FUNG BUSINESS INTELLIGENCE

November 2020

Asia Sourcing Update

Cambodia, Indonesia, the Philippines, Thailand and Vietnam

Southeast Asia | South and West Asia

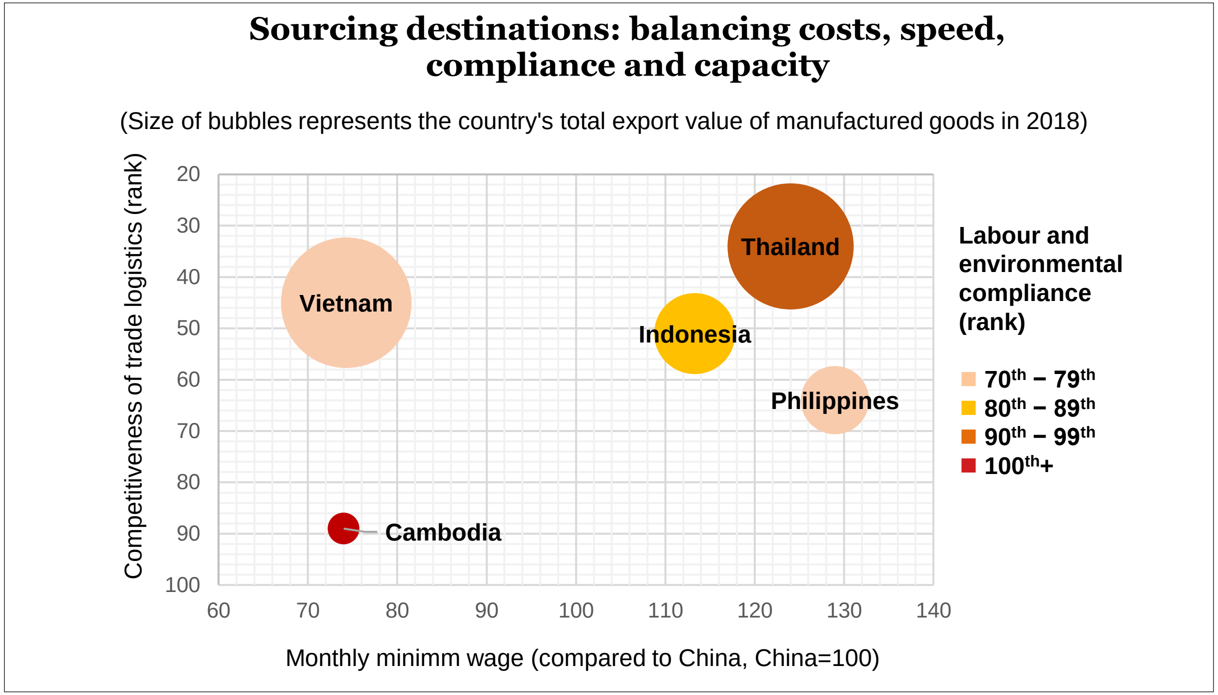
Highlights: Evaluating sourcing destinations

12-month Sourcing Outlook

Positive: Cambodia, Vietnam

Neutral: Thailand

Negative: Indonesia, the Philippines



Source:
Exports of manufactured goods (2018): WTO database;
Minimum wage (as of mid-October 2020): Cambodia (exclusively for the garment and footwear sector), Indonesia (Jakarta), Philippines (National Capital Region), Thailand (Bangkok), Vietnam (Ho Chi Minh City/Hanoi), China (Dongguan), converted to US dollar terms based on exchange rates from Bloomberg on 16 October 2020;
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 (Aug 2020)
+2.4% yoy ▼

Exchange rate (USD: KHR, as of 23 Nov 2020)
4,050 (0.5% appreciation year-to-date)

Merchandise exports (Aug 2020)
+11.8% yoy ▼

Garments
-39.8% yoy ▼

Footwear
-40.6% yoy ▼

Electrical parts
+333.7% yoy ▼

Bicycles
-8.1% yoy ▼

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

12-Month Sourcing Outlook: Positive

Despite recent devastating floods, the sourcing outlook for Cambodia remains positive, based on the country's better-than-expected export performance and robust foreign investment inflows at a time when external demand is sluggish and global economic outlook remains highly uncertain. While the world is battling with the resurgence of COVID-19, Cambodia has appeared to be less affected so far, making it a viable option for low-cost, continuous production.

