

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:

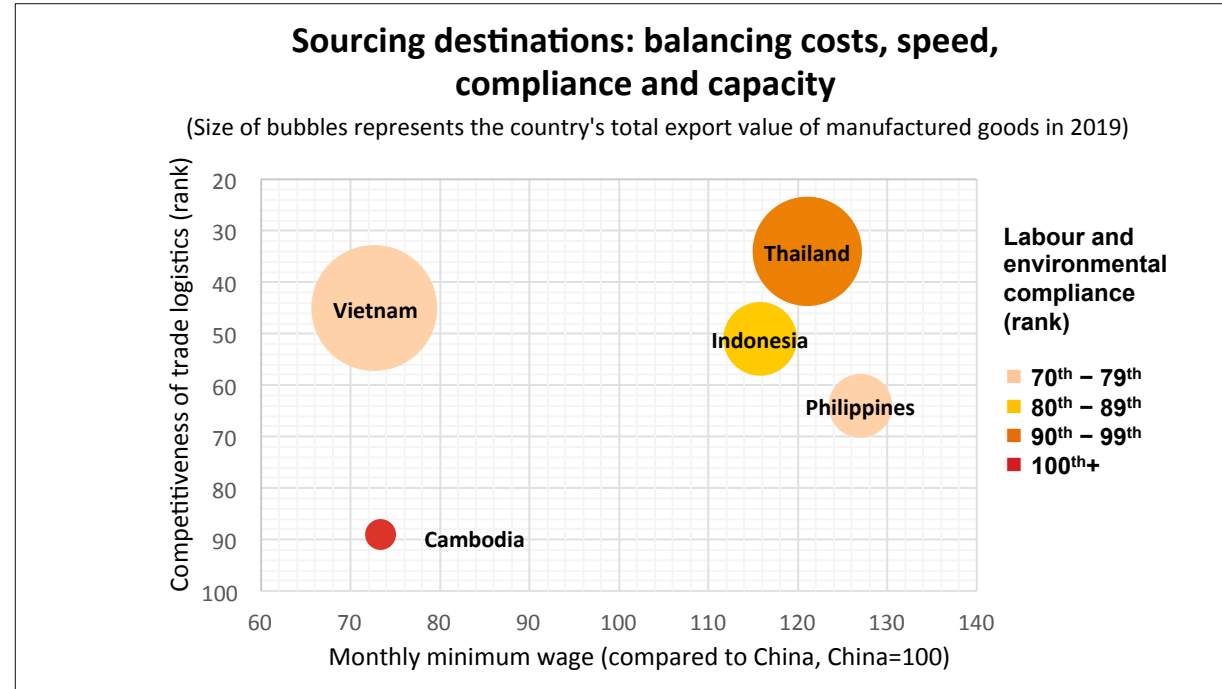
Cambodia, Vietnam

Slightly negative:

Indonesia, The Philippines

Negative:

Thailand

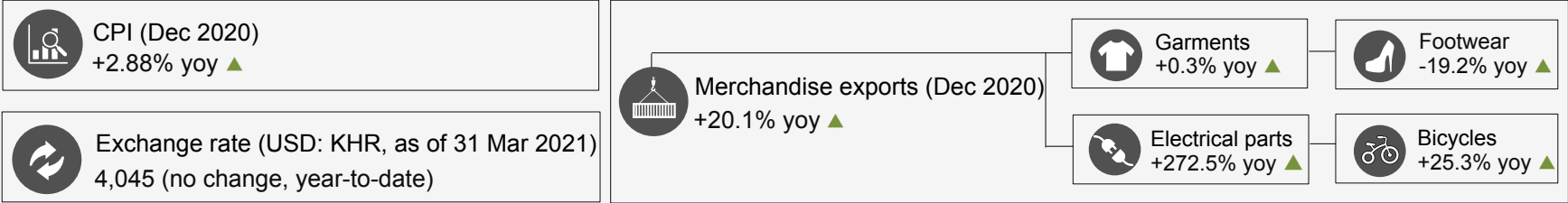


Source:

- Exports of manufactured goods (2019): WTO database;
- Minimum wage (as of end-March 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 on 31 March 2021 from governments & central banks in the respective countries;
- 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



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

12-Month Sourcing Outlook: Positive

The sourcing outlook for Cambodia remains positive, despite the ongoing outbreak of COVID-19, which has led to rounds of lockdowns. Amid challenging and highly uncertain economic environment, the country has maintained a similar growth rate in exports at 16.7% year-on-year (yoy) in 2020, as compared to the previous year. We expect that Cambodia's export growth will show more positive signs in the future, in view of the newly signed China-Cambodia Free Trade Agreement (CCFTA) and the recently concluded talks over the Cambodia-Korea Free Trade Agreement (CKFTA).

