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Economic Letter from Asia: Trade Shifts in ASEAN

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Written by [Tian Yong Woon](#)

T rade Shifts in ASEAN

In this week's newsletter, we explore shifts in trade patterns across Southeast Asia. Our analysis reveals considerable changes in the region's export landscape, both in terms of destination markets and product composition. Economies like Vietnam and Thailand are now proportionally increasing their exports to the US, whereas Indonesia has seen a marked rise in shipments to China. Further investigation into ASEAN-6 exports highlights a growing dominance of electronic and electrical products, barring Indonesia. This trend reflects both the current upswing in the electronics cycle and deliberate strategies by regional economies to capitalize on heightened global demand, including for semiconductors.

We also delve deeper into Vietnam, where gains stem from global supply chain shifts and deepening economic integration with China, its geographical neighbour. Our focus then shifts to Indonesia, emphasizing its unique reliance on commodity exports within the ASEAN-6, particularly in its trade relations with China. Lastly, we examine labour and productivity dynamics within the ASEAN-6. We discuss potential challenges arising from rising labour costs, which could impact regional competitiveness. Conversely, we also highlight substantial productivity advances in Vietnam, which contrast with slower progress seen in peers such as Thailand.

Trade shifts by export destination and product

The global trade landscape continues to evolve, even in Southeast Asia. Chart 1 illustrates how the trade destination mix among Southeast Asian economies has undergone significant changes compared to the pre-

pandemic era. For one, economies such as Thailand and Vietnam have experienced a substantial increase in their share of exports to the US since late 2019. Equally noteworthy, Indonesia has seen a surge in its exports to China during this period. Interestingly, Vietnam and Singapore have also shown an uptick in their share of exports to China, albeit to a lesser degree. These trends challenge, at least for ASEAN-6 economies, narratives of trade diversification away from China. Moreover, the importance of exports to the EU and Japan has declined for the region in recent years.

Chart 1: Changes in export destination shares among ASEAN-6 economies

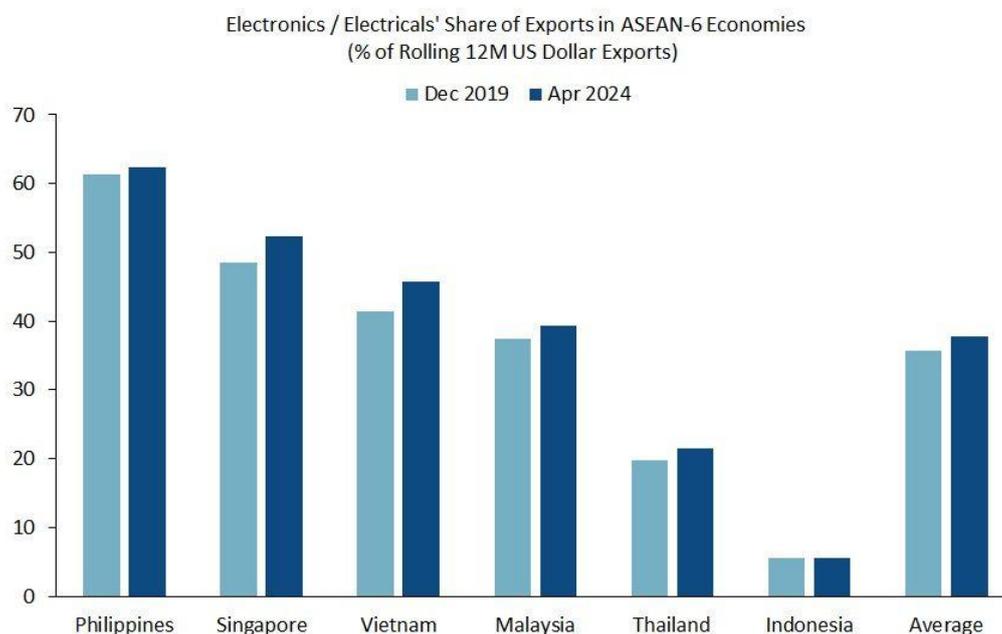
Change in Exports Destination Share in ASEAN-6 Economies
(May 2024 vs. Dec 2019, ppts)