In the past few months, foreign investment has continued to pour in Cambodia. Apart from traditional industries such as garments, footwear and travel goods, foreign funds have been channeled into other industries such as electrical parts and equipment, solar panel assembly, plastics and packaging, showing a trend of export diversification and industrial upgrade. The International Monetary Fund (IMF) projected in October that Cambodia would become the 3rd fastest growing economy in ASEAN next year and the region's fastest growing economy in 2025.

Cambodia

	Latest Developments	FBIC's take
Macroeconomic Trends	Despite unprecedented disruptions caused by the COVID-19 pandemic, Cambodia's exports jumped by 20.1% yoy to US$14.1 billion in the first nine months of 2020, according to a report released by the Ministry of Economy and Finance. Milled rice, bicycles, electrical appliances and agricultural products were the main drivers for stronger-than-expected export growth in the period.	• Though faced with limited medical resources, Cambodia is one of the countries in ASEAN that have successfully contained the spread of COVID-19, enabling it to retain and attract export orders amid sluggish global demand. • In particular, the country's exports to the US soared by 21.6% yoy to US$4.79 billion in January–September this year, according to data from the US International Trade Commission (USITC). An increase in orders from the US may offset the loss caused by the EU's partial withdrawal of the duty-free preferences under its Everything But Arms (EBA) initiative, which affects selected garments and footwear and all travel goods exported from Cambodia.
FTAs & trade preferences	China and Cambodia signed a bilateral free trade agreement (FTA) on 12 October following three rounds of negotiations started January this year. The deal will take effect 30 days after the two countries finalise their internal procedures on legal and regulatory requirements. In addition, Cambodia and South Korea concluded the 3rd round of FTA negotiations in October. The two sides have pledged to complete their negotiations by the end of this year.	• Cambodia has ramped up efforts to negotiate FTAs with its trading partners to prevent sudden loss of preferential market access, such as the EU's EBA preferences. • Under the China–Cambodia FTA, China will eliminate 97.53% of tariff lines for Cambodia, while 90% of China's exports will enjoy duty-free access to Cambodia. Tariff reductions aside, the FTA covers a whole chapter on the Belt and Road Initiative, along with wide-ranging collaborations on tourism, transportation, agriculture, investment, technology and e-commerce, etc. • Through the FTA, China and Cambodia aim to boost bilateral trade to US$10 billion by 2023 from US$9.4 billion in 2019. Besides, the FTA will facilitate Chinese investment in sectors such as electrical appliances and upstream segments of the garment, footwear and travel goods sector in Cambodia.

Cambodia

Other topics

Latest Developments	FBIC's take
Since early October, Cambodia has been experiencing the worst flooding in 20 years, as continuous heavy rainfall has triggered severe flash floods. At least 20 of the country's 25 provinces, including the capital Phnom Penh, are affected, with at least 40 lives lost and more than 47,580 people evacuated so far. As of 17 October, 62 garment factories in Phnom Penh, 13 in Kandal and four in Kampong Speu were reportedly affected by the floods, of which 40 factories suspended their production due to serious disruptions while more than 30 continued operation normally. More than 40,000 garment workers have been affected by flood-related disruptions, according to the Ministry of Labour and Vocational Training.	• Cambodia is one of the most disaster-prone countries in Southeast Asia, affected by floods and droughts on a seasonal basis. • The devastating floods recently have damaged factory property and disrupted the production processes of some factories. Factories that were submerged could not resume operation quickly until floodwaters recede and machinery and other tools are fixed or replaced. • Flooding has also caused delays in goods transport for at least a few days as major national and provincial roads have suffered damage. Cambodia's transport system relies heavily on road transport. • We estimate that the overall impact of the flooding on the country's production and exports will be moderate, as international buyers can shift orders to unaffected factories in the country.