The International Monetary Fund predicts that the Cambodian economy will grow 4.2% in 2021, after a contraction of 3.5% in 2020, supported by an improvement in economic activities and the government's effective measures to keep the economy afloat during the pandemic.

Cambodia

Latest Developments

FBIC's take

Macroeconomic Trends

In 2020, the Council for the Development of Cambodia (CDC) approved 238 investment projects worth a total of US\$8.2 billion, down 12% from 2019, mainly due to the COVID-19 pandemic. In the first quarter of 2021, the CDC approved 40 new foreign investment projects, with a total investment capital of US\$2.1 billion.

Cambodia's total exports rose by 16.7% from US\$14.7 billion in 2019 to US\$17.2 billion in 2020. The US topped the list of importers of Cambodian goods, at US\$5.3 billion, followed by the EU, China, and Japan.

Garments, footwear, and travel goods are the top three export categories in 2020, but all three categories registered negative growth rates over the previous year: Exports of garments fell 10.2% yoy to US\$7.4 billion, exports of footwear fell 11.7% to US\$1.1 billion, and exports of travel goods dropped by 10.6% yoy to US\$964.7 million.

Exports of electrical equipment and electronic components, on the other hand, surged to US\$755.3 billion in 2020, up 31% yoy. Cambodia saw continuous relocation of electrical equipment and electronic components factories from China.

- Despite unprecedented uncertainties caused by the prolonged pandemic, these newly approved investment projects reflect investors' continued confidence in Cambodia.
- Most of the investment approved in the first quarter of 2021 were from China, ascribed to factors including the ongoing Sino-US trade disputes, favourable Cambodian investment laws, continuous development of road infrastructure in Cambodia, and the newly signed China-Cambodia free trade agreement (CCFTA).

- While Cambodia's exports of garments, footwear and travel goods may continue to 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 losses incurred.
- It is expected that export demand for garments, footwear and travel goods from Cambodia will gradually normalise following massive vaccine rollout in overseas markets, including the US, the UK, Italy and Germany.

Cambodia

Latest Developments

FBIC's take

FTAs and Trade Preferences	After six months of negotiations, Cambodia and South Korea concluded negotiations over the Cambodia-Korea Free Trade Agreement (CKFTA) on February 3. According to a joint press statement, the Cambodian Commerce Minister Pan Sorasak and the South Korean Trade Minister Yoo Myung-hee plan to sign the bilateral agreement in mid-2021. The CKFTA aims to liberalise bilateral trade and further strengthen the economic partnership between the two economies.	• Under the CKFTA and the Regional Comprehensive Economic Partnership (RCEP) which was concluded last year, the bilateral tariff elimination rate will be as high as 95.6% and 93.8% for South Korea and Cambodia, respectively. • Besides tariff eliminations for trade in goods, the CKFTA's chapters and annexes also cover other areas such as technical regulations, standards and conformity assessment procedures; sanitary and phytosanitary measures; trade remedies; rules of origin; customs procedures and trade facilitation; dispute settlement, etc. • The deal is expected to boost exports of Cambodian goods such as garments and textiles, footwear, travel bags, electronic equipment, as well as agricultural products such as rubber and peppercorn to the Korean market. Meanwhile, imported goods from Korea that stand to benefit include automobiles, heavy construction equipment, electronics accessories, pharmaceuticals and plastic products, etc.
Policies & Regulations	The Cambodian government announced its eighth round of economic mitigation measures in March. The measures are available to the textile, garment, footwear, and tourism sectors until June 2021, with which furloughed workers can receive up to US\$40 of financial aid. For the furloughed workers in the textile and garment sector, they can obtain an additional US\$30 on top of the US\$40. Hotels, guesthouses, and travel agents in selected regions will continue to be exempted from paying monthly taxes until June 2021.	• The Cambodian government is closely monitoring the spread of COVID-19, and reviewing and assessing the social, economic and financial impacts of COVID-19, in order to prepare for further necessary supportive measures. • Textile, garment, and tourism industries play an important role in the country's economy, jointly contributing to over 30% of the nation's GDP. The textile and garment industry contributes to over 80% of the nation's total exports. • The new round of relief measures was welcomed by the private sector, as the relief measures are expected to prop up the country's hardest-hit industries amid the COVID-19 crisis.

