

Asia Sourcing Update

Cambodia, Indonesia, the Philippines, Thailand and Vietnam

Southeast Asia | South and West Asia



Highlights: Evaluating sourcing destinations

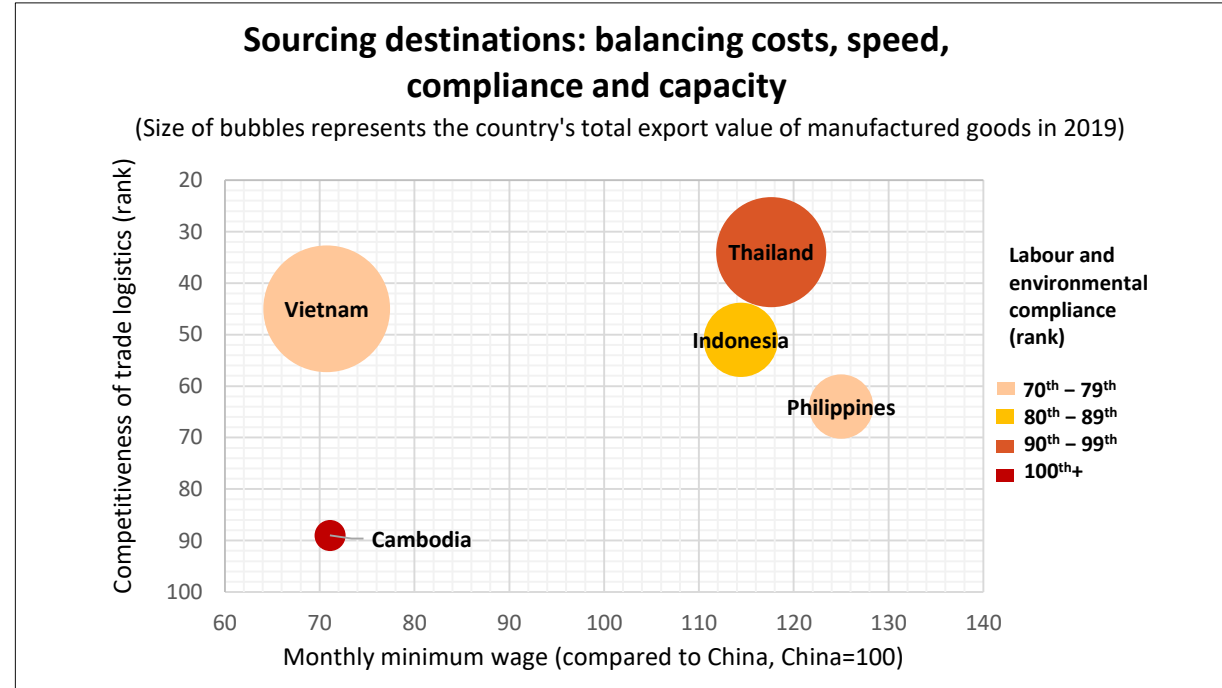
12-month Sourcing Outlook

Positive:
Vietnam

Slightly Positive:
Cambodia

Neutral:
Indonesia, Thailand

Slightly negative:
The Philippines



Source:

- Exports of manufactured goods (2019): WTO database;
- Minimum wage (as of end-May 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 May 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: Slightly Positive

The ongoing COVID-19 outbreak in Cambodia shows no sign of subsiding yet. As of 31 May 2021, the total number of cases was 30,094 with 214 fatalities, forcing the country to impose another two-weeks of lockdown in the capital area from 3 to 16 June. Nevertheless, the effective COVID-19 response by the Cambodian government has made the country one of the lowest in terms of COVID-19 deaths per capita. The vaccine campaign is in good progress with the goal of vaccinating five to six million of its 16 million population by year end.