Indonesia

Fast facts

GDP (Jul–Sep 2020)
-3.5% yoy ▲

Manufacturing PMI (Oct 2020)
47.8 ▲

CPI (Oct 2020)
+1.4% yoy (roughly stable)

Merchandise exports (Sep 2020)
-0.8% yoy ▲

Textiles and textile products
-8.3% yoy ▲

Footwear
+4.1% yoy ▲

Sports requisites
-6.4% yoy ▲

Furniture
+25.7% yoy ▲

Exchange rate (USD: IDR, as of 23 Nov 2020)
14,149 (2.0% depreciation year-to-date)

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

12-Month Sourcing Outlook: Negative

Since mid-September, Indonesia has been adding around 3,000 to 4,000 COVID-19 cases every day and the country has reimplemented the large-scale social restrictions (PSBB) policy, which has an adverse impact on manufacturing activities. The country's latest PMI reading slightly increased to 47.8 in October from 47.2 in September but remained below the 50.0 no-change level, indicating a continued contraction of manufacturing activities.

Economic downturn in Indonesia is likely to be worse than expected. GDP of the country contracted by 3.49% yoy in the third quarter of 2020. The International Monetary Fund (IMF) projected in October that the Indonesian economy will shrink by 1.5% in 2020 rather than a 0.3% contraction projected earlier in June. The IMF's latest projection is generally in line with the government's forecast of a 0.6%–1.7% contraction made in late September, down from the GDP growth of 5.02% in 2019.

Indonesia

	Latest Developments	FBIC's take
Labour issue	Jakarta joined Central Java and Yogyakarta provinces in raising minimum wages, announced by the Jakarta's governor on 31 October. Jakarta will increase the monthly minimum wage by 3.27% in 2021 to 4.42 million rupiah (US$302) for workers in businesses less affected by the COVID-19 pandemic. Businesses affected by the pandemic can request for a waiver of the increase to the local employment agency. Minimum wage of Jakarta in 2020 is 4.28 million rupiah per month, an increase of 8.51% from the previous year.	• A central government circular was issued to governors across the country on 27 October to maintain the minimum wages at current levels, in consideration of the economic downturn during the pandemic. • Labour unions were protesting against this policy, in the midst of the ongoing country-wide protests against the Omnibus Law on Job Creation since October. They are calling for an 8% increment of the minimum wage in 2021, as the wage was increased to maintain workers' purchasing power even in the 1998 Asian financial Crisis.
FTAs & trade preferences	On 29 October, the US government has officially extended the Generalised System of Preferences (GSP) facilities for 700 Indonesian export categories, after 2.5 years of the evaluation process and lobbying.	• According to the US International Trade Commission, exports from Indonesia using the GSP facilities to the US in 2019 stood at US$2.61 billion, or 13.1% of Indonesia's total exports to the US of the year. • During the first eight months in 2020, Indonesia's exports to the US using the GSP facilities reached US$1.87 billion, up by 10.6% yoy. • It is expected that the GSP facilities will keep on providing a competitive advantage for Indonesian exports to the US, opening up greater investment opportunities in Indonesia, and accelerating Indonesia's post-pandemic economic recovery.
Other topics	Indonesia and China signed a memorandum of understanding for the framework of direct settlement between the Indonesian rupiah and Chinese yuan on 30 September. Under the agreement, Bank Indonesia and the People's Bank of China would promote the use of local currencies for trade and direct investment settlement.	• In the past, exporters, importers, and investors are required to settle transactions by using the US dollar, and had to bear higher transaction cost and currency volatility risk. The direct settlement agreement marks a key milestone for trade and investment transactions between China and Indonesia and strengthens bilateral financial cooperation of the two countries. • Since 2018, Bank Indonesia had a local currency settlement framework in place with Malaysia and Thailand respectively. It signed another currency framework with Japan last August.

The Philippines

Fast facts

GDP (Jul–Sep 2020)
-11.5% yoy ▲

Manufacturing PMI (Oct 2020)
48.5 ▼

CPI (Oct 2020)
+2.5% yoy ▲

Merchandise exports (Sep 2020)
+2.2% yoy ▲

Woodcrafts and furniture
+2.2% yoy ▼

Garments
-15.4% yoy ▲

Travel goods and handbags
-48.2% yoy ▼

Exchange rate (USD: PHP, as of 23 Nov 2020)
48.217 (5.1% appreciation year-to-date)

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

12-Month Sourcing Outlook: Negative

The Philippine economy shrank by 11.5% yoy in the third quarter, the second worst quarterly economic performance on record following a revised 16.9% contraction in the second quarter, reflecting the severe impacts of one of the world's longest and strictest lockdowns. The latest PMI reading returned to the contraction territory in October, indicating that recovery in the manufacturing sector is likely to be protracted.

