing commented that the US's large trade deficit with Vietnam was due to some objective factors, rather than devaluation of the Vietnamese dong. • One of the factors leading to the US trade deficit against Vietnam is that Vietnam has signed free trade agreements (FTAs) with many allied countries in 2020 and enjoyed preferential tariffs. On the contrary, the US has stepped out of quite a number of FTAs, e.g. the formerly proposed Trans-Pacific Partnership (TPP), making US's exports lose tariff advantage in the Vietnamese market. It is believed that increasing trade negotiations with trading partners may help the US to reduce its trade deficit.

Vietnam

	Latest Developments	FBIC's take
FTAs & trade preferences	In December 2020, Vietnam and the UK concluded a UK–Vietnam Free Trade Agreement (UKVFTA), which will strengthen the relationship of the two countries across trade liberalisation, legal regulation and alignment in global standards. Currently, the UK is Vietnam's third largest trading partner in Europe (after Germany and the Netherlands). Besides, by the end of August 2020, the UK had 400 ongoing investment projects in Vietnam with a total registered capital of US$3.6 billion, ranking 16th among the countries with a business presence in Vietnam.	• The UKVFTA, entered into force on 1 January 2021, is important to both Vietnam and the UK, as it ensures no interruption to bilateral trade due to Brexit, the transition period of which expired on 31 December 2020. The trade deal helps secure the trade benefits the two countries enjoyed under the EU–Vietnam Free Trade Agreement (EVFTA) that took effect on 1 August 2020. • Under the UKVFTA, the UK will abolish import duties on 99.2% of tariff lines within six years, equivalent to 99.7% of Vietnam's export turnover to the UK. • The UKVFTA is anticipated to deliver annual tariff savings of 114 million pounds on Vietnam's exports to the UK and 36 million pounds on the UK's exports to Vietnam. The agreement will also encourage a new wave of foreign investment from the UK in Vietnam.
	During the 10th meeting of the Vietnam–Republic of Korea (RoK) Joint Committee on Energy, Industry and Trade Cooperation in December 2020, the two countries signed an action plan targeting for raising their bilateral trade to US$100 billion by 2023. On the occasion, the ministers also co-chaired the 4th Joint Committee on the Implementation of the Vietnam–RoK Free Trade Agreement (VKFTA). The two countries signed a series of documents, including a letter of exchange regarding the implementation of the cumulation of origin for textile materials between Vietnam and South Korea as set out in the EVFTA.	• The action plan will help to attract more South Korean companies to Vietnam, and facilitate more Vietnam's exports to South Korea, such as garments, textiles, footwear, timber, agro-fishery products and processed food. The two nations will jointly promote technology transfer, improve personnel quality and intensify investment and trade connectivity. • Regarding to the letter of exchange, it helps Vietnamese enterprises to solve the textile origin problem. As set out in the EVFTA, when the local firms make apparel products and export to the EU, the textile materials should be woven in Vietnam or the EU member states, so as to enjoy tariff reductions. • As South Korea previously signed an FTA with the European trading bloc, the signing of the letter of exchange between Vietnam and South Korea allows Vietnam to source high-quality textile materials originated from South Korea while the finished apparel products are still eligible for preferential tariff rates to the EU market.

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