Amid a challenging and highly uncertain economic environment, the country achieved an 8.7% year-on-year (yoy) growth in exports in the first four months of 2021. The Asian Development Bank, in its Asian Economic Outlook 2021 published on 28 May, predicted that the Cambodian economy would grow 4.0% in 2021. It further predicted that the Cambodian industrial production would grow 7.1% in 2021 and 7.0% in 2022, supported by the recovery of apparel, footwear, and travel items as well as the growth of electronics and bicycle assembling.

Cambodia

Latest Developments

FBIC's take

Macroeconomic Trends	Cambodia's total exports rose by 8.7% yoy in the first four months of 2021 to US\$4.8 billion. Exports of garments fell 20% yoy to US\$2.2 billion, and footwear stayed at US\$0.4 billion. Electrical parts, on the other hand, has surged 186% yoy to US\$251 million during this period. Among the Cambodian export markets, the US came first, followed by China, the EU, ASEAN, and Japan. According to the Ministry of Commerce, in the first four months of this year, exports to the US was up 29% yoy to US\$1.9 billion and China was up 42% yoy to US\$424 million.	• The US is Cambodia's biggest export market, accounting for approximately 40% of the country's exports in 2020, and continues to expand with growth rates of 22.8% yoy in 2020 and 29.0% yoy in the first four months of 2021. Export categories such as clothes, travel goods, footwear, and other materials all increased. This is of benefit to the Cambodian export industry as these items may continue to suffer a setback due to the EU's partial withdrawal from the duty-free preferences under the Everything But Arms scheme. The increased demand from the US market will make up for some of the losses incurred. • It is also expected that the visit from the US Deputy Secretary of State in early June will boost further commerce cooperation between the two countries. • The bilateral trade between Cambodia and China has already boomed after the signing of the Cambodia-China FTA last year. It is anticipated that the trade volume will reach US\$10 billion by 2023.
Industry Developments	By mid-May this year, 102 factories have closed, with 27 of them being directly affected by the COVID-19 pandemic and 75 others going bankrupt because of a lack of orders or suspensions. According to the Secretary of the State of Industry, Science and Innovation, most of the closed factories were in the garment, footwear and travel bag sector. On the other hand, the Council for the Development of Cambodia has awarded licenses to 94 new investment projects with a registered value of US\$2.2 billion during the first quarter of 2021, a 114% increase compared to projects approved in the same period last year.	• Despite high number of factory closure (in 2020, there were 101 factories closed), the increase in the number of projects approved has reflected the confidence of domestic and foreign investors in the Cambodian economy. • According to the Secretary-General of the Garment Manufacturers Association in Cambodia, international orders have not dropped substantially, and there has been a backlog of orders in the sector partly because factory operations were suspended during the citywide lockdown. • Both the number of approved projects and the stable number of orders indicate an overall optimistic sourcing prospect in Cambodia.

Cambodia

Latest Developments

FBIC's take

FTAs and Trade Preferences	Hong Kong-based Luen Thai Holdings Ltd's newest venture, the XO Tex Industrial Co Ltd garment factory located in Phnom Penh, recently became the first building in Cambodia to earn 'gold' certification under the US Green Building Council's (USGBC) LEED¹ v4 Building and Construction (BD+C) rating system. The building is a 25,000 sqm facility designed to employ 10,000 staff, producing garments for well-known international sports brands. Leadership in Energy and Environmental Design	• LEED is the most widely used green building rating system. This certification demonstrates the investor's commitment to sustainability, and the Cambodian government's support for green production, which could attract more international investors with environmental awareness. • This certification also holds the potential for Cambodia's garment manufacturing sector to capitalize on the sale of carbon credits through the Climate Impact Exchange (CIX)², to be launched end of this year.
Infrastructure	In April, Cambodia and Japan International Cooperation Agency launched the "Implementation of the project to better the logistics systems of Cambodia (Phase 2)" to improve logistics system in a bid to enhance the efficiency of freight traffic in Cambodia.	• This project, together with the Phnom Penh Logistics Complex project, are Cambodia's latest efforts to achieve its goal of making the country a competitive strategic location in Asia in terms of logistics and transportation. • It should be noted that Cambodia's logistics infrastructure is not well developed. The World Bank recently placed Cambodia 98th in the world for logistics capacity. Nevertheless, the construction and improvement in infrastructure will attract more multinational companies to establish their distribution centres in Cambodia and is an important step for the county to become a manufacturing and export hub in Asia.
	On 12 May, the Council for the Development of Cambodia, in collaboration with the World Economic Forum, launched the Supplier Database with Sustainability Dimensions (SD2), the first of its kind, to provide information on the sustainability operations of domestic companies. SD2 will serve as a key platform linking international and domestic firms that are seeking new partnerships in Cambodia.	• This database gives foreign entities seeking to invest in local Cambodian companies a platform to check if organizations are complying with the principles of Environment, Society, and Governance (ESG). Concurrently, it will also encourage Cambodian companies, who want to form joint ventures with foreign entities, to devote more attention to sustainable operations.

