

Asia Sourcing Update

Cambodia, Indonesia, the Philippines, Thailand and Vietnam

Southeast Asia | South and West Asia



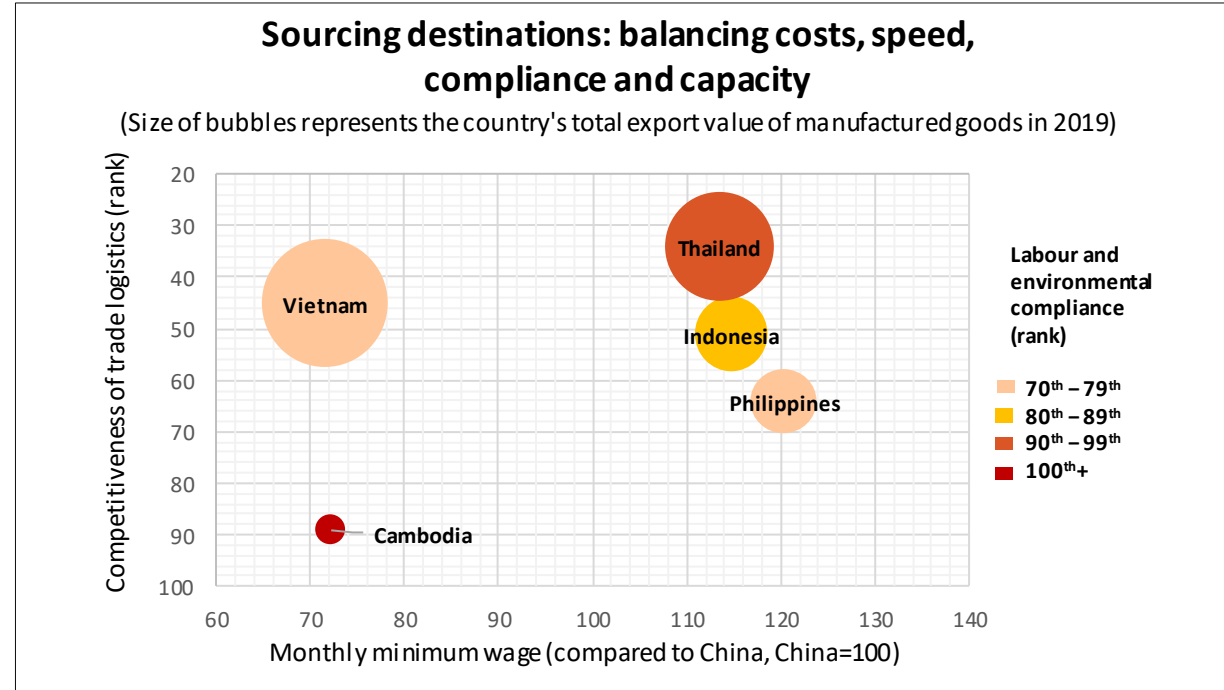
Highlights: Evaluating sourcing destinations

12-month Sourcing Outlook

Slightly Positive:
Thailand

Neutral:
Cambodia, Vietnam

Slightly negative:
Indonesia, The Philippines



Source:

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



CPI (May 2021)
+2.99% yoy



Exchange rate (USD: KHR, as of 30 July 2021)
4,072 (0.66% depreciation year-to-date)



Merchandise exports (Jun 2021)
-21.7% yoy ▲



Garments
-14.2% yoy ▲



Footwear
+12.7% yoy ▼



Electrical parts
+46.2% yoy ▼



Bicycles
-18.9 yoy ▼

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

Source: National Bank of Cambodia

12-Month Sourcing Outlook: Neutral

The Cambodian government downgraded its economic forecast for 2021 to 2.5% year-on-year (yoy) on 1 August, from 4.1% yoy announced at the beginning of the year, worrying that the new round of COVID-19 outbreaks across the world will have a negative impact on Cambodia's key trading partners and will continue to disrupt the global production chain.

