

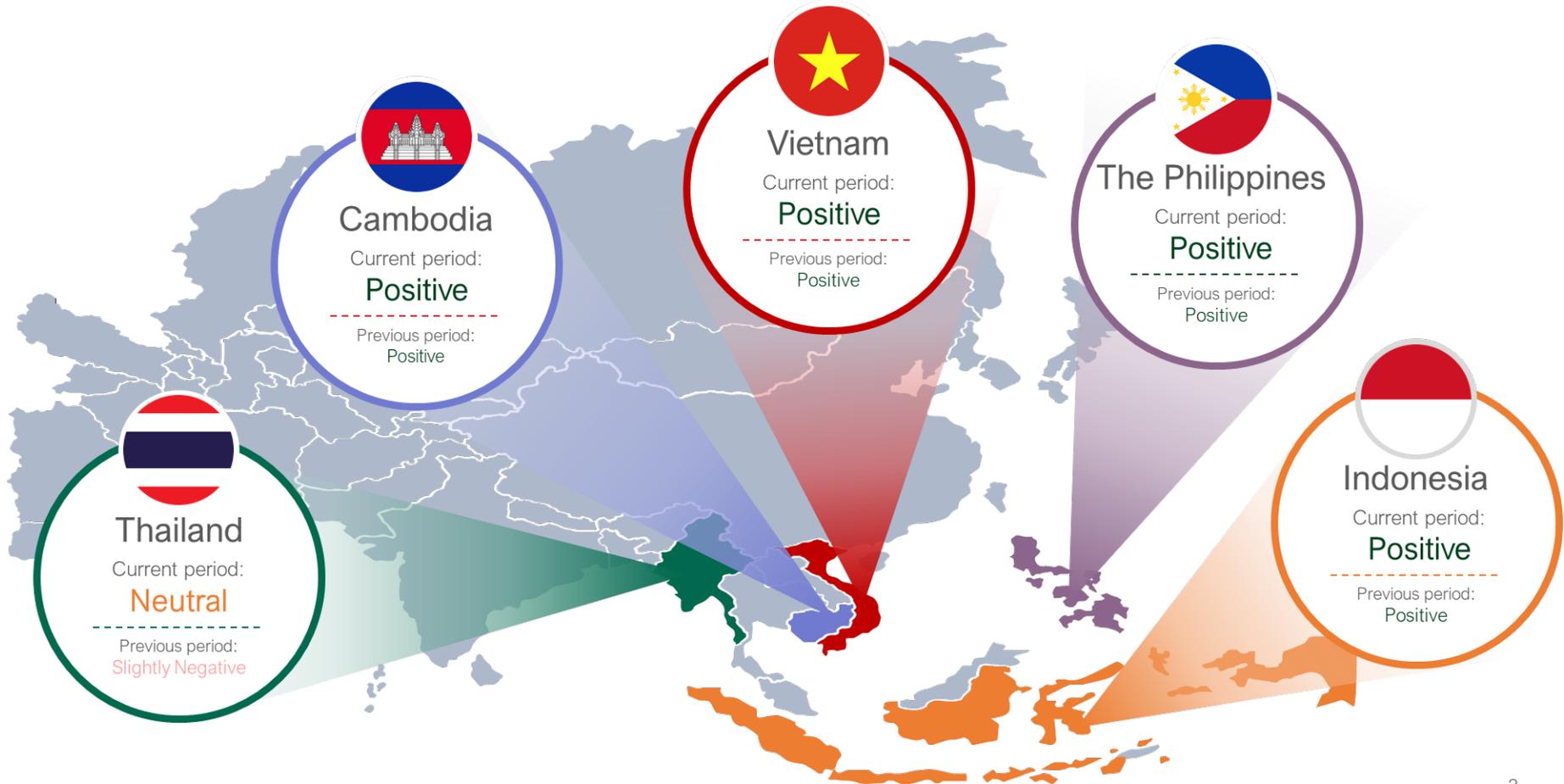
Asia Sourcing Update

Cambodia, Indonesia, the Philippines, Thailand and Vietnam

Southeast Asia | South and West Asia



Highlights: 12-month sourcing outlook



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 Cambodian government has successfully managed the latest wave of COVID-19 outbreak caused by the Omicron variant. The country has recorded zero daily case for 52 days by 28 June (when new cases were found again) and started the fifth job campaign on 9 June.