Export Destination ->	US	EU	China	Hong Kong	India	Japan	South Korea	Taiwan	ASEAN	Other
Indonesia	-1.4	-2.4	+7.3	-0.4	+1.3	-1.5	-0.1	-0.1	-5.2	+2.3
Malaysia	+1.9	-1.0	-1.0	-0.7	-0.5	-0.7	+0.3	-0.2	+0.7	+1.1
Philippines	-0.3	-0.4	-0.7	-0.1	+0.7	-1.3	+0.5	+0.7	-0.4	+1.2
Singapore	+0.0	-1.3	+1.0	+0.0	+0.1	-0.8	+0.4	+0.1	+0.0	+0.4
Thailand	+5.1	-0.3	+0.1	-0.6	+0.6	-1.6	+0.1	+0.0	-2.2	-1.3
Vietnam	+4.8	-1.2	+1.2	+0.2	-0.2	-1.4	-0.9	-0.3	-0.5	-1.7
Average	+1.7	-1.1	+1.3	-0.3	+0.3	-1.2	+0.1	+0.0	-1.2	+0.3

Source: Authorities, Statistical Offices, Haver Analytics

Moving beyond shifts in export destinations, Chart 2 highlights the increasing significance of electronics and electrical products in the export profiles of ASEAN-6 economies. Vietnam, in particular, has seen a surge in the share of electronics exports since the pre-pandemic period, of 4.3 ppts to 45.7%. Nonetheless, the Philippines still maintains the highest share of electronics and electricals in its export mix among ASEAN-6 economies, standing at 62.3%. In contrast, Indonesia has the smallest share in this category, at just 5.5%. That said, Indonesia, being a resource-rich economy, has historically derived most of its export revenues from commodities, including coal, palm oil, and base metals.