The positive side is that Cambodia itself has not been severely hit by the new COVID-19 variant compared with other major Southeast Asian countries. Cambodia has so far the second highest vaccination rate in the Southeast Asian region, only after Singapore (50% of Cambodians have received at least 1 dose as of early August). Cambodia's exports has been performing well amid COVID-19 outbreaks in factories, disruptions in production chains, and bottlenecks in international shipping that are plaguing exporters.

However, as a small economy that has not been very competitive in the world export markets, Cambodia's economic performance will be largely affected by the external economic and market situations, especially the US economy.

Cambodia

Latest Developments

FBIC's take

Macroeconomic Trends

Cambodian exports increased by 17% yoy to US\$8.2 billion in the first half of 2021, according to the Ministry of Economy and Finance.

Exports of garments, footwear, travel products (GFT) and other finished textile goods were up 0.9% yoy to US\$4.7 billion in the same period, according to the General Department of Customs and Excise of Cambodia.

The US is Cambodia's largest export destination. In the first half of the year, exports to the US increased by 32.4% yoy to US\$3.6 billion.

Other key export markets of the country during this period include the EU, Canada, Japan, China, South Korea, and other ASEAN countries.

- Exports of GFT, the largest export sector of Cambodia, managed to remain in growth territory in the first half of this year, even though many analysts ascribed this positive export performance to the political crisis in Myanmar and the worsened COVID-19 situation in Bangladesh.
- We believed that, the effective control of the COVID-19 pandemic within the country and a continuous economic recovery in major trading partners of Cambodia will bolster the growth of both Cambodia's exports in general and Cambodia's GFT exports in the remaining months of this year.

Cambodia

Latest Developments

FBIC's take

Policy and Regulations

Three major draft laws on trade received full support at a meeting on 3 August participated by the National Assembly (NA) leaders, the Senate, and the heads of the NA's ten specialised committees. The three laws are the draft law on the ratification of the Regional Comprehensive Economic Partnership (RCEP) agreement, the draft law on the Cambodia-China Free Trade Agreement (CCFTA), and the draft law on competition. The laws are expected to take effect before the end of 2021.

- RCEP will benefit the overall economy of the region covered but could also bring heterogeneous effects on individual member countries. As competition from other RCEP countries could be intense, the Cambodian government may need to do ongoing analyses on the impact of RCEP on the country and reserve more policy and fiscal space to take maximum advantage of this trade agreement.
- The CCFTA is expected to boost Cambodia's exports to China, especially exports of agricultural products, processed products and handicrafts, through tariff reductions and customs and trade facilitation. This is particularly important for Cambodia, which has suffered the suspension since last year of its special trade preferences under the Everything but Arms (EBA) arrangement of EU's Generalised Scheme of Preferences (GSP).
- The Competition Law aims at promoting fair competition and improving business environment, which will in turn boost investment from home and abroad.

Cambodia

Latest Developments

FBIC's take

Labour and Compliance

The National Council on Minimum Wage (NCMW) has decided to begin negotiating the 2022 minimum wages for workers in the textile, garment, and footwear sectors this September.

Generally, the NCMW begins internal discussions on the minimum wage in July and bilateral and multi-party discussions take place informally in August. Formal meetings are held in September to decide the minimum wage.

During the negotiations, all parties use legal arguments, scientific research, and economic criteria like the rate of inflation and the cost of living, productivity, competitiveness, labour market conditions and levels of profit in the sector as the bases for their arguments about the minimum wage.

- In the latest round of minimum wage hike, effective since January 2021, monthly minimum wage of factory workers in the textiles, garments and footwear sectors was increased by only US\$2 to US\$192. This increase is rather small compared with the increments in previous adjustments. Worker unions in the sector and labour rights groups hope that the monthly minimum wage could increase to US\$200 this time.
- Given the global economy is recovering from the COVID-19 pandemic and Cambodia's relatively low level of minimum wage among developing countries, a consensus on a bigger increase in minimum wage for this round is expected to be reached in the upcoming September meeting.