The Russia-Ukraine conflict has not yet put much pressure on the Cambodia economy. Exports have grown strongly since the start of this year, driven by increasing new orders in the garment-related sectors and the commencement of implementation of two free trade agreements, the Regional Comprehensive Economic Partnership (RCEP) and the Cambodia-China FTA (CCFTA), both effective on 1 January 2022. It is expected that the continued expansion of garment exports and the tourism boom will support the strong growth of the Cambodian economy this year.

Cambodia

Latest Developments

FBIC's take

Macroeconomic Trends

Cambodia's merchandise exports increased by 34.5% yoy to US\$9.4 billion in the first five months of 2022, according to the General Department of Customs and Excise.

During this period, exports of the GFT sector (garments, footwear, travel goods and other textile-related products) increased by 47.7% yoy to US\$4.5 billion, accounting for 47.9% of Cambodia's total goods exports.

The US remained the biggest market for Cambodia's exports during the period, with an export value of US\$3.7 billion.

- Cambodia's strong exports growth in the first five months of 2022 was supported by the effective COVID-19 control measures adopted by the Cambodian government and the major free trade agreements that started to take effect this year.
- The high vaccination rates and low infection rate enabled the country to reopen its borders fully last November. This has greatly benefited the Cambodian GFT sector at a time when other garment producing countries were still suffering from the impact of the pandemic.
- Going forward, the RCEP trade pact and the CCFTA, both of which have entered into force since 1 January 2022, will help boost Cambodia's trade growth. While the US was still the top export market of Cambodia, China became the largest trading partner of Cambodia with a trade value of US\$5.0 billion during the period of January-May 2022, up 26% yoy.

Policies and Regulations

On 20 June 2022, Prime Minister Hun Sen issued a sub-decree on the establishment of the Capital-Provincial Investment Sub-Committees (CPISCs). According to this sub-decree, 25 CPISCs have been established in place of the existing investment sub-committees.

The CPISCs, as units of the Council for the Development of Cambodia (CDC), will review and approve registrations, incentives, guarantees, mergers, sales and purchases, cancellations and dispute resolutions of private investment projects under US\$5 million within their respective capital and provincial administrations, while larger ventures will still be subject to the approval of the CDC's Cambodian Investment Board (CIB).

The CPISCs are obliged to be chaired by the respective administrative region's governor, with the deputy governor as deputy chairperson. Members of the sub-committees will comprise directors of relevant departments, at the discretion of the respective municipal or provincial administration.

- The sub-decree was the first legal document drafted based on Cambodia's new investment law promulgated on 15 October 2021, which aims to improve and modernize Cambodia's investment environment, bringing regulations closer in line with ASEAN's best practices.
- Compared with the former investment sub-committees, the amount of capital investment that the newly established CPISCs can approve is significantly higher (US\$5 million, compared to US\$2 million previously). This further delegation of authority to the sub-national level is expected to expedite the review and approval process of investment projects and thus benefit domestic and foreign investors, as they could obtain investment permits easier than before.
- Leaders in the 25 provincial-level administrative regions will play a more important role in boosting development in their respective territories. This will help to diversify the locations of investment across the country, reducing inequality among different regions.

Cambodia

Latest Developments

FBIC's take

Infrastructure

On 5 May 2022, Cambodia started to build a US\$1.5 billion logistics and multi-purpose seaport in the southwestern Kampot province.

Built on a total area of 600 hectares, this mega-port with a depth of 15 metres will be able to accommodate vessels weighing up to 100,000 tonnes. It will include a container terminal, a special economic zone, a free trade area, a logistics hub, an oil refinery, and a terminal for tourist vessels, among others.

The port is planned to be constructed in three phases over a time span of 15 years and is expected to create about 10,000 direct and indirect jobs when put in use.

The first phase will take three years with an investment of US\$200 million. By 2025, when the first phase is completed, the port will be able to handle 300,000 TEUs (Twenty-Foot Equivalent Unit) annually. It is hoped that the port will be able to handle up to 600,000 TEUs annually in 2030.