Notes:

¹ Leadership in Energy and Environmental Design

² Climate Impact X is a joint venture from Asia's largest lender DBS Group, British bank Standard Chartered, Singapore state investor Temasek and market operator Singapore Exchange. It is expected to go live by the end of 2021 and will have two platforms catered to the needs of buyers and sellers of carbon credits. ([more info](#))

Cambodia

	Latest Developments	FBIC's take
Other topics	The European Chamber of Commerce in Cambodia (EuroCham) stated in its latest investment guide that “Cambodia continues to be a largely untapped market with investment and business opportunities in many areas of its burgeoning economy.”	• The Cambodian economy is lagging behind other Southeast Asian countries (per capita GDP of US\$1,643 in 2019, as compared to US\$7,807 for Thailand and US\$3,485 for the Philippines), but grows at a faster speed (7.1% in 2019, as compare to Thailand's 2.4% and the Philippines' 6.0%). The future of this young and dynamic country is promising, given its favourable location in the heart of the Greater Mekong Subregion, its commitment to sustainable development, and its efforts to strengthen its relations with China and the US.

Indonesia

Fast facts



GDP (Jan-Mar 2021)

-0.7% yoy ▲



Manufacturing PMI (May 2021)

55.3 ▲



CPI (May 2021)

+1.7% yoy



Merchandise exports (Apr 2021)

+51.9% yoy ▲



Textiles and textile products

+57.1% yoy ▲



Footwear

+36.0% yoy ▲



Sports requisites

+54.8% yoy ▲



Furniture

+84.2% yoy ▲



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

14,292 (1.3% 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: Neutral

Indonesia's economy shrank by 0.74% yoy in the first quarter of this year, reflecting that the economy is moving towards a positive trend following deep contraction in 2020. The country's economy has shown signs of recovery including improvements in the retail sales index, consumer confidence index, and Manufacturing Purchasing Managers Index (PMI).

The government targets 2021 year-end economic growth rate at around 4.5%-5.3% yoy. To achieve this target, the economy must grow in the range of 6.9%-7.8% in the second quarter. It is expected that this positive economic growth would be attained through the state budget stimulus programs, acceleration of the COVID-19 vaccination program and consistent implementation of health protocols.