Indonesia

Fast facts



GDP (Apr-Jun 2021)
7.1% yoy ▲



Manufacturing PMI (Jul 2021)
40.1 ▼



CPI (Jul 2021)
+1.5% yoy



Merchandise exports (Jun 2021)
+54.5% yoy ▼



Textiles and textile products
+39.1% yoy ▼



Footwear
+18.0% yoy ▼



Sports requisites
+38.3% yoy ▼



Furniture
+51.1% yoy ▼



Exchange rate (USD: IDR, as of 31 Jul 2021)
14,462 (2.5% depreciation year-to-date)

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

Source: StatisticsIndonesia, BankIndonesia, IHS Markit

12-Month Sourcing Outlook: Slightly negative

In the second quarter of 2021, the Indonesian economy began to recover and grew by 7.1% yoy. However, due to the latest spread of the Delta variant of COVID-19, Bank Indonesia has revised downward the country's economic forecast in 2021 to 3.5-4.3% from 4.1-5.1%. The revision was echoed by the IHS Markit Indonesia Manufacturing Purchasing Managers' Index (PMI), which plunged to 40.1 in July from 53.5 in June. July's reading of the PMI indicated the first contraction for the country's manufacturing sector in nine months with the fastest decline rate since June 2020.

As of early August, the cumulative numbers of COVID-19 cases and deaths in Indonesia reached nearly 3.5 million and 100,000, respectively. Under the latest restrictions enforcement, people's movements are restricted based on their industries, and only employees in critical sectors such as energy and health are allowed to go back to the workplace.

Indonesia

Latest Developments

FBIC's take

Macroeconomic trends

Indonesia's exports in June 2021 reached US\$18.6 billion, up by 9.5% mom and 54.6% yoy. In the first half of this year, the export value was US\$102.9 billion, up by 34.8% yoy compared to the corresponding period of 2020.

This June, exports of major non-oil and gas commodities in Indonesia recorded impressive growth on a month-on-month basis, including iron and steel (up by 32.3%); vehicles and the spare parts (42.2%); machines and electrical equipment (15.9%); and footwear (33.0%).

Investments in Indonesia grew by 16.2% yoy to 223 trillion rupiah in the second quarter of 2021, according to the Investment Ministry/Investment Coordinating Board (BKPM). The investment comprised domestic investment at 106 trillion rupiah and foreign investment at 117 trillion rupiah, up by 47.8% yoy and 19.6% yoy, respectively.

- The Indonesian government has been reorganizing the industrial structure to strengthen the export potential of industrial and high-tech industrial goods, consisting of iron, steel and automotive.
- According to the Trade Ministry, the growth of iron and steel exports in the first half of 2021 reflected that Indonesia is evolving from a raw and semi-processed materials production base to an industrial manufacturing country.

- Singapore, Hong Kong, the Netherlands, Japan and China were the top five foreign investors in Indonesia in the second quarter of 2021. The growth in foreign investment indicates that the international community, particularly the European investors, have remained confident to invest in Indonesia.

Indonesia

Latest Developments

FBIC's take

Trade Agreements

The UK has recently launched an eight-week public consultation on the new trading rules which will reduce and simplify tariff for low and lower-middle income countries. Indonesia is one of the 70 qualified countries for the new UK Developing Countries Trading Scheme (DCTS), which will replace UK's Generalized System of Preferences and is expected to take effect in 2022.

This June, Indonesia and Canada launched a plan for opening negotiations on the Indonesia-Canada Comprehensive Economic Partnership Agreement (ICA-CEPA). The ICA-CEPA is expected to generate trade and investment opportunities for both countries.