- Cambodia is active in improving its transport infrastructure to enhance its investment, trade, and tourism potential. Just in last few months, several major port construction, expansion, and improvement projects were either completed, underway, or being planned in Sihanoukville, Kampot, and Koh Kong.
- This multi-purpose port in Kampot will be the third largest port in Cambodia after the Sihanoukville Autonomous Port and the Phnom Penh Autonomous Port, according to Sun Chanthol, the Senior Minister of the Ministry of Public Works and Transport. It is connected to Phnom Penh and other Cambodian provinces through National Roads No. 3, 41, 4 and 48 and the Phnom Penh-Sihanoukville Expressway. It also connects to the north of the country with the southern railway. It will be a new international gateway to facilitate Cambodia's trade with other countries and will enhance Cambodia's logistics and transportation sector.

Indonesia

Fast facts



GDP (Jan-Mar 2022)
5.0% yoy ▼



Manufacturing PMI (May 2022)
50.8 ▼



CPI (May 2022)
+3.55% yoy



Merchandise exports (Apr 2022)
+47.8% yoy ▲



Textiles and textile products
+34.8% yoy ▲



Footwear
+38.1% yoy ▲



Sports requisites
+26.1% yoy ▼



Furniture
+10.5% yoy ▲



Exchange rate (USD: IDR, as of 31 May 2022)
14,592 (2.2% 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: Positive

Indonesia's Finance Minister expects that the country's economic growth in 2023 will lie in the range of 5.3% to 5.9%, subject to various threats facing the economy, including inflation, interest rate hikes, and world monetary tightening.

On the other hand, strengthening downstream production, embracing a digital economy, and developing a green economy will be new growth engines for Indonesia in the future. Also, the development of micro, small, and medium enterprises (MSMEs) in Indonesia will be essential for the country's economic growth.

Indonesia

Latest Developments

FBIC's take

Macroeconomic Trends

Indonesia's exports in May increased by 27% yoy to US\$21.5 billion, according to the Central Statistics Agency (BPS). However, during the same month, the manufacturing exports of the country experienced the largest month-on-month decline of 25.9% due to the palm oil* export ban.

Despite the palm oil export ban, the country recorded an overall trade surplus of US\$2.9 billion in May. Indonesia achieved the largest trade surplus with India, the US, and the Philippines, while the country experienced a trade deficit with Australia, China, and Thailand.

(*The BPS recorded palm oil as one of the manufacturing exports.)

Indonesia's inflation reached 3.55% in May 2022, compared to May last year, the highest recorded since the inflation rate of 3.61% in December 2017.

- Indonesia is the world's largest palm oil producer. The palm oil export ban, which began on 28 April, aimed to support local supplies of cooking oil and maintain oil price stability. However, the ban drove up cooking oil prices in the major importing countries of Indonesia's palm oil, such as India and Pakistan.
- After a three-week palm oil export ban, Indonesia allowed palm oil exports to resume on 23 May.
- After lifting the export ban, Indonesia launched an export acceleration scheme, effective from 9 June until 31 July, aiming to export at least 1 million tonnes of crude palm oil and derivatives. Besides, on 15 June, the Indonesian President reshuffled his cabinet and dismissed the trade minister, who oversaw the policy on palm oil exports. These measures are expected to spur Indonesia's export growth in the following months.
- According to the Indonesian Central Statistics Agency, air freight rates and food prices triggered the high inflation in May.
- It is expected that Bank Indonesia will increase the interest rate to combat inflation. However, it is believed that Indonesia is in a better position to avoid stagflation, as the country stands to benefit from the global commodity price hikes since it is one of the world's largest commodity exporters, and the country's huge domestic demand will act as a buffer to external shocks.

Indonesia

Latest Developments

FBIC's take

Policies and Regulations

The Indonesian government is planning to stop the exports of all raw commodities, in order to develop local downstream industries and build a renewable energy-based and environmentally friendly industry. This year, the government is considering a ban on bauxite and tin exports.

- Since October 2019, the government has banned the export of nickel ore, which has proven effective in increasing the export of nickel derivative products, such as stainless steel. In view of this, the Minister of Investment expected that the country would achieve a trade surplus with China in 2022, due to the export contribution from the downstream nickel industry.

Industry Developments

On 8 June, President Joko Widodo officially inaugurated the second development phase of the Batang Integrated Industrial Estate (KITB) for electric battery production.