Chart 2: Electronics/electricals' share of ASEAN-6 exports

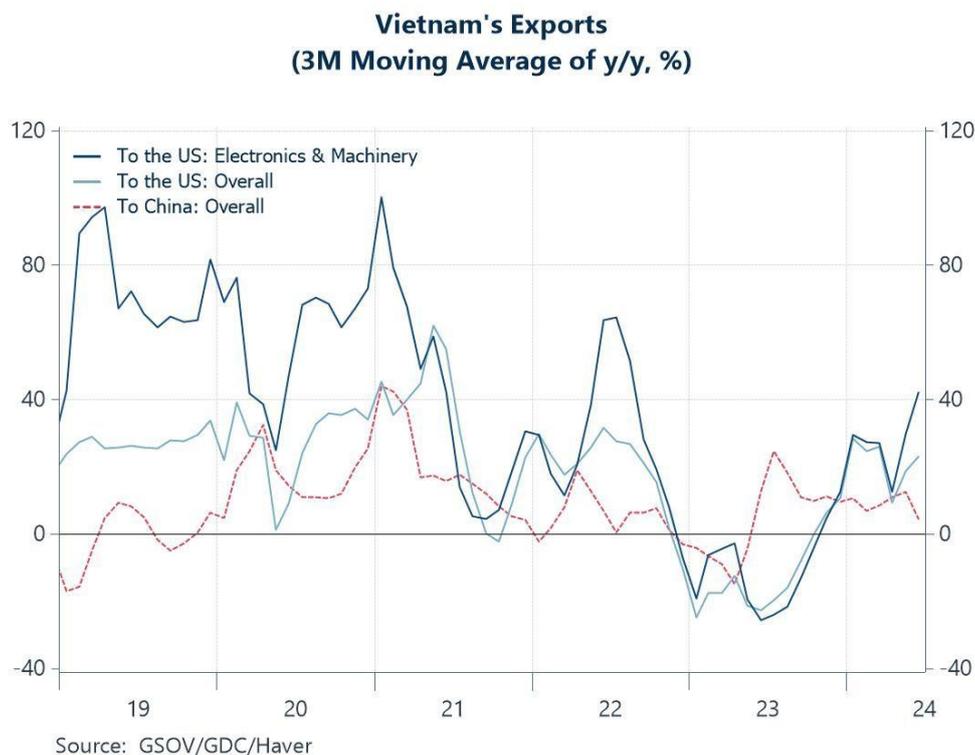


Source: Authorities, Statistical Offices, Haver Analytics

More on Vietnam and Indonesia

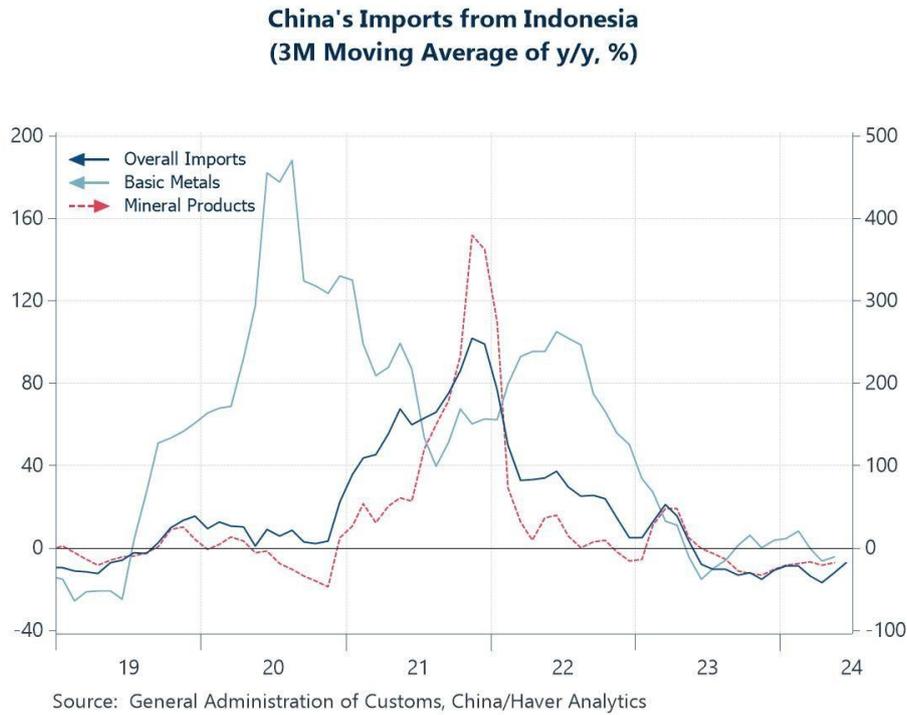
Building on the earlier discussion, Vietnam has experienced a notable transformation in its electronics sector in recent years, partly catalyzed by heightened trade tensions between the US and China. These tensions have prompted many global electronics producers to adopt a "China Plus One" strategy, seeking to diversify their manufacturing bases away from China. Vietnam has emerged as a prime beneficiary of this trend, attracting significant foreign investment from companies looking to establish or expand manufacturing operations within its borders. While phones remain Vietnam's top export product, their share in Vietnam's overall exports has decreased. This shift reflects Vietnam's broader diversification within the electronics export sector, where other electronic products have seen increased prominence. Moreover, Vietnam has also capitalized on enhanced economic integration with China, resulting in substantial foreign direct investment inflows from its neighbour. Despite steady export growth to China, however, Vietnam's recent export expansion has been notably fueled by shipments to the US, particularly in electronics and machinery products, as illustrated in Chart 3.

Chart 3: Vietnam's exports



Turning our focus to Indonesia, which stands out among ASEAN-6 economies due to its weaker dependence on electronics, we explore its commodities sector. As noted earlier, Indonesia leverages its abundant natural resources to generate substantial export revenues. China remains Indonesia's largest importer, primarily purchasing ferroalloys, coal, and nickel-related products. However, China's imports from Indonesia have declined in recent months, as depicted in Chart 4, reflecting China's reduced domestic demand for imported goods. Conversely, Indonesia has experienced a recent surge in imports from China, leading to a worsened trade balance for the former with the latter. Also, Indonesia has expressed growing concerns about China's overcapacity issues and the potential ill effects of excessive Chinese exports on its domestic manufacturing sector. In response, the Indonesian government has announced plans to implement tariffs of up to 200% on certain Chinese goods to address this challenge.