The Philippines is still grappling with the COVID-19 pandemic, with some level of quarantine restrictions in place throughout the country. The number of daily confirmed cases has still hit around 1,000–2,000 since November, albeit lower than the peak in August. Unless the pandemic is completely under control in the country, a sustained economic recovery remains to be seen.

The Philippines

	Latest Developments	FBIC's take
Macroeconomic Trends	The IHS Markit Philippines Manufacturing Purchasing Managers' Index (PMI) registered 48.5 in October, returning to the contraction territory after posting 50.1 in September. It was the seventh month since March this year that the reading fell below the 50.0 no-change threshold, indicating business conditions of the manufacturing sector remains challenging. According to the IHS Markit, the contraction of manufacturing output in the Philippines was among the steepest in 31 countries monitored for manufacturing conditions in the first nine months of this year, only after Mexico and Indonesia.	• In October, production volumes and new orders contracted due to subdued domestic demand linked to the pandemic, while new export orders grew for the second consecutive month. Employment fell for the eighth straight month as voluntary resignations increased. Transport restrictions were still hindering logistics, leading to delivery delays. • All regions in the Philippines remain under some level of quarantine restrictions as infection rates in the country remain high compared to other countries in Southeast Asia. General community quarantine (GCQ) has been further extended in Metro Manila and several other provinces or cities until 30 November. • As a full reopening of the Philippine economy remains to be seen, we anticipate a protracted recovery in the manufacturing sector.
	Exports returned to growth in September following a six-month sequence of decline. Exports increased by 2.2% yoy to US$6.22 billion in September, driven mainly by higher exports of copper (+133.9% yoy), other mineral products (+73.3% yoy) and metal components (+32.9% yoy). Exports of electronics, accounting for around 60% of the country's total exports, also recorded 0.8% yoy growth in the month.	• The gradual resumption of economic activities in the Philippines and economic recovery of its major export markets have contributed to the rebound of exports. In particular, the Philippines' exports to China jumped by 43.3% yoy to US$1.22 billion in September, while exports to other ASEAN countries increased by 10.1% yoy to US$0.93 billion. • It is noteworthy that the strengthening of the Philippine peso since June this year could erode the price competitiveness of the country's exports. The currency closed at 48.134 against the US dollar on 9 November, the strongest position in over four years. It represented a 4.6% appreciation since June. High foreign reserves and a strong balance-of payment position, resulting from slower imports and lower outward payments, have contributed to a strong peso.

The Philippines

	Latest Developments	FBIC's take
FTAs & trade preferences	In a resolution dated 17 September, the European Parliament called on the European Commission to immediately initiate the procedure to temporarily withdraw the Philippines' Generalised Scheme of Preferences Plus (GSP+) status due to the country's backsliding human rights situation. Various business associations and labour groups in the country have called for the retention of the trade privileges granted by the EU.	• Since 25 December 2014, the Philippines has enjoyed enhanced trade preferences under the EU's GSP+, which grants duty-free entry of 6,274 Philippine products into the EU. The trade privileges are granted only to countries that have ratified and effectively implemented 27 core international conventions on human and labour rights, environmental protection and good governance. • If the EU pushes through the resolution and revokes the GSP+ status granted to the Philippines, the country's export sector would suffer, particularly amid global economic downturns. The EU accounted for 11.7% of the Philippines' exports in 2019, of which 25% received preferential treatment under the GSP+ scheme. • The Philippines' main exports to the EU under GSP+ are relatively diversified, with significant portions of animal or vegetable oils and fats, electrical equipment, and foodstuffs. Footwear, garments, furniture and toys also enjoy enhanced preferential access under the EU's GSP+.