- The UK-Indonesia bilateral trade stood at US\$2.2 billion in 2020. Under the proposed DCTS, Indonesia is expected to enjoy lower tariff, potentially boosting bilateral trade and economic development in Indonesia.
- The UK is the second largest European investor of Indonesia, investing £7.1 billion in Indonesia in 2019. The UK's investments helped create a million jobs in Indonesia.
- Besides, the proposed DCTS demonstrates the commitment of the UK to Indonesia, by enabling an easier access path to the UK market for Indonesian businesses.

- Canada is the 32nd largest export destination of Indonesia and the 16th largest origin of Indonesian imports. Bilateral trade between the two countries valued at US\$2.4 billion in 2020.
- In the past five years, Canada has invested US\$718 million in the mining, hotel and restaurant, and logistics sectors of Indonesia.
- Amid the dynamic global geopolitical changes, the agreement is a strategic effort to strengthen cooperation between the two countries and create opportunities for greater penetration of Indonesian exports into North America.
- The agreement is also expected to support economic growth, trade and investment, and job creation for the two countries.

Indonesia

Latest Developments		FBIC's take
Policies and Regulations	In early August, Indonesia officially launched the Online Single Submission (OSS) System, a web-based platform for issuing business licenses to businesses, from micro to large enterprises, which engage in low-risk business activities. This OSS system is part of the new framework for granting business licenses under the Omnibus Law (Law No. 11 of 2020 on Job Creation).	• This move is part of the Indonesian government's commitment to improve the ease of doing business in Indonesia, thereby boosting both domestic and foreign direct investment. • It is hoped that the one-stop, electronically integrated OSS business licensing service will help to mitigate the Indonesian bureaucratic procedure, which used to take a long and complicated process.
Other Topics	Indonesia ranked 37th among 64 economies on the World Competitiveness Index in 2021, compiled by Switzerland-based International Institute for Management and Development (IMD).	• In contrast to some Asian neighbours, which saw their competitiveness rankings dropped due to the COVID-19 pandemic, Indonesia moves up 3 places this year due to enhancements in business efficiency, economic performance, government efficiency and business confidence among Indonesian executives. • However, IMD warned that the COVID-19 pandemic had led to a deeper inequality in Indonesia, posing a new challenge to the economy. To further increase its competitiveness, Indonesia should improve its educational and healthcare systems, invest in knowledge generation and enhance the productivity of its private sector.

The Philippines

Fast facts



GDP (Apr–Jun 2021)
+11.8% yoy ▲



Manufacturing PMI (Jul 2021)
50.4



CPI (Jul 2021)
+4.0% yoy



Merchandise exports (Jun 2021)
+17.6% yoy ▼



Woodcrafts and furniture
+19.3% yoy ▼



Garments
+20.8% yoy ▼



Travel goods and handbags
+142.7% yoy ▼



Exchange rate (USD: PHP, as of 30 Jul 2021)
50.342 (4.59% depreciation 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 increased 11.8% yoy in the second quarter of 2021, the highest growth since the fourth quarter of 1988 and snapping five consecutive quarters of contraction. However, this does not mean the country is on track for an economic recovery. The strong rebound in the second quarter was mainly due to the low base in the same period last year, during which GDP contracted by a record 16.9%. On a quarter-on-quarter basis, the economy in the second quarter of 2021 contracted by 1.3% due to strict lockdowns in April. A new round of lockdowns in the National Capital Region and nearby provinces on 6-20 August to contain the spread of the more contagious COVID-19 Delta variant weighed further on the already fragile recovery. Estimates show that the economy could lose 105 billion pesos every week during this round of lockdown.

The Philippines aims to inoculate 50% to 70% of its 110 million population by the end of the year, but as of 30 July, only 7.1% of the population has been vaccinated.

The Philippines

Latest Developments

FBIC's take

Macroeconomic Trends

The Philippines' exports in the first half of 2021 increased by 21% yoy to US\$29.7 billion. In June alone, exports increased by 17.6% yoy to US\$6.5 billion.

Electronic products continued to be the country's top exports in June, with total export value of US\$3.7 billion. This amount accounted for 57.1% of the total exports during the month.