Indonesia

Fast facts



GDP (Oct-Dec 2020)

-2.2% yoy ▲



Manufacturing PMI (Mar 2021)

53.2 ▲



CPI (Mar 2021)

+1.4% yoy



Merchandise exports (Feb 2021)

+8.5% yoy ▼



Textiles and textile products

-11.6% yoy ▲



Footwear

+29.7% yoy ▲



Sports requisites

+2.1% yoy ▲



Furniture

+23.7% yoy ▲



Exchange rate (USD: IDR, as of 31 Mar 2021)

14,572 (3.3% depreciation year-to-date)

Note: Arrows indicate an improvement (▲) or deterioration (▼) compared to the previous period

Source: Statistics Indonesia, Bank Indonesia, IHS Markit

12-Month Sourcing Outlook: Slightly Negative

According to the Central Statistics Agency, the Indonesian economy contracted by 2.07% yoy in 2020, not as severe as many had predicted. In terms of the quarterly performance, Indonesia's economic growth improved from -5.32% yoy in the second quarter of 2020 to -3.49% yoy in the third quarter and -2.19% yoy in the fourth quarter of the year.

Local officials expected that the Indonesian economy would grow by -1 to 0.1% yoy in the first quarter of 2021, but would recover in the second quarter. President Joko Widodo has expressed that vaccination is important in breaking the chain of COVID-19 transmission and bringing back normal life and economic recovery. If the vaccination programme, which aims to inoculate 181.5 million citizens, is successful, an economic revival for Indonesia in 2021 is expected.

Indonesia

	Latest Developments	FBIC's take
Macro-economic trends	Indonesia's trade balance in March 2021 posted a surplus of US\$1.57 billion, with exports and imports valued at US \$18.35 billion and US\$15.76 billion, respectively. The exports in March 2021 hit a 10-year high and recorded a growth of 30.47% yoy. Positive export growth was registered in all sectors, including oil & gas, agriculture, manufacturing, and mining & other activities, with year-on-year growth rates at 38.67%, 25.04%, 33.45% and 11.95%, respectively.	• The trade surplus in March 2021 shows a positive economic progress. The surplus was much bigger than the numbers recorded in the previous two years (which were US\$0.7 billion in both March 2019 and March 2020). • According to the Central Statistics Agency, strong demand from several countries and an increase in exports of Indonesia's key commodities contributed to the good export performance in March.
Policies & Regulations	Finance Minister revealed that the budget for the National Economic Recovery Program (PEN) in 2021 increased to Rp699.43 trillion from Rp688.33 trillion in last year's budgeted PEN. The 2021 budget is 21% higher than last year's PEN realization, which amounted to Rp579.78 trillion.	• The PEN in 2021 will be spent on five major areas: health, social protection, priority programs, business incentives, and support for micro, small, and medium enterprises (MSMEs) and corporate financing. The PEN is expected to be an effective driving force for economic recovery, especially in the first quarter of 2021. • Rp186.81 trillion from the PEN budget was assigned to support MSMEs and corporations recover from the impact of the COVID-19 pandemic, including interest subsidies for MSMEs which amount to Rp31.95 trillion. • Rp53.86 trillion from the PEN budget was apportioned to boost business incentives, including providing tax incentives to businesses.