Indonesia

Latest Developments		FBIC's take
Macroeconomic trends	In the first quarter of 2021, Indonesia's economy continued to contract at 0.74% yoy, according to the Statistics Indonesia (BPS); however, overall, it has shown an upward trend in growth since the GDP contracted 5.3% in the second quarter of 2020.	• Six business sectors contributed to the country's economic improvement in the first quarter including: information and communication, water procurement, healthcare, agriculture, electricity and gas procurement, and real estate. • Several sectors such as industry, trade, construction, and mining continue to record a contraction during the first quarter. • The government will boost the economy by strengthening various key strategic sectors, such as palm oil, chemicals, aluminum, electronics, and footwear.
	Indonesia's exports in April rose 51.9% yoy to US\$18.5 billion, the strongest jump since 2010, outperforming the forecast of 41% in a Reuters poll.	• This April, Indonesia's trade balance registered a surplus for the 12th consecutive month to reach US\$2.2 billion, fueling hopes of economic recovery. • In terms of trading partners, Indonesia recorded a trade surplus of US\$1.2 billion with the US, US\$554 million with the Philippines, and US\$439 million with India. On the contrary, the country experienced a trade deficit of US\$652 million with China, US\$418.3 million with Australia, and US\$248.1 million with Thailand. • Overall, the nation's trade balance from January to April 2021 registered a surplus of \$7.7 billion. In comparison, during the same period of 2019, a trade deficit was recorded at US\$2.3 billion, a deficit of US\$1.4 billion in January-April 2018, and a surplus of US\$5.4 billion in January-April 2017.

Indonesia

	Latest Developments	FBIC's take
Trade Agreements	On 5 June, China and Indonesia inked a memorandum of understanding (MoU) to develop a comprehensive regional economic corridor and form a joint committee for the corridor.	• Under the newly signed MoU, the two parties agreed on enhancing cooperation in the fields of finance, maritime, investment, health, etc. • Moreover, the two countries agreed to harmonize the vision and mission of the Belt and Road Initiative and the Global Maritime Axis by accelerating the development of industrial estate and common market platforms. • They will mutually support research and development in the vaccine industry. China will assist Indonesia to build a regional vaccine production hub.
Industry Developments	The government announced to upgrade the Investment Coordinating Board (BKPM) into the Ministry of Investment on 28 April. The decision is aimed at creating positive sentiment among domestic and foreign investors. The new ministry is expected to improve the ease of doing business in the country, attract investment and create jobs, which will be key drivers for economic recovery amid the COVID-19 pandemic.	• Indonesia has been working to achieve an economic growth of around 5% this year through boosting investment. • The Minister has formulated a strategy to increase the investment target up to 900 trillion rupiah for 2021 and 5000 trillion rupiah in 2024. The health sector is the top investment priority, followed by automotive, mining, infrastructure, and renewable energy. • In the first quarter of 2021, investment realization of Indonesia reached 219.7 trillion rupiah, a 4.3% yoy rise from 210.7 trillion rupiah during the same period of 2020. The investment realization comprised of two components, domestic investment of 108 trillion rupiah, and foreign direct investment of 111.7 trillion rupiah. • The investment projects were mainly in the fields of property, industrial estates, and offices; basic metal industry, metal goods, and non-machines and equipment; transportation, warehouse, and telecommunications; food industry; and electricity, water, and gas.

The Philippines

Fast facts



GDP (Jan–Mar 2021)
-4.2% yoy ▲



Manufacturing PMI (May 2021)
49.9



CPI (May 2021)
+4.5% yoy



Merchandise exports (Mar 2021)
31.6% yoy ▲



Woodcrafts and furniture
-48.2% yoy ▼



Garments
+66.3% yoy ▲



Travel goods and handbags
+39.5% yoy ▲



Exchange rate (USD: PHP, as of 31 May 2021)
47.901 (0.27% appreciation year-to-date)

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

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

12-Month Sourcing Outlook: Slightly Negative

The Philippine economy contracted 4.2% yoy in the first quarter of 2021. This is the fifth straight quarter of GDP contraction starting from the first quarter last year, although improved from an 8.3% yoy contraction in the previous quarter.

The COVID-19 pandemic situation in the Philippines has improved since May, from its worst time in April; however, daily confirmed cases are still far higher than those in January and February. There are no signs of quarantine relaxation yet. The purchasing managers' index (PMI) published by the IHS Markit went up to 49.9 in May from 49.0 in April, but still below the 50.0 neutral value that separates expansion from contraction.

For these reasons, the country's economy is unlikely to improve in the next quarter. The World Bank also downgraded its forecast for the Philippines' 2021 economic growth from 5.5% to 4.7% in June, citing the resurgence in COVID-19 cases and reimposition of restrictions that could affect recovery this year.