Of the top 10 major commodity groups in terms of export value, nine recorded year-on-year increases, led by cathodes & sections of cathodes, of refined copper (US\$259.8 million, up 161.1%). This was followed by ignition wiring set and other wiring sets used in vehicles, aircrafts and ships (US\$216.0 million, up 53.4%), and other manufactured goods (US\$404 million, up 40.5%).

The US is the Philippines' largest export market, accounting for 16.8% of the latter's total exports value in June, followed by China (16.2%), Japan (14.9%), Hong Kong (13.9%), and Singapore (4.9%).

The Philippine's net inflow of foreign direct investment (FDI) during the period of January – May 2021 increased 37.8% yoy to US\$3.5 billion. However, net FDI inflow in May 2021 was down 25.4% yoy to US\$429 million.

- The Philippines' exports have been increasing for four consecutive months since March, sustaining an upward trend with the expansion of global trade.
- While the US is the Philippines' largest export market, the next four biggest markets are all located in Asia and three of them are RCEP member countries*, reflecting the importance of the RCEP region to the Philippines' economy.
- Besides, China is the country's largest supplier of imported goods. In June, total imports from China were US\$2.3 billion, accounting for 24.1% of the country's total imports. In the same month, imports from the US only accounted for 6.6% of the Philippines' total imports. This suggests that the Philippines needs to take special care in balancing the relationships with China and the US, given the rising geopolitical tensions between the two. Hong Kong is actively seeking to join the RCEP and is expected to be among the first batch of non-founding economies of the Agreement.

(Hong Kong is actively seeking to join the RCEP and is expected to be among the first batch of non-founding economies of the Agreement.)*

- The decline in the net inflow of FDI in May reflected investors' concerns on the rising COVID-19 cases caused by new virus variants in the country and globally.
- In the past few months, the Philippines' economic performance has been fluctuating due to the pandemic. Future investment inflows will be largely dependent on the COVID-19 situation and the vaccination progress in the country.

The Philippines

Latest Developments

FBIC's take

Policies and Regulations

In July, the Bureau of Internal Revenue (BIR) deferred the implementation of Revenue Regulation 9-2021 that imposes a 12% value-added tax (VAT) on raw material purchases of exporting firms from domestic suppliers.

On 1 July, the Anti-Red Tape Authority (ARTA) launched the Philippine Good Regulatory Principles (PGRP) that will serve as guidelines for regulators to make effective policies, improve administrative efficiency, but not add bureaucratic layers in governmental offices.

- The regulation aims at compensating the government's revenue loss from the grant of fiscal incentives to exporters and cooperatives since 2019.
- This deferral decision will provide relief to the export sector, which has already been suffering from supply chain disruptions brought about by the pandemic.
- This is also good news to both local workers and suppliers of raw materials. According to the Semiconductor and Electronics Industries in the Philippines Foundation Inc. (SEIPI), if the regulation was implemented, its members would have to divert their sourcing from home to abroad, which would result in an estimated job loss of 50,000 in the country in the semiconductor and electronics industries alone.
- The PGRP helps the businesses understand what kind of policies to expect from the regulators and enables regulators to review their regulations to improve their services to the stakeholders.
- It is hoped that the launch of the PGRP, together with ARTA's other initiatives in the pipeline such as the Regulatory Assessment Impact (RIA) manual, the Philippines Business Regulation Information System, etc. would reduce regulatory burden and improve regulatory quality, thereby improving the business and investment environment in the country.