The Korean consortium, the LG Energy Solution, is set to invest in the KITB and produce batteries for electric vehicles (EVs) with a capacity of 3.5 million units and 200 gigawatts annually. The consortium has invested US\$9.8 billion, and its electric battery factory will be able to employ 20,000 workers.

- The LG Energy Solution commented that the KITB would be the most important EV industrial area in Southeast Asia in the future. The consortium will work closely with the Indonesian government and operate the EV factory in line with global trends on ethics, sustainability, and governance.
- The Indonesian president claimed that the LG investment is the first in the world to integrate EV's upstream and downstream productions, starting from nickel mining, smelting, precursor and cathode plant, and EV's electric power units.
- The president also mentioned that integrated economic zones will be distributed across the country, with mining and smelting located in Halmahera, nickel refinery factories, precursor factories and cathode factories in the KITB, battery factories in Karawang, and EV production line in Cikarang.

The Philippines

Fast facts



GDP (Jan–Mar 2022)
+8.3% yoy ▲



Manufacturing PMI (May 2022)
54.1



CPI (May 2022)
+5.4% yoy



Merchandise exports (Apr 2022)
+6.0% yoy ▲



Woodcrafts and furniture
-1.7% yoy ▲



Garments
+38.6% yoy ▲



Travel goods and handbags
+21.2% yoy ▼



Exchange rate (USD: PHP, as of 31 May 2022)
52.243 (2.8% 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: Positive

The Philippine economy achieved a strong growth of 8.3% yoy in the first quarter of 2022. The S&P Global Philippines Manufacturing PMI reached 54.1 in May and 53.9 in June, after reaching 54.3 in April, the fastest since November 2018. Consumer confidence for the next 12 months soared to 30.4% from the previous quarter's 23.6%, according to the latest consumer expectations survey (CES) conducted by the Bangko Sentral ng Pilipinas (BSP) in the first quarter of 2022.

Despite the effects of the Russia-Ukraine conflict on the global economy, the Asian Development Bank has kept its 6% growth forecast for the Philippines for the year 2022, noting that the Philippines is in a good position to weather the latest bout of geopolitical tensions in Europe. The new Marcos administration taking office since 30 June is generally believed to continue focusing on infrastructure investment, which is a key element in supporting the post pandemic recovery and the country's longer-term growth.

The Philippines

Latest Developments

FBIC's take

Macroeconomic Trends

The Philippines' exports in April 2022 increased by 6.0% yoy to US\$6.1 billion.

Electronic products continued to be the country's top exports, with a total export value of US\$3.3 billion, accounting for 53.0% of the country's total exports in the month. This was followed by other mineral goods (US\$397.3 million, accounting for 6.5% of the total export value); other manufactured goods (US\$292.4 million, 4.8%); coconut oil (US\$245.4 million, 4.0%); and cathodes and sections of cathodes, of refined copper (US\$226.6 million, 3.7%).

China was the Philippines' largest export market, accounting for 15.9% of the total export value of the Philippines in April 2022 (US\$971.7million), followed by the US (US\$955.2 million, 15.6%), Japan (US\$821.0 million, 13.4%), Hong Kong SAR, China (hereafter Hong Kong) (US\$740.6 million, 12.1%), and Singapore (US\$419.8 million, 6.9%).

The Philippines' net inflow of foreign direct investment (FDI) in March 2022 decreased by 9.8% yoy to US\$727.4 million. For the first quarter, FDI net inflows totaled US\$2.4 billion.

Japan was the largest foreign investor of the Philippines with a net FDI inflow of US\$48.8 million in March 2022; followed by Singapore (US\$24.2 million), the US (US\$18.5 million), Hong Kong (US\$2.3 million), and Germany (US\$2.3 million).

The FDI inflow was directed mainly to manufacturing (US\$47.0 million), real estate activities (US\$28.4 million), financial and insurance activities (US\$14.8 million), wholesale and retail trade; repair of motor vehicles and motorcycles (US\$7.1 million) and information and communication (US\$4.1 million).