The Philippines

Latest Developments

FBIC's take

Macroeconomic Trends

The Philippines' exports in the first four months of 2021 reached US\$23.4 billion, a 19% increase from the same period last year. Specifically, exports jumped 72.1% yoy to US\$5.7 billion in April, despite the new wave of COVID-19 outbreak starting in March.

Electronic products remained the country's top export category in April, with total earnings of US\$3.2 billion, accounting for 56.4% of the value of total exports of the month.

Foreign direct investment (FDI) net inflows tracked by the Bangko Sentral ng Pilipinas amounted to US\$2.4 billion (about 115.0 billion Philippine pesos) in the first three months of 2021, a 45.1% increase from the same period last year.

Preliminary data from the Philippine Statistics Authority (PSA), however, showed that foreign investments approved in the first quarter of 2021 decreased 32.9% to 19.6 billion pesos from 29.1 billion pesos recorded in the same period last year. Foreign investment commitments during this period were driven by investments from Japan, Cayman Islands, and South Korea, respectively accounting for 54.8%, 5.8%, and 3.0% of the total foreign investments approved.

- During lockdowns, the government allowed 100% operation of companies in export activities, which has contributed to the export growth of the country.
- Strong demand from the Philippines' two major trading partners, China and the US, was also a reason for the export surge and would continue to benefit the Philippines' exports.

- The inflow of FDI in the first quarter this year is encouraging, but the decreased number of approved FDI applications in the same period indicates a less bright prospect. As the approved investments are commitments by foreign entities to invest in the near future, the slump in the approved foreign investment applications in the first quarter reflected a decreased confidence of foreign investors in the country's economic future.
- The Philippine government's approach to managing the economic impact of the pandemic in the coming months will heavily affect foreign investors' sentiments and decide the actual foreign investments into the country.

The Philippines

	Latest Developments	FBIC's take
Policies and Regulations	On 19 May 2021, the Senate of the Philippines approved amendments to the Retail Trade Liberalization Act (RTLA), or Senate Bill (SB) 1840. After the amendments, the minimum paid-up capital requirements for foreign retail enterprises have been reduced from US\$2.5 million to US\$1 million. The bill also removes the pre-qualification requirements for foreign retailers to have been engaged in the retailing industry for the past five years, or to have at least five retailing branches located anywhere worldwide.	The amendments to RTLA are aimed at attracting more foreign investment in the retail sector, which accounted for 23% of the total services industry before the pandemic. Counter-intuitively, it will also reduce the protection for micro and small Filipino firms - a key objective of the very Act.
Infrastructure	On 5 May 2021, the government launched the country's artificial intelligence (AI) roadmap that aims at making the Philippines an AI center of excellence in the region. A private sector-led research center, the National Center for AI Research (N-CAIR), will be established under the national AI roadmap to be responsible for advancing scientific discoveries in AI and play a pivotal role in nurturing and developing AI talents and data science leaders.	- The roadmap embodies the country's strategy to maximize the benefits from employing AI technologies and developing the AI economy. - The N-CAIR is expected to provide consultancy services to government agencies, industries, and other research centers; encourage companies to utilize AI to build their capacities to make new products, processes, and services; and assist micro, small and medium enterprises who are interested in using data science, analytics, and AI tools for improving efficiency and productivity. - Experts expect the successful application of artificial intelligence would boost the Philippines' gross domestic product by 12%, or about US\$92 billion by 2030.
Other topics	The 2020 World Bank – <i>Doing Business Report</i> ranked the Philippines 95th out of 190 economies in ease of doing business with a score of 62.8, jumping 29 notches from no. 124 and a score of 57.7 in 2019.	- The Philippines' rise in ease of doing business rankings indicates an improved business environment which will attract more investors to the country. - The uptick in ease of doing business rankings is ascribed partly to the efforts made by the Anti-Red Tape Authority (ARTA). Despite the COVID-19 pandemic, the ARTA was able to work on its goal of streamlining and re-engineering government processes, and enforcing a zero-contact policy through accessible online government transactions and the use of mandatory electronic-Business One-Stop-Shop (BOSS) in local governments, etc.