Thailand

Fast facts

GDP (Jul–Sep 2020)
-6.4% yoy ▲

Manufacturing PMI (Oct 2020)
50.8 ▲

CPI (Oct 2020)
-0.5% yoy ▲

Merchandise exports (Sep 2020)
-3.9% yoy ▲

Textiles and apparel
-17.9% yoy ▲

Furniture
+19.6% yoy ▲

Footwear
-21.1% yoy ▼

Exchange rate (USD: THB, as of 23 Nov 2020)
30.356 (2.1% depreciation year-to-date)

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

12-Month Sourcing Outlook: Neutral

Although the country's PMI and manufacturing production index (MPI) both recorded improvements recently, it is still uncertain whether the recovery will sustain as external demand for Thai exports, which weighs heavily on Thailand's economy, remained weak.

The escalating political tensions domestically adds fresh uncertainty on the prospects of the Thai economy. If the anti-government protests continue to intensify for a couple of months, the outlook for a rapid economic recovery would be bleak.

Thailand

Macroeconomic Trends	Latest Developments	FBIC's take
	Thailand's economy shrank by 6.4% yoy in the third quarter, recovering from a deep contraction of 12.1% yoy in the prior quarter, according to the National Economic and Social Development Council (NESDC). NESDC projected a full-year economic contraction of 6% this year, an upward adjustment from the previous estimate of a 7.3%–7.8% decline.	• The improvement in economic performance was mainly attributed to the recovery of economic activities and private consumption resulting from the easing of lockdown measures and domestic travel restriction, as well as the government 's stimulus measures. • The government's recently announced tax deductions on purchases of goods and services in the fourth quarter is estimated to inject about 120 billion baht into the country's economy. The move is expected to further boost domestic consumption and revive the economy plagued by the pandemic. • Short-term risks to Thailand's economic prospects include the recent strengthening of the Thai baht, which has appreciated by 3.3% against the US dollar since November, along with the escalating student-led anti-government protests.
	The IHS Markit Thailand Manufacturing PMI increased from 49.9 in September to 50.8 in October, the first time this year the index reading rising above the 50.0 no-change mark. It was also the highest reading in one-and-a-half years. Another gauge of Thailand's manufacturing sector also recorded positive performance. The manufacturing production index (MPI) released by the Office of Industrial Economics (OIE) rose by 3.3% on a month-on-month basis in September, supported by higher production of pharmaceuticals, computers and electronics, machinery and equipment, motor vehicles, and furniture. On a year-on-year basis, the index fell by 2.8% in September, the smallest contraction since the start of 2020.	• The improvement of the two indices indicate an overall recovery of the Thai manufacturing sector. But it is also noteworthy that new export orders, a component of the PMI, declined for the eighth straight month in October, reflecting that external demand for Thai products remained subdued.

Thailand

	Latest Developments	FBIC's take
Politics & Geopolitics	The last five months have seen the escalation of student-led anti-government protests, calling for the resignation of the prime minister and reform of the Thai monarchy. Since mid-October, the police have started to deploy water cannons and tear gas to disperse protesters. On 17 November, more than 51 people were injured in the most violent protest since July, as protesters clashed with the police and yellow-shirted royalists outside the Thai Parliament. On 18 November, the Parliament passed two drafts related to constitutional amendments sponsored respectively by the incumbent party and opposition parties, while the iLaw draft, supported by many anti-government protesters, was rejected.	• The escalation of political tensions has caused mounting concerns among the business community, which now see domestic political risk as a vital factor that may harm the Thai economy on top of the pandemic, according to a business survey conducted by the University of the Thai Chamber of Commerce (UTCC) in October. • If the protests continue to intensify, household spending and retail sales are likely to be suppressed, and the prospects for a rapid and sustained economic recovery would be dim.

Vietnam

Fast facts

GDP (Jul–Sep 2020)
+2.6% yoy ▲

Manufacturing PMI (Oct 2020)
51.8 ▼

CPI (Oct 2020)
+2.5% yoy ▼

Merchandise exports (Oct 2020)
+12.2% yoy ▼

Textiles and garments
-4.7% yoy ▼

Toys and sports goods
+31.9% yoy ▼

Wood and wooden products
+23.6% yoy ▼

Footwear
-12.3% yoy ▼

Exchange rate (USD: VND, as of 23 Nov 2020)
23,165 (0.03% appreciation year-to-date)

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

12-Month Sourcing Outlook: Positive

The Vietnamese government projected a GDP growth of 2% to 3% in 2020 and 6% in 2021. The estimation is aligned with the positive assessment from various international organisations. For instance, the World Bank estimates Vietnam's economic growth to be 2.8% in 2020. According to the Asian Development Bank, Vietnam's economy is expected to grow 1.8% in 2020 and 6.3% in 2021. And the International Monetary Fund (IMF) expected Vietnam would be the only country among the five major ASEAN economies (Thailand, Malaysia, Indonesia, the Philippines and Vietnam) to deliver positive growth this year.