Indonesia

	Latest Developments	FBIC's take
FTAs, Trade Preferences and Investment Agreements	Indonesia-Singapore bilateral investment treaty (BIT) came into force on 9 March after both countries exchanged instruments of ratification.	• The treaty gives more certainty and confidence for Indonesian and Singaporean investors in both countries, as it provides more legal protection from discriminatory treatment and illegal expropriation. • Even before the BIT came into force, Singapore has been Indonesia's top foreign investors. According to the Indonesian Investment Coordinating Board, Singapore continued to be the largest foreign investor of Indonesia in 2020, with total investment worth US\$9.8 billion, significantly increased from US\$6.5 billion in 2019. It is believed the BIT will further boost Indonesia's attractiveness to Singaporean companies.
Industry Developments	In November 2020, the province governor of West Java announced that Amazon will establish a data center for its cloud computing service in the province. The company will invest between US\$2.1 billion and US\$2.8 billion in the project. In February this year, Microsoft followed suit and announced to build its first data center in Indonesia. The plan is expected to create 60,000 jobs to the local economy over the next four years.	• It is expected that Indonesia's digital economy would generate US\$124 billion in gross merchandise value in 2025, making it the largest digital market in Southeast Asia, according to a study conducted by Google in 2020. However, the study also mentions that the lack of digital talents is a persistent challenge facing the country. • The latest investment plans by the two tech giants are expected to support local innovation, economic recovery and digital transformation in West Java and the entire country. • West Java, home to 50 million people, is one of the most competitive provinces in attracting foreign and local investment. According to the province governor, West Java has more productive human resources and better infrastructure compared to any other region in the archipelago. Also, West Java will soon operate the first high speed rail in Southeast Asia, connecting Bandung and Jakarta, hopefully later this year or next year.

The Philippines

Fast facts



GDP (Oct-Dec 2020)

-6.2% yoy ▲



Manufacturing PMI (Mar 2021)

52.2 -



CPI (Mar 2021)

+4.5% yoy



Merchandise exports (Feb 2021)

-2.3% yoy ▲



Woodcrafts and furniture

+10.9% yoy ▲



Garments

+4.9% yoy ▲



Travel goods and handbags

-9.8% yoy ▲



Exchange rate (USD: PHP, as of 31 Mar 2021)

48.466 (0.91% depreciation year-to-date)

Note: Arrows indicate an improvement (▲) or deterioration (▼) or no change (-) compared to the previous period

Source: Philippine Statistics Authority, IHS Markit, Bangko Sentral ng Pilipinas

12-Month Sourcing Outlook: Slightly Negative

The Philippines has continued to struggle with the COVID-19 pandemic, logging its one-day cases to 10,098 on 18 April and bringing its accumulative total cases to 936,133. All regions in the country remain under some level of quarantine restrictions.

The Philippine economy contracted 9.6% in 2020, worse than the expected contraction of 8.1%, ending its 21 years of growth. In view of the latest worsening pandemic situation, many international institutions have recently adjusted downward their earlier forecasts for 2021 growth. It is, however, expected that a stronger economic rebound will happen in the second half of the year, supported by a more positive external environment. Overall, they still predict the 2021 growth to be over 6% (IMF 6.9%, Oxford Economics 6.2%, and Moody's 6.3%).

A good sign for the country's economy is that the IHS Markit Philippines Manufacturing PMI posted above the 50.0 neutral value in each of first three months of 2021. Trade has also been a bright spot – In February, the contraction pace of exports slowed, as compared to the previous month.

The Philippines

Latest Developments

FBIC's take

Macroeconomic Trends

Exports recorded a decrease of 2.3% yoy to US\$5.31 billion in February 2021, an improvement from the year-on-year contraction of 4.8% posted in the previous month, according to the Philippine Statistics Authority.

Six of the top ten commodity groups by export value registered year-on-year increases in January and February, led by chemicals (57.73%), metal components (17.60%), and miscellaneous manufactured articles, n.e.s. (13.82%). Exports of electronic products, which accounted for around 57% of the country's exports in January and February, grew by 0.42% yoy.

Exports of garments in February grew by 4.9% yoy, the first monthly growth after 12 months of double-digit contraction. Exports of woodcrafts and furniture also registered a 10.9% yoy growth in the same month.

Total investments, either from home or abroad, approved by the Philippine Board of Investments (BOI) in January 2021 amounted to 81.94 billion Philippine pesos (US\$1.71 billion), up 429.7% compared to 15.47 billion pesos in January 2020. Net foreign direct investment in the Philippines increased 41.5% yoy in January 2021 to US \$961 million.