Thailand

Fast facts



GDP (Jan–Mar 2021)
-2.6% yoy ▲



Manufacturing PMI (May 2021)
47.8 ▼



CPI (May 2021)
+2.4% yoy



Merchandise exports (Apr 2021)
+13.1% yoy ▲



Textiles and apparel
+35.4% yoy ▲



Furniture
+57.7% yoy ▲



Footwear
+37.3% yoy ▲



Exchange rate (USD: THB, as of 31 May 2021)
31.263 (4.2% 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: Neutral

Thailand's GDP contracted by 2.6% yoy in the first quarter of 2021, an improvement from a 4.2% yoy contraction in the previous quarter and better than market expectations of a 3.3% contraction.

The surge in COVID-19 cases and renewed lockdown measures in April and May will drag down the second quarter performance and slow down the economic recovery for the whole year. The PMI in May fell to 47.8, down from 50.7 in April, signaling a deterioration in the health of the Thai manufacturing sector. The Joint Standing Committee on Commerce, Industry and Banking (JSCCIB) has reduced its 2021 economic growth forecast for Thailand from 1.5-3% to 0.5-2%.

To counter the pandemic, the first batch of locally manufactured AstraZeneca vaccines by a royal-owned company was delivered on 2 June, raising the hope that the company will honour its promise to deliver 61 million doses to Thailand this year. This amount, together with the purchases from other countries, will substantially increase the possibility that the Thai government will achieve its vaccination target of fully vaccinating at least 70% of its 70 million population by year-end.

Thailand

Latest Developments

FBIC's take

Macroeconomic Trends

Thai exports excluding gold expanded 12.8% yoy in the first four months of 2021. In April, the export value surpassed US\$20 billion for the third month in a row, with a growth rate of 13.1% yoy - the largest gain in 36 months. Excluding gold, oil-related products and weaponry, exports in April surged 25.7% yoy.

The automobile, equipment and parts sector, the exports of which increased by 135.9% yoy in April, was the most important driver for the excellent April export performance. The computer, equipment and parts sector was another important contributor to the country's exports, with a growth of 28.7% yoy in the same month.

The value of foreign direct investment (FDI) applications in the first quarter of 2021 surged 143% yoy to 62.0 billion baht, although the number of projects decreased to 191 from 231 in the same period last year. FDI applications were mainly in the electrical and electronics industry (52 out of the 191 projects), followed by metal products, and machinery and transport equipment (45 projects each).

- The robust export expansion in Thailand was in line with the global economic recovery, especially the recovery among developed countries with high vaccination rates.
- For the rest of the year, it is expected that accelerating global growth, particularly among developed countries, coupled with thriving prices of export products, would further improve Thailand's export performance. As a result, the Thai National Shipper's Council expected that the Thai exports will rise 15% yoy in the second quarter. The Economic Intelligence Center of the Siam Commercial Bank also increased Thai export growth outlook for this year from 9.6% to 15%.
- However, the global shortage of shipping containers and the resulting rising freight charges remain a threat to the export boom. Exporters are now looking for alternative routes such as land, rail, and air to deliver their goods to the consumers.
- According to the deputy secretary-general of the Board of Investment, 154 out of the 191 FDI applications in the first quarter were related to the expansion of existing investment projects. This indicates that foreign investors who are already investing in the country are confident in the prospect of the Thai manufacturing sector.