- The Philippines' exports have been increasing for 14 consecutive months since March 2021, an impressive performance especially as the rest of the world was hit hard by waves of COVID-19 outbreaks over the past year and early this year.
- In February and March, the Philippine government further relaxed the restriction measures in view of the continuous decrease in COVID-19 infection cases. Besides, so far, the Philippine economy has not been affected much by the Russia-Ukraine conflict. It is expected that the growth momentum of Philippine exports will continue in the coming months.

- The decline in FDI was largely due to investors' concerns that the country's economy may be hit by external risks. These risks include the impact of ongoing Russia-Ukraine conflict on commodities and financial markets, as well as the policy rate rise globally.
- However, the FDI prospect for this year is still promising for the country, as a series of reforms to ease or remove restrictions on foreign investment have been carried out this year. These reforms include the amendments to the Retail Trade Liberalization Act, the Public Service Act, the Foreign Investment Act, and the 2022 Strategic Investment Priority Plan (SIPP).

The Philippines

Latest Developments

FBIC's take

Policy & Regulations

On 24 May 2022, President Duterte signed the Memorandum Order No. 61 to approve the 2022 Strategic Investment Priority Plan (SIPP). The SIPP identifies the industries in which the government hopes to attract investment by offering tax incentives.

The SIPP classifies activities into three tiers. Activities listed in the 2020 Investment Priorities Plan (IPP) are retained and included under Tier I of the newly formulated SIPP. New activities identified by the SIPP are included in Tier II and Tier III.

Tier II defines the activities envisioned to promote a competitive and resilient economy and fill in gaps in the Philippines' industrial value chains. These activities include those deemed critical in promoting green ecosystems, ensuring a dependable health system, achieving robust self-reliance in defense systems, and realizing modern, competitive, and resilient industrial and agricultural sectors.

Tier III includes activities that are projected to accelerate the transformation of the economy primarily through the application of research and development and attracting technology investments. It also includes activities involving the production of equipment, parts, and services that embed new technologies, and the commercialization of research and development outputs.

- The 2022 SIPP will be a companion document to the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act and therefore activities in the SIPP are eligible for tax incentives under the CREATE. The CREATE Act, which took effect from 11 April 2021, reduces corporate income tax (CIT) from 30% to 25% for large corporations and to 20% for small and medium enterprises that have net taxable income not higher than 5 million pesos.
- The SIPP could be seen as an expanded version of the 2020 IPP in terms of activities included. Duterte signed the IPP on 18 November 2020 and it took effect from 6 December 2020. IPP is the Philippine government's blueprint of priority economic activities that qualify for fiscal incentives. It covers the production or manufacturing of medicines, medical equipment and devices, personal protective equipment (PPE), surgical equipment and supplies, among others.

The Philippines

Latest Developments

FBIC's take

Labour & Compliance

In May 2022, the Regional Tripartite Wages and Productivity Boards (RTWPBs) of 14 out of the 17 Philippine regions approved the minimum wage increases for workers in their respective regions. These regions include the National Capital Region (NCR), the Cordillera Administrative Region, the Ilocos Region, Cagayan Valley, Central Luzon, Calabarzon, Mimaropa, the Bicol region, Western Visayas, Central Visayas, Northern Mindanao, the Davao Region, Soccsksargen, and Caraga.

The increases in daily minimum wages ranged from 32-110 pesos, or 6-31% raise from the current minimum wages. For non-agriculture sectors, these increases bring the new daily minimum wages to 329-570 pesos.

- This round of minimum wage increases in Philippine regions was the first time since the COVID-19 pandemic started. In March, Philippine Labour Secretary Silvestre Bello III ordered the RTWPBs across the country to speed up the review of the minimum wages to help workers and their families cope with the looming oil crisis. The latest actions taken by the RTWPBs are a response to the Labour Secretary's call.
- According to the preliminary estimation by the Philippines' Department of Labour and Employment (DOLE), the pay rises in the NCR and Western Visayas alone will protect more than 1.2 million minimum wage earners from undue low pay and will help to restore the purchasing power of minimum wage earners who are suffering from escalating prices of basic goods, commodities, and petroleum products.
- However, the new minimum wage rises are opposed by some business groups. For example, five business groups from Capiz and Iloilo have appealed to recall the minimum wage hike decision for Western Visayas. They complained that the decision disregards the capacity of the employers to pay these wages and its economic repercussions on the local economy of Western Visayas.