- China (including Hong Kong) is the largest export market of the Philippines, accounting for 26.02% of the Philippines' exports in the first two months of 2021
- Imports resumed growth in February after 11-month contraction. China is also the Philippines' largest import supplier with a share of 28.22% in the Philippines' total import value in the first two months of 2021.
- Despite the positive growth in certain sectors, the Foreign Buyers Association of the Philippines (FOBAP) expected that garments and hard goods exports will fall short of the US\$2 billion target for the year, as the imposed restrictions addressing the resurgence of COVID-19 infections in the Philippines have delayed export shipments.
- Also noteworthy is that the Philippines recently secured US\$500 million worth of orders transferred by global fashion brands from the troubled Myanmar in March.

- Despite being the worst hit country 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.

The Philippines

Latest Developments		FBIC's take
Other Topics	Since April, the Philippines has started inoculating its health care workers by the Sinovac and AstraZeneca vaccines donated from China and the COVID-19 Vaccines Global Access Facility (COVAX).	The Philippines has suffered from a prolonged lockdown, leading to a serious delay in its export shipments and adversely affecting its overall economy. The designated loans will help speed up the country's inoculation process, thereby easing the impact of the COVID-19 pandemic on the overall economy and the export sector.
	The Philippines recently secured US\$900 million (43.6 billion Philippine pesos) in loans from the World Bank and the Manila-based Asian Development Bank. The loans will be used for purchasing and distributing COVID-19 vaccines to the majority of the Philippine population.	

Thailand

Fast facts



GDP (Oct-Dec 2020)
-4.2% yoy ▲



Manufacturing PMI (Mar 2021)
48.8 ▲



CPI (Mar 2021)
-0.5% yoy



Merchandise exports (Feb 2021)
-2.6% yoy ▼



Textiles and apparel
-12.8% yoy ▲



Furniture
+19.9% yoy ▲



Footwear
-17.0% yoy ▼



Exchange rate (USD: THB, as of 31 Mar 2021)
31.339 (4.6% 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

12-Month Sourcing Outlook: Negative

Thailand's GDP contracted by 4.2% yoy in the fourth quarter of 2020. It is expected that the Thai economy will contract further in the first quarter of this year.

In April, the third coronavirus wave, which includes a highly contagious variant, struck Thailand, dealing a further blow to the already stagnating economy.

Thailand

Latest Developments

FBIC's take

Macroeconomic Trends	Thailand's manufacturing production index (MPI) decreased by 0.62% yoy in February, better than those in the previous two months (-1.89% yoy in December and -1.78% yoy in January). The improvement was mainly bolstered by output expansion of furniture, computer and electronics products, and chemical products, while serious output contraction of wearing apparel, textiles, coke and refined petroleum products, and leather and related products was recorded during the period.	- Thailand's MPI has been back on its contraction track since December last year, after an unexpected increase of 0.11% yoy in November 2020. The contraction was mainly driven by a decline in both output and new orders. A continued contraction in MPI is expected in the next two months. - The MPI performance is also consistent with the recent trend shown in the IHS Markit Thailand Manufacturing PMI, which has remained below 50.0 for the third successive month in March, indicating that firms were still pessimistic regarding the 12-month outlook for production.
Policies & regulations	In March, the government approved financial measures worth 350 billion baht to help business cope with the impact of the COVID-19 pandemic, including 250 billion baht of soft loans provided by the central bank and 100 billion baht for the 'asset warehousing' scheme to assist debtors who are unable to service their loans.	- The 'asset warehousing' scheme allows debtors to use their assets as collateral with the right to redeem or to rent their assets later on. It is hoped that the measure will help prevent fire sale of collateral assets upon debt defaults. - The measures also aim at preventing closing down of businesses which, in the longer term, are expected to be able to recover financially. - The measures came as a timely support, especially when Thailand has been suffering from a third wave of coronavirus outbreak since April, which will seriously impede the recovery of the tourism-reliant economy.

Thailand

Latest Developments

FBIC's take

FTAs & trade preferences

The parliament of Thailand approved the ratification of the Regional Comprehensive Economic Partnership (RCEP) in February 2021, which is the 14th free trade agreement of Thailand.

- If the RCEP takes effect as expected, more than 29,000 Thai export items out of a total of 40,000 will become the first batch to receive a tariff waiver from 1 January next year. The remainder will see their tariffs gradually reduced to zero in 10-20 years, based on the respective conditions of each RCEP member.
- However, it should be noted that the enforcement of the RCEP depends on the ratification progress of the other RCEP member countries, as it requires at least six ASEAN countries and three non-ASEAN countries to ratify the pact before the RCEP will officially enter into force.