Thailand

	Latest Developments	FBIC's take
FTAs & trade preferences	Commerce Minister Jurin Laksanawisit of Thailand said on 6 May that a free trade agreement (FTA) between Thailand and Hong Kong is expected to be sealed by the third quarter this year.	Hong Kong is an important trade partner for Thailand. In 2020, Hong Kong was the fourth largest importer of Thailand's goods, after the US, Mainland China, and Japan. This bilateral FTA will definitely improve Thailand's export performance amid the pandemic.
Policies & regulations	A project initiated by The Bank of Thailand was ranked first by the "PwC Global CBDC Index 2021" for wholesale central bank digital currency development. Moreover, the central banks in Thailand and Hong Kong are rated as ones with the most mature interbank/wholesale central bank digital currency (CBDC) project in the world.	- Thailand is among the pioneers of the CBDC experiments. The said project is the "Inthanon-LionRock" initiated by the Bank of Thailand and the Hong Kong Monetary Authority in 2019. - With its successful experiment on the application of Distributed Ledger Technology (DLT) to increase efficiency in cross-border funds transfers, the bilateral project attracted the participation of the Central Bank of the United Arab Emirates and the Digital Currency Institute of the People's Bank of China this year. The project has now been renamed "Multiple Central Bank Digital Currency Bridge". - The multilateral project will study potential outcomes in a multi-jurisdictional context as it evaluates the feasibility of the project. If this multilateral experiment succeeds, Asia's leadership in CBDC research and application will be further strengthened.

Vietnam

Fast facts



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



Manufacturing PMI (May 2021)
53.1 ▼



CPI (May 2021)
+2.9% yoy



Merchandise exports (May 2021)
+36.6% yoy ▼



Textiles and garments
+36.4% yoy ▼



Toys and sports goods
+58.7% yoy ▲



Wood and wooden products
+82.2% yoy ▼



Footwear
+44.0% yoy ▲



Exchange rate (USD: VND, as of 31 May 2021)
23,135 (0.02% depreciation 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, The State Bank of Vietnam

12-Month Sourcing Outlook: Positive

According to IHS Markit, the Manufacturing Purchasing Managers' Index (PMI) in Vietnam was 53.1 in May, down from 54.7 in April as the latest wave of the COVID-19 outbreak affected output and demand. Even so, Vietnam shipped over US\$130 billion of export goods in the first five months of 2021, up by 30.7% yoy.

Business sentiment eased to a three-month low amid the resurgence of the COVID-19 outbreak; however, firms generally remained optimistic about the output growth for the rest of the year. Controlling the spread of COVID-19 in the industrial parks and keeping the supply chain uninterrupted are top priorities for the Vietnamese government.

Vietnam

Latest Developments

FBIC's take

Macroeconomic Trends	Vietnam's exports reached US\$130.9 billion in the first five months of 2021, up by 31% yoy, according to the General Statistics Office (GSO). During the period, Vietnam reported a trade deficit of US\$369 million, as both exports and imports grew. In May, Vietnam's exports valued at US\$26.2 billion, up by 36% from the same period last year.	• During the five months, 22 products recorded an export value of over US\$1 billion each, added together accounting for 87% of the total exports of Vietnam. • The exports of heavy industrial goods and minerals were US\$70.7 billion, up by 33% yoy. It was followed by the exports of light industrial goods and handicrafts at US\$47.3 billion, up 33% yoy, and of agricultural and forestry products at US\$9.7 billion, up 14% yoy. • The US was the largest market for Vietnam, accounting for 29% of Vietnam's export value during this period, followed by China, the EU, ASEAN, and South Korea.
Industry Development	According to US-based media, <i>Furniture Today</i>, Vietnam has overtaken China as the largest exporter of wooden furniture to the US in 2020. Despite the COVID-19 disruptions, Vietnam shipped over US\$7.4 billion of furniture to the US in 2020, up by 31% yoy. In comparison, China's export value of furniture to the US was US\$7.3 billion, down by 25% yoy. In the first four months of 2021, Vietnam's exports of wood and wooden products to the rest of the world surged by 50.5% yoy to US\$5 billion, becoming the sixth largest export commodity among all Vietnamese export goods.	• Sales of Vietnamese wooden products have enjoyed robust growth in recent years, especially after the US government imposed an additional 25% tariff on almost all furniture categories exported from China. • To further boost the growth of wooden furniture exports, Vietnam's wood sector should focus on market development and solidify its existing position. • Vietnamese trade associations should pay efforts to ensure local businesses are aware and follow international rules and standards. As the US is one of the largest furniture markets for Vietnam, local firms should comply with US trade requirements by preventing origin fraud and tax evasion.