There are still some downside risks to Vietnam's economic outlook, including the prolonged COVID-19 pandemic, global trade tensions and trade protectionism. Nevertheless, thanks to its high economic openness and involvement in various trade deals, mid- and long-term economic prospects of Vietnam continue to be positive.

Vietnam

	Latest Developments	FBIC's take
Macroeconomic Trends	According to the Ministry of Planning and Investment, foreign direct investment (FDI) in Vietnam reached US$23.48 billion in the first ten months of 2020, equal to 80.6% of the figure in the same period last year. Among all sectors, processing and manufacturing remained the most attractive ones for drawing foreign investment with total capital of US$10.7 billion, accounting for 45.7% of committed FDI. Among all, Singapore was the largest FDI source into Vietnam in the period, with US$7.51 billion of FDI, making up 31.9% of overall FDI in the country. South Korea ranked second with US$3.42 billion, followed by the Chinese Mainland, Japan, Thailand, and Taiwan.	• Even amid the COVID-19 crisis, Vietnam's economy is still in a good position to attract FDI, thanks to the government's swift and comprehensive efforts to keep the economy afloat, e.g. delaying tax payments, revising the investment law, implementing a free trade agreement with the EU, etc.
	According to the Ministry of Industry and Trade, the index of industrial production (IIP) in October rose by 3.6% month-on-month and 5.4% year-on-year. Also, the IHS Markit Vietnam Manufacturing Purchasing Managers' Index (PMI) posted 51.8 in October, down marginally from 52.2 in September.	• Thanks to the effective control of the COVID-19 pandemic in Vietnam, factories achieved solid improvements in new orders and output in October, and employment returned to growth for the first time since January, positively contributing to the economic recovery.
	According to the General Statistics Office, Vietnam's exports in the first ten months of 2020 grew by 4.7% yoy to US$229.27 billion, with the top five categories of exports, namely smartphones, computers and electronics, textiles and garments, machinery and equipment, and footwear, worth more than US$10 billion each. During the same period, imports slightly increased by 0.4% yoy to US$210.55 billion.	• Rising exports and stagnant imports in Vietnam led to a trade surplus in the first ten months of 2020. • The pandemic has boosted the global demand for remote working, thus exports of electronic products have increased, including computers, monitors and chips. Global brands with factory setup in Vietnam, such as Samsung, LG, Apple and Intel, have benefited from the increasing demand.

Vietnam

	Latest Developments	FBIC's take
Industry Development	Texhong, a Chinese yarn company, is relocating its production line to Vietnam by implementing a US$500 million investment plan in Vietnam this year. The establishment of Texhong knitting Vietnam Ltd. will be part of the plan. The new company will have an annual production capacity of 82,500 tonnes. The first phase of the company will become operational in late 2021.	• Most of Texhong's cotton supplies have been reportedly sourced from Xinjiang. Under the potential US boycott of cotton items originating in Xinjiang, the company is facing risk of order cancellations by the US buyers. • The establishment of a new manufacturing facility in Vietnam may help the company solve the origin issue of its garment products.

Contact

Helen Chin

Vice President

Tel: (852) 2300 2471

Email: helenchin@fung1937.com

Winnie He

Research Manager

Email: winniehe@fung1937.com

Winnie Lo

Senior Research Manager

Tel: (852) 2300 2488

Email: winnielowl@fung1937.com

Fung Business Intelligence

1/F LiFung Tower

888 Cheung Sha Wan Road

Kowloon, Hong Kong

T: (852) 2300 2470

F: (852) 2635 1598

E: fbicgroup@fung1937.com

W: http://www.fbicgroup.com