Thailand

Fast facts



GDP (Jan–Mar 2022)
+2.2% yoy ▲



Manufacturing PMI (May 2022)
51.9



CPI (May 2022)
+7.1% yoy



Merchandise exports (Apr 2022)
+9.9% yoy ▼



Textiles and apparel
+6.4% yoy ▼



Furniture
+5.3% yoy ▼



Footwear
+16.4% yoy ▼



Exchange rate (USD: THB, as of 31 May 2022)
34.189 (2.4% 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 gross domestic product in the first quarter of 2022 beat the expectation with an increase of 2.2% yoy, following a rise of 1.8% yoy in the fourth quarter of 2021. Manufacturing sector expanded for the sixth straight month in June, according to the latest S&P Global PMI data. Exports grew year-on-year for the 14th consecutive month in April this year, albeit at a slower pace comparing to March.

While a recovering tourism industry and the world's booming demand for Thai food will support Thailand's economic growth to a certain degree, the global inflation surge and supply chain disruption caused by the ongoing Russia-Ukraine conflict have posed huge uncertainty on the prospect of the Thai economy. The World Bank slashed its 2022 Thai economic growth forecast from 3.9% to 2.9%. The National Economic and Social Development Council, the Thai government's planning agency, also lowered its economic growth forecast for the year to 2.5-3.5% in May, down from the previous forecast of 3.5-4.5% in February.

Thailand

Latest Developments

FBI C's take

Macroeconomic Trends

Thai exports increased by 13.7% yoy to US\$97.1 billion in January-April 2022. In April 2022, exports increased by 9.9% yoy to US\$23.5 billion.

The US is Thailand's biggest export market in January-April 2022, accounting for 16.0% of Thailand's total export value in the period, followed by China (11.7% of total export value), Japan (8.6%), Vietnam (4.5%), and Malaysia (4.4%).

Key export products during the period included automotive (US\$13.3 billion, 13.7% of total export value), agro-manufacturing products (US\$13.3 billion, 13.7%), electronics (US\$10.8, 11.1%), electrical appliances (US\$9.0 billion, 9.3%), and chemicals & petrochemical products (US\$6.0 billion, 9.2%).

- Thailand's exports grew for the 14th consecutive month in April, even though at a much slower year-on-year rate than in March, when exports jumped 19.5% yoy to US\$28.9 billion, the highest level since record began in 1991. Key factors affecting the country's export performance in April include global supply chain disruptions caused by the ongoing Russian-Ukraine conflict and Western sanctions against Russia, and the slow down of China's economy due to an outbreak of the COVID-19 pandemic in the country. Worldwide inflation surge has also weakened the demand from key developed countries.
- However, growth of Thai exports is expected to continue for the rest of the year as global demand is still robust, especially for agricultural and food products at a time when Thailand's trading partners want to ensure food security. The depreciation trend of Thai Baht will also be conducive to the country's export growth.

FTAs, Trade Preferences and Investment Agreements

On 25 April 2022, Thailand signed a memorandum of understanding with China's Gansu province to form a so-called mini free trade agreement (mini-FTA). This mini-FTA aims to push the bilateral trade to 1.26 billion baht (about US\$37.8 million) over the next 12 months. Potential products which are expected to benefit from the partnership include halal food, farm products, processed agricultural products, food and logistics services.

The partnership is also meant to pave the way for future cooperation in trade and investment development between the two parties.

- Gansu is located in northwest China. It is rich in minerals, with 111 types having been found to date. Gansu also has plentiful biological resources, especially herbs used for medicine, and it is one of the most important Chinese herbal medicine production areas.
- Thailand's exports to Gansu were worth 301 million baht (about US\$9.0 million) last year, and imports were valued at 790.50 million baht (about US\$23.7 million). Key exports were vegetable seeds, tapioca flour, electrical circuits, fruits and skincare products, while key import products included fresh and frozen potatoes, fresh apples and copper.
- Before this mini-FTA, Thailand has signed another three mini-FTAs -- one with Kofu city in Japan, one with Hainan province in China and one with Telangana state in India.

Thailand

Latest Developments

FBIC's take

Infrastructure

On 5 May 2022, the Special Economic Zone Policy Committee chaired by the Thai prime minister approved four new special economic corridors covering 16 provinces.