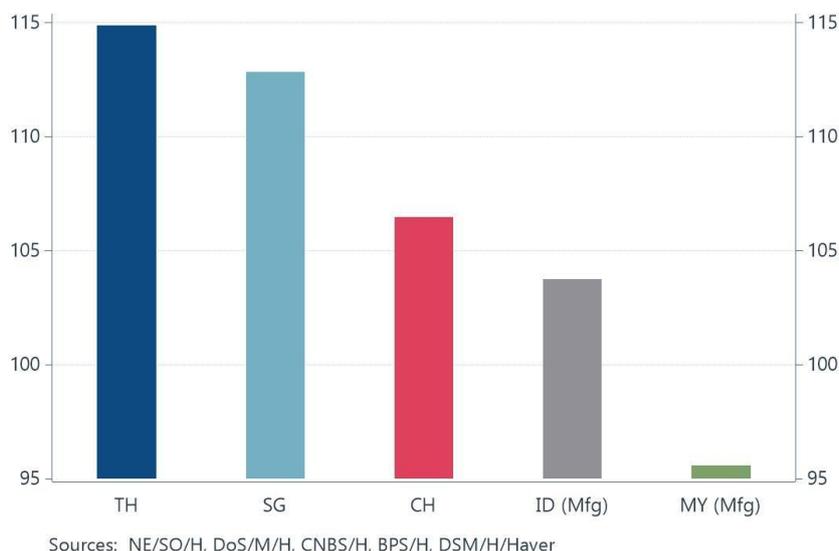
Chart 4: China's imports from Indonesia



Labour costs and productivity

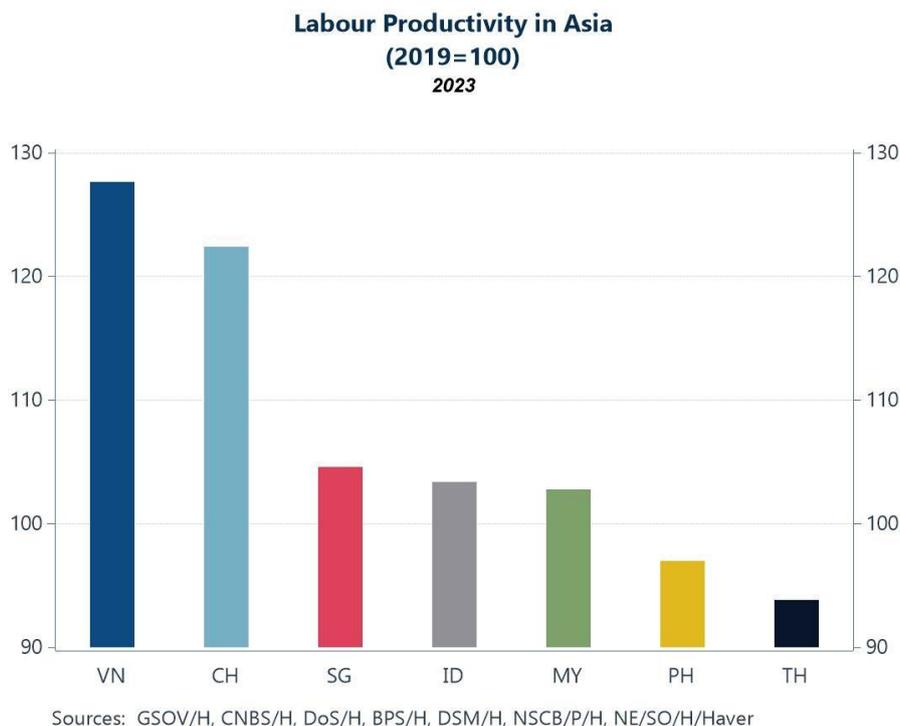
We now examine labour and productivity issues in parts of Asia. While often viewed as cost-effective locations for housing low-to-mid level manufacturing capabilities, recent wage trends in certain ASEAN-6 economies suggest potential challenges to labour competitiveness. Vietnam, for instance, increased its minimum wage by 6% earlier this month, while Thailand plans to raise its daily minimum wage by as much as 14% in October. These wage hikes, while their actual impact on wages remains uncertain, are likely to increase labour costs for firms operating in these economies. Relatedly, unit labour costs across several Asian economies have risen since the pre-pandemic era, as illustrated in Chart 5, with Thailand experiencing particularly notable growth. This significant increase in Thailand's unit labour costs may however, be reflective of specific underlying issues, such as poor productivity growth.

Chart 5: Unit labour costs in Asia
Unit Labour Costs in Selected Asian Economies
(2019=100)
2023



Delving deeper into labour-related issues, Chart 6 illustrates significant disparities in productivity gains across Asian economies. Vietnam, for instance, has achieved substantial productivity growth in recent years. However, its productivity level remains comparatively low, estimated at \$9.8 per hour worked (constant 2017 GDP at PPP) by the International Labour Organization. This figure trails behind more developed ASEAN-6 peers like Malaysia (\$25.9) and Singapore (\$73.8). Conversely, Thailand has faced challenges in improving productivity, compounded by the substantial minimum wage increases discussed earlier. These factors pose a risk to Thailand's competitive position among regional peers.