Vietnam

Fast facts



GDP (Jan-Mar 2021)
+4.5% yoy -



Manufacturing PMI (Mar 2021)
53.6 ▲



CPI (Mar 2021)
+1.2% yoy



Merchandise exports (Mar 2021*)
+23.5% yoy ▲



Textiles and garments
+16.2% yoy ▲



Toys and sports goods
+30.2% yoy ▲



Wood and wooden products
+50.4% yoy ▲



Footwear
+23.9% yoy ▲



Exchange rate (USD: VND, as of 31 Mar 2021)
23,244 (0.5% depreciation year-to-date)

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

12-Month Sourcing Outlook: Positive

Vietnam's exports in the first three months of 2021 surged by 22% yoy to reach US\$77.34 billion, according to the Ministry of Industry and Trade. The new-generation free trade agreements (FTAs), including the EU-Vietnam Free Trade Agreement (EVFTA), the Regional Comprehensive Economic Partnership (RCEP), and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), are expected to boost exports of Vietnam.

In addition, several indicators signaled an improvement in Vietnam's business conditions. For instance, Vietnam's GDP grew by 4.48% in the first quarter, higher than the 3.68% recorded in the same period last year. Also, the IHS Markit manufacturing purchasing managers' index (PMI) of Vietnam increased 2 points to 53.6 in March from 51.6 in February.

However, Vietnam's growth prospects still depend on how well the authorities will put the new COVID-19 outbreak under control and how quickly international and national vaccinations will proceed.

Vietnam

Latest Developments

FBIC's take

Macroeconomic Trends

According to the General Statistics Office of Vietnam, total trade value of the country reached US\$152 billion in the first quarter of 2021, up by 24.0% yoy. Vietnam's exports and imports in the first three months of 2021 amounted to US \$77.34 billion and US\$75.31 billion, up by 22.0% and 26.3% yoy, respectively.

In the three-month period, the US was the largest export destination of Vietnam, accounting for 27.4% of all exports. The second largest export destination was China, followed by the EU, ASEAN, South Korea and Japan. China was Vietnam's largest source of imports, accounting for 31.6% of all imports, followed by South Korea and ASEAN.

In the first three months of 2021, Vietnam attracted foreign direct investment (FDI) pledges of US\$10.13 billion, up by 18.5% yoy, according to the Foreign Investment Agency. The investment went into 17 sectors, of which, manufacturing and processing industries accounted for 49.6%.

Singapore was the largest investor, with FDI pledges of US \$4.6 billion, followed by Japan with US\$2.1 billion and South Korea with US\$1.2 billion.

- In order to maintain the export growth in the year ahead, the Ministry of Industry and Trade is expected to help local businesses take full advantage of the opportunities arising from the various FTAs by removing barriers for market expansion.
- Alongside maximizing the benefits of FTAs, local businesses have been advised to diversify their markets, restructure export products, put more efforts into building brands, and be more alert to market and policy changes.

- The jump in Vietnam's FDI pledges in the first quarter of 2021 reflected that the country remained a promising investment location for foreign investors.
- Vietnam has already built a business ecosystem that facilitates investments from companies moving part of their supply chains out of China. Foreign investors are looking forward to capitalizing on the various FTAs signed between Vietnam and its trading partners.
- Meanwhile, as some investors pull out of Myanmar amidst the military coup, Vietnam will benefit as one of the alternative Southeast Asian investment locations.

Vietnam

	Latest Developments	FBIC's take
Industry Development	Taiwan's Hon Hai Technology Group (Foxconn), the major contract manufacturer of Apple Inc., is recruiting 1,000 electronic assembly workers for its plants in the northern Vietnamese provinces of Bac Giang and Bac Ninh.	• According to The Economist Intelligence Unit, Vietnam continues to be an attractive option for manufacturers and those seeking to diversify their supply chains in Asia. Vietnam has become a big electronics production base in the world, and an increasing portion of foreign invested projects registered were mainly in technology-based sectors. • However, Vietnam mainly undertakes the assembling stage, which brings the lowest value-added to the global supply chain. The overseas manufacturers, when coming to Vietnam, usually bring in satellite enterprises and do not use local vendors. Local enterprises still have to strive for becoming vendors of large global manufacturers in order to join the global supply chains.

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