The new zones comprise the Northern Economic Corridor (NEC), the Northeastern Economic Corridor (NEEC), the Central-Western Economic Corridor (CWEC) and the Southern Economic Corridor (SEC).

- The NEC covers Chiang Rai, Chiang Mai, Lamphun and Lampang. This corridor focuses on developing infrastructure to support a creative economy, a telecommunications network to promote the North as a digital hub, as well as wellness, smart city projects and organic foods.
- The NEEC spans Khon Kaen, Udon Thani, Nakhon Ratchasima and Nong Khai. This corridor is expected to be a production base for the bioeconomy and its supply chain because of the area's abundant raw materials, such as rice, tapioca and sugar cane.
- The CWEC covers Ayutthaya, Nakhon Pathom, Suphan Buri and Kanchanaburi. The corridor will be developed as a production base for organic foods, smart farming and a logistics network to link Bangkok, the Eastern Economic Corridor (EEC) and Myanmar.
- The SCE comprises parts of Chumphon, Ranong, Surat Thani and Nakhon Si Thammarat provinces. This corridor aims to promote five areas of connectivity -- land, marine, energy, digital and people -- under the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation. The corridor is also designated for infrastructure development to support R&D and technology transfer in the farm sector, such as agribusiness, biochemicals and the bioeconomy, as well as wellness tourism. This corridor is projected to link the Andaman Sea, the Gulf of Thailand and countries including India, Sri Lanka and Bangladesh.

Mr Danucha, secretary-general of the National Economic and Social Development Council (NESDC), said the master development plans for the four new corridors are underway and the government is speeding up finalising incentives for interested investors.

- The four new corridors are meant to resemble the flagship EEC, in a move to spur the economy and decentralise income to the regions.
- The EEC was established in 2018 by the Thai Government as a game-changing engine of growth for the country's economy. The ambition is to transform three major provinces – Chachoengsao, Chonburi and Rayong – located in the immediate east of Bangkok and covering over 13,000 square kilometers, into a hub for high-tech industries and logistics as well as a regional gateway for trade and investment.
- The four new regional economic corridors are based on the infrastructure projects meant to connect special economic zones in Thailand. The development of these four corridors, together with the EEC, will help Thailand to achieve a balanced development among different regions.
- A study jointly conducted by the National Economic and Social Development Council, Prince of Songkla University and Infinity Plans Management Co. indicated that the new regional economic corridors would draw a combined 313-billion-baht worth of state and private investment between 2022 and 2032 and boost the economic growth of Thailand by an average of 5.8% a year.

Vietnam

Fast facts



GDP (Jan-Mar 2022)
+5.0% yoy ▼



Manufacturing PMI (May 2022)
54.7 ▲



CPI (May 2022)
+2.86% yoy



Merchandise exports (May 2022)
+18.0% yoy ▲



Textiles and garments
+23.2% yoy ▲



Toys and sports goods
+26.7% yoy ▲



Wood and wooden products
-2.6% yoy ▼



Footwear
+12.0% yoy ▼



Exchange rate (USD: VND, as of 31 May 2022)
23,057 (0.38% appreciation year-to-date)

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

Source: General Statistics Office of Vietnam, General Department of Vietnam Customs, IHS Markit, The State Bank of Vietnam

12-Month Sourcing Outlook: Positive

Free trade agreements signed between Vietnam and its trading partners are catalysts for promoting bilateral and multilateral trade of Vietnam. During the first five months of 2022, the country's exports shot up by 29.8% yoy. Besides, Vietnam's purchasing managers' index (PMI) rose to 54.7 in May from 51.7 in April, reflecting a recovery in Vietnam's manufacturing sector.

However, the Vietnamese economy faces several external risks, including supply chain disruption and raw material shortages, due to the Russia-Ukraine war and China's zero-COVID policy. As Vietnam's manufacturing has been an important part of the global supply chain, the export outlook of the country is easily affected by external shocks.