Thailand

Fast facts



GDP (Apr–Jun 2021)
+7.5% yoy ▲



Manufacturing PMI (Jul 2021)
48.7 ▼



CPI (Jul 2021)
+0.45% yoy



Merchandise exports (Jul 2021)
+43.8% yoy ▲



Textiles and apparel
+23.7% yoy ▼



Furniture
+40.7% yoy ▼



Footwear
+31.6% yoy ▼



Exchange rate (USD: THB, as of 30 Jul 2021)
32.894 (8.9% 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: Slightly positive

Thailand's GDP increased by 7.6% yoy in the second quarter of 2021, from a low base in the same period last year when the economy contracted 12.1% yoy. The country's economic performance has shown signs of improvement, but successive waves of COVID-19 outbreaks bring huge uncertainty to the recovery. On 13 August, Thailand's daily caseload surged to 23,418 with 184 deaths. On the same day, tighter containment measures, previously implemented in the capital and 'high-risk provinces' only, were expanded to 29 provinces classified as "dark red zone".

The IHS Markit Thailand Manufacturing PMI was down to 48.7 in July from 49.5 in June, remaining below the 50.0 neutral value for the third consecutive month, indicating lackluster growth for Thailand's manufacturing sector. In August, the Bank of Thailand (BoT) slashed its economic growth projection for this year again to 0.7%, after cutting the forecast from 3.0% to 1.8% in July. The World Bank also cut Thai GDP growth outlook in 2021 from 3.4% to 2.2% in July.

The positive side is that exports of goods have provided substantial support to the Thai economy, driven by recovering global demand for automotive parts, electronics, machinery, and agricultural products. Applications for investment projects by foreign investors also increased in the first half of the year comparing with the same period last year, reflecting the confidence of foreign investors in the country's economy.

Thailand

Latest Developments

FBIC's take

Macroeconomic Trends

In the first half of 2021, Thai exports grew by 15.5% yoy to US\$131.8 billion. In the second quarter of 2021, exports grew by 36.2% yoy (the highest growth in 44 quarters) to a historical high of US\$67.8 billion. In June alone, exports surged 43.8% yoy, the strongest increase since July 2010, to US\$23.7 billion.

Key export products in the first half of 2021 included machinery and equipment (US\$11.2billion), vehicle parts and accessories (US\$9.5 billion), food (US\$8.1 billion), computer parts and accessories (US\$7.6 billion), petrochemical products (US\$7.5 billion), passenger car (US\$5.4 billion), chemicals (US\$4.5 billion), pick up and trucks (US\$4.3 billion), and integrated circuits and parts (US\$4.1 billion).

- Exports have become the main driver of the country's economic growth in the first half of this year, thanks to the global economic recovery and the ongoing implementation of the export promotion plan by the Thai government.
- However, it should be noted that the country's export performance has been greatly threatened by the COVID-19 pandemic. Workers in over 1,500 export factories in Thailand have been infected with COVID-19. Four key labour-intensive exporting industries (i.e., food, electronic parts, auto parts, and textiles) have been particularly hit. The Thai National Shippers' Council (TNSC) estimates that Thai exports could fall by as much as 300 billion baht between August and December this year and that the overall Thai exports could only grow by 7% yoy this year instead of the 10% yoy growth as previously forecasted, if the number of industrial factories hit by the COVID-19 doubled.

Thailand

Latest Developments

FBIC's take

Macroeconomic Trends

In the first half of 2021, the total number of domestic and foreign investment applications increased 14% yoy to 801 with a total value of 386.3 billion baht, a 158% increase from 149.8 billion baht in the same period last year.

The investment pledged were mainly in the electrical appliances and electronics sector (77 projects, 61 billion baht), the medical sector (47 projects, 43 billion baht), and the petrochemicals and chemicals sector (43 projects, 28.2 billion baht).

Foreign direct investment (FDI) project applications during the first half of 2021 decreased 6.2% yoy in number to 403 but surged 287.6% yoy in value from 71.9 billion baht to 278.7 billion baht.

Japan ranked first as the largest foreign investor, with 87 projects worth 42.8 billion baht; followed by the US, with 18 projects worth 24.1 billion baht; and China, with 63 projects worth 18.6 billion baht.