Vietnam

Latest Developments

FBIC's take

Policies and regulations

The Vietnamese government issued Decree No.18/2021/ND-CP (hereafter as Decree 18) on 11 March, amending a previous 2016 decree (No.134/2016/ND-CP) to implement the Law on Export and Import Taxes. Decree 18 aimed to create favourable conditions for import-export activities, attract investment, promote high value-added export production, and enhance national competitiveness.

Decree 18, effective on 25 April, made some changes to the 2016 version. For example, products traded on-spot are not eligible for import duty exemptions:

- On-spot exported goods from non-tariff zones are subject to the export tariff rates.
- On-spot imported goods are subject to MFN preferential import tax rates.
- On-spot imported goods from non-tariff zones to the domestic market will be applied MFN preferential import tax rates, FTA special preferential tax rates or normal import tax rates.
- On-spot imported goods under processing model are exempt from import duty if the required conditions are satisfied.
- On-spot imported goods under other models are subject to import duty and will be able to get refund when being exported to overseas or non-tariff zones.

- According to local practitioners, Decree 18 is intended to target local material suppliers but now has affected 95% of garment and footwear firms. Instead of sourcing local materials and investing in local material production, companies would purchase materials from overseas to avoid additional taxes.
- The regulation is deemed a step backwards from the government's efforts to support local firms by joining numerous free trade agreements (FTA), for example the EU-Vietnam FTA (EVFTA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), as businesses should meet the "yarn-forward rule of origin" for the CPTPP and the "fabric-forward rule of origin" for the EVFTA to enjoy tariff reductions.
- Furthermore, it usually takes around one year for companies to import materials for production as well as complete documents on export and tax refund. Decree 18 may affect the cashflow of the traders, who need to borrow bank loans for duty payments and pay interest for 7-12 months before getting the tax refund.
- In summary, the decree may lower the competitiveness of Vietnamese products in the global markets, especially for high-valued finished goods.

Vietnam

Latest Developments

FBIC's take

Labour and compliance

The rapid growth of foreign investment in Vietnam in recent years has led to an increased demand for skilled workers. Foreign-invested enterprises (FIEs) in Vietnam tend to recruit high-skilled talents from overseas, as local workers cannot meet the requirements of FIEs.

According to the Ministry of Labour, Invalids and Social Affairs (MoLISA), there were 101,550 skilled workers from over 110 countries and territories around the world working in Vietnam in April 2021. 12% of these foreign workers are managers, 8% are managing directors, and 58% are experts.

- According to the current Labour Code in Vietnam, enterprises shall be entitled to hire foreign workers only in the positions of managers, executive directors, experts and technical workers, in which Vietnamese workers cannot fulfill the demands for production and trade.
- Despite being an attractive destination for overseas workers, Vietnam has set certain policy barriers on the recruitment of foreign employees. For instance, Decree No.152/2020/ND-CP, effective on 15 February this year, added provisions that make it difficult for businesses to apply new work permits for foreign experts.
- As Vietnam is facing another wave of the COVID-19 outbreak, entry restrictions, quarantine measures and the reduction of commercial flights will pose additional barriers for receiving foreign workers in Vietnam.
- Welfare, insurance, income tax policies and naturalization policies should be improved and modified to attract high-quality overseas talents to work in Vietnam.
- Apart from offering preferential policies to overseas talents, training of local workers should also be strengthened to meet the skill levels required by FIEs.

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