Vietnam

Latest Developments

FBIIC's take

	Latest Developments	FBIIC's take
Macroeconomic Trends	<p>Vietnam's trade value in the first five months of 2022 exceeded US\$311 billion; of which, exports were US\$156.5 billion, up 29.8% yoy, and imports reached US\$155 billion, up by 22.6% yoy.</p>	<ul style="list-style-type: none">• Despite the COVID-19 disruption and the Russia-Ukraine conflict, exports of the country continued to see positive growth, contributing to macroeconomic stability and socio-economic development.• Strong growth momentum in exports is expected for year 2022, attributed to the free trade agreements (FTAs) signed between Vietnam and its trading partners, which are set to boost trading activities especially in the fisheries, textile and apparel, and wood production sectors.• The Vietnam Textile and Apparel Association (VITAS) forecasts that the textile and apparel sector will receive export earnings of US\$42-43.5 billion in 2022.
Industry development	<p>The number of newly established enterprises during January-May this year was 62,961, up by 12.9% yoy, according to the General Statistics Office (GSO). In May, Vietnam had 13,400 newly established enterprises, up by 15.2% yoy but down by 10.9% compared to the previous month.</p>	<ul style="list-style-type: none">• During the first five months, 913 newly established enterprises operate in the agriculture, forestry, and fishery sectors, up by 2.4% yoy; around 16,200 operate in the industrial and construction sectors, up by 5.9% yoy, and around 45,900 in the service industries, up by 15.8% yoy. In addition, there were 5,207 enterprises resuming operation, up by 6.4% yoy.• These numbers reflected a substantial recovery of economic activities in Vietnam during the period.

Vietnam

Latest Developments

FBI C's take

Trade Affairs

Vietnam's Prime Minister Pham Minh Chinh visited the US from 11 to 27 May. During his stay in the US, he and US President Joe Biden held talks related to health, climate change, renewable energy, sustainable development, and the Indo-Pacific Economic Framework (IPEF).

On 23 May, Vietnam and 12 other countries joined the IPEF, an economic initiative launched by the US. Member countries of the IPEF include the US, Australia, Brunei, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam.

- The IPEF is a loose framework that seeks to bring together the member countries to formulate rules on fair trade, supply chain resilience, infrastructure decarbonization, and tax and anti-corruption. As clarified by the US, the IPEF is perceived as an economic correlative of the US's Indo-Pacific strategy rather than a trade agreement.
- The IPEF is expected to bring some economic benefits to the member countries regarding investment and trade. For instance, Vietnam's textile and apparel and digital exports to the US might increase, as Vietnam might enjoy some policy bonuses under the IPEF.
- Bilateral trade between Vietnam and the US reached US\$111.6 billion in 2021, rising from US\$90.8 billion in 2020. Major exports from Vietnam to the US include textiles and garments, footwear, smartphones, computers, and wood. Exports from the US to Vietnam include computers, electronics, cotton, machines, plastic, animal feed, etc.

Vietnam

Latest Developments

FBI C's take

Other Topics

According to a survey, titled *HSBC Navigator: Southeast Asia in Focus*, Vietnam remains attractive to international investors.

The survey was conducted by HSBC in March, covering more than 1,500 companies from six countries, including China, France, Germany, India, the UK, and the US. The survey measures the sentiment of companies on doing business in Southeast Asia, with a focus on trade, digitization, and sustainability.

- Overall, 30% of the respondents consider Vietnam's skilled workforce the most attractive feature of the market. 27% of the respondents mention that Vietnam's optimistic economic outlook, competitive wages, and proven economic resilience during the pandemic are attractive features.
- 36% of US companies are attracted by the opportunities to test and develop new products or solutions in Vietnam, and 33% appreciate the country's favorable regulations.
- In addition, 49% of surveyed firms, mainly from China, India, and the US, state that they hope to make use of the EU-Vietnam Free Trade Agreement (EVFTA) to strengthen their trading activities in the region, as well as other FTAs signed between Vietnam and its trading partners.
- On the other hand, 33% of the respondents say they have faced challenges in doing business in Vietnam amid the COVID-19 pandemic.
- When asked about any plan to expand their business in Vietnam in the next two years, 21% of Indian respondents and 26% of Chinese enterprises say yes.
- Tim Evans, general director of HSBC Vietnam, comments that 'global business shifting to Vietnam is not a temporary, but a long-term strategy.'
- In the first five months of this year, foreign direct investment (FDI) disbursements of Vietnam reached US\$7.7 billion, up by 7.8% yoy.

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