- Thailand's investment application boom in the first half of this year was mainly driven by the growth in FDI – The value of FDI project applications was nearly four times over the same period last year and accounted for 72% of the total (i.e., domestic and foreign) investment value pledged in the period. A large bioplastics investment application from the US increased ninefold the investment application value for the biotechnology sector compared to the same period in the previous year.
- The encouraging increase in the investment applications demonstrates new investors' confidence in Thailand's strengths in key industries, such as electronics, medical supplies, and biotech, despite the waves of COVID-19 breakouts. However, it should also be noted that the overall sentiment of foreign businesses currently operating in Thailand has recently plunged to a new low, as shown by the 'foreign business confidence index' (FBCI) conducted by the University of the Thai Chamber of Commerce, which samples 70 presidents, vice-presidents, and secretaries general of the Foreign Chamber of Commerce in Thailand. The FBCI, which gauges foreign business sentiment in Thailand, stood at 27.7 in the second quarter of this year on a scale of 100 points, down from 33.2 in the first quarter this year and 29.8 in the fourth quarter of 2020, when the index was posted for the first time.

FTAs & trade preferences

Thailand is actively forming mini free trade agreement (mini-FTA) with regions in other countries as a key policy to boost trade, investment, and economic cooperation. The Thai government signed on 9 July 2021 a memorandum of understanding (MoU) to form a 'mini-FTA' with Kofu city of Japan. In addition, Thailand is making efforts to clinch the deals to form deeper trade partnerships through "mini-FTAs" with China's Hainan province, India's Telangana state, and Korea's Gyeonggi province.

- The deeper trade partnerships at the city or state level will help boost trade and investment in targeted industries. For example, the MoU signed with Kofu city, renowned for gems and jewellery production, is expected to increase the trade value in gems and jewellery between Thailand and Japan by 5% yoy to not less than 15.5 billion baht this year.

Vietnam

Fast facts



GDP (Apr-Jun 2021)
+6.6% yoy ▲



Manufacturing PMI (Jul 2021)
45.1 ▲



CPI (Jul 2021)
+2.6% yoy



Merchandise exports (Jul 2021)
+11.9% yoy ▼



Textiles and garments
+1.8% yoy ▼



Toys and sports goods
-23.0% yoy ▼



Wood and wooden products
+17.1% yoy ▼



Footwear
+2.3% yoy ▼



Exchange rate (USD: VND, as of 31 Jul 2021)
23,213 (0.35% 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: Neutral

Vietnam's economy grew by 5.6% yoy in the first half of 2021, compared with the 1.8% yoy growth in the same period last year. Exports during the first seven months of the year reached US\$185 billion, up by 25.5% yoy, despite the disruption amid the new wave of COVID-19 since late April.

However, Vietnam's Purchasing Managers Index (PMI) plunged to 44.1 in June, the lowest level since May 2020. Though the PMI ticked up to 45.1 in July, the index remained in the contractionary zone. The Business Climate Index survey released in mid-July indicates that the confidence of firms in Vietnam has sharply reduced following the COVID-19 outbreak this April.

Besides, the Asian Development Bank (ADB) has cut its 2021 growth forecast for Vietnam from 6.7% to 5.8%, though this growth rate is still the second highest among all ADB forecasts for Southeast Asian countries, only behind Singapore's 6.3%. The ADB has maintained its 2022 forecast for Vietnam at 7%.

Vietnam

Latest Developments

FBIC's take

Macroeconomic Trends	Vietnam's exports reached US\$27 billion in July, up by 8.4% yoy, reported the General Statistics Office (GSO). In January to July, the export figure was US\$185 billion, up by 25.5% yoy. The US remained the largest export destination for Vietnam, with the exports from Vietnam to the US valued at US\$54 billion, up by 37.4% yoy. It was followed by China (at US\$29 billion, up by 24.2% yoy), and the EU (at US\$23 billion, up by 15.5% yoy).	- Despite the resurgence of COVID-19 since April, Vietnam's export activities in July maintained a positive growth rate over the same period last year. The country is set to export more products, including electronics, machines, equipment, woodwork, garments, textiles and seafood in the coming months of 2021, due to a recovery in global consumer demand. - To boost the country's exports, the Ministry of Industry and Trade has pledged to tap opportunities from free trade agreements (FTAs), step up export promotion activities and keep on developing energy and mechanical engineering industries.
Trade Disputes	The Office of the US Trade Representative (USTR) issued a formal determination in the Vietnam Currency Section 301 investigation on 23 July and determined that no tariff action is warranted against Vietnam. In mid-December last year, the US Department of the Treasury (DOT) under the administration of President Donald Trump labeled Vietnam a currency manipulator, accusing the latter of intervening in the foreign exchange market. The US had threatened to impose punitive tariffs on Vietnam's exports. In mid-April, the US DOT removed Vietnam from the list of countries manipulating their currencies, reversing the decision of the Trump administration.	- On 19 July, the US DOT and the State Bank of Vietnam (SBV) have reached an agreement and issued a joint statement to address the concerns of the US over Vietnam's currency practices. In the joint statement, Vietnam confirms its commitment under the Articles of Agreement of the International Monetary Fund "to avoid manipulating its exchange rate in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage", and that it will "refrain from any competitive devaluation of the Vietnamese dong". The SBV also pledges to make efforts to improve exchange rate flexibility and to modernize its monetary policy and exchange rate framework. - Benefiting from the shift of US supply chains away from China amid the trade war, Vietnam's trade surplus with the US surged by 25% yoy to US\$69.7 billion in 2020, despite the COVID-19 pandemic. Vietnam is a growing source of US imports of furniture, electronics, computers and apparel. - The currency truce and tariff threat withdrawal would reduce business uncertainty and bode well for bilateral trade and investment between the two countries.

Vietnam

Latest Developments

FBIC's take

Other Topics

According to the *World Trade Statistical Review 2021* released by World Trade Organization (WTO) in July, Vietnam has become the world's second largest readymade garment (RMG) exporter, with China holding its first position. Bangladesh is now the world's third largest RMG exporter.

The share of Vietnam in global RMG exports reached 6.4% in 2020, up from the 6.2% share a year earlier. Meanwhile, Bangladesh's share in the global RMG market slid to 6.3% in 2020 from 6.8% in 2019.

According to the *World Investment Report 2021* released by the UN Conference on Trade and Development (UNCTAD), Vietnam ranked 19th in the world as recipient of foreign direct investment (FDI) in 2020, with an FDI inflow of US\$16 billion.

- Both Vietnam and Bangladesh earned less from RMG exports in 2020 than in 2019 due to COVID-19. Bangladesh's RMG export earnings plunged by 15% yoy in 2020, while the figure for Vietnam dropped by 7% yoy.
- The reduction of Bangladeshi RMG exports is mainly due to canceled orders, delayed payments, lower prices offered by many western firms, and the closing down of local garment factories amid the pandemic.
- In comparison, Vietnam controlled the pandemic relatively well in 2020. Besides, Vietnam has continued to strengthen its export competitiveness by actively signing FTAs with various trading partners (most notably with the EU, the UK, and other RCEP member countries). And Vietnam is ahead of Bangladesh in terms of technology, productivity and product diversification.

- The UNCTAD's report mentioned a slight decline in FDI in Vietnam at 2% yoy in 2020, which was due to an investment contraction in manufacturing and real estate activities.
- This mid-July, the Business Climate Index (BCI) survey released by the European Chamber of Commerce (EuroCham) shows that the confidence of firms in Vietnam has deteriorated sharply following the spread of the Delta variant of COVID-19 since April. In the first seven months of 2021, the total FDI commitments to Vietnam declined by 11.1% yoy to US\$16.7 billion.
- Despite a sharp drop in FDI commitments, FDI disbursement has recorded a slight increase of 3.8% yoy to US\$10.5 billion during the first seven months this year.

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