Chart 6: Labour productivity in Asia



About the author



Haver Analytics is pleased to bring [Tian Yong Woon's](#) commentaries on the state of the global economy to its clients.

Tian Yong joined Haver Analytics as an Economist in 2023. Previously, Tian Yong worked as an Economist with Deutsche Bank, covering Emerging Asian economies while also writing on thematic issues within the broader Asia region. Prior to his work with Deutsche Bank, he worked as an Economic Analyst with the International Monetary Fund, where he contributed to Article IV consultations with Singapore and Malaysia, and to the regular surveillance of financial stability issues in the Asia Pacific region. Tian Yong holds a Master of Science in Quantitative Finance from the Singapore Management University, and a Bachelor of Science in Banking and Finance from the University of London.

Data featured in this commentary:

Chart 1: Changes in export destination shares among ASEAN-6 economies

*Please refer to the Excel file included in the VG3 folder download

Chart 2: Electronics/electricals' share of ASEAN-6 exports

*Please refer to the Excel file included in the VG3 folder download

Chart 3: Vietnam's exports

Series 1: $\text{movv}(\text{yrr}(\frac{X582USMS@EMERGEPR + X582USOC@EMERGEPR}{X582USUL@EMERGEPR} + X582USE@EMERGEPR), 3)$
X582USMS@EMERGEPR [Vietnam: Exports to USA: Other Mach, Instrument, Accessory (NSA, Thous.US\$)]
X582USOC@EMERGEPR [Vietnam: Exports to USA: Cameras and Their Parts (NSA, Thous.US\$)]
X582USUL@EMERGEPR [Vietnam: Exports to USA: Telephones and Their Parts (NSA, Thous.US\$)]
X582USE@EMERGEPR [Vietnam: Exports to USA: Computers and Their Parts (NSA, Thous.US\$)]

Series 2: $\text{movv}(\text{yrr}(N582IXUS@EMERGEPR), 3)$

N582IXUS@EMERGEPR [Vietnam: Exports to the U.S (NSA, Thous.US\$)]

Series 3: $\text{movv}(\text{yrr}(N582IXCN@EMERGEPR), 3)$

N582IXCN@EMERGEPR [Vietnam: Exports to China, PR (NSA, Thous.US\$)]

Chart 4: China's imports from Indonesia

Series 1: $\text{movv}(\text{yrr}(N924IMID@EMERGEPR), 3)$

N924IMID@EMERGEPR [China: Imports from Indonesia (NSA, Mil.US\$)]

Series 2: $\text{movv}(\text{yrr}(M924IDBM@EMERGEPR), 3)$

M924IDBM@EMERGEPR [China: Imports from Indonesia: Basic Metals (NSA, Mil.US\$)]

Series 3: $\text{movv}(\text{yrr}(M924IDNM@EMERGEPR), 3)$

M924IDNM@EMERGEPR [China: Imports from Indonesia: Mineral Products (NSA, Mil.US\$)]

Chart 5: Unit labour costs in Asia

Series 1: $\text{index}(N578ECU@EMERGEPR, 2019=100)$

N578ECU@EMERGEPR [Thailand: Unit Labor Cost (NSA, 2010=100)]

Series 2: $\text{index}(A576ECU@EMERGEPR, 2019=100)$

A576ECU@EMERGEPR [Singapore: Unit Labor Cost (2010=100)]

Series 3: $\text{index}(A924ECU@EMERGEPR, 2019=100)$

A924ECU@EMERGEPR [China: Unit Labor Cost (2010=100)]

Series 4: $\text{index}(A536ECU@EMERGEPR, 2019=100)$

A536ECU@EMERGEPR [Indonesia: Unit Labor Cost (2010=100)]

Series 5: $\text{index}(N548ECUM@EMERGEPR, 2019=100)$

N548ECUM@EMERGEPR [Malaysia: Manufacturing Unit Labor Cost (2010=100)]

Chart 6: Labour productivity in Asia

Series 1: $\text{index}(A582ELPI@EMERGEPR, 2019=100)$

A582ELPI@EMERGEPR [Vietnam: Output Per Employed Person (2010=100)]
Series 2: [index\(A924ELPI@EMERGEPR,2019=100\)](#)
A924ELPI@EMERGEPR [China: Productivity: Output per Employed Person (2010=100)]
Series 3: [index\(A576ELPI@EMERGEPR,2019=100\)](#)
A576ELPI@EMERGEPR [Singapore: Productivity: Output per Employed Person (2010=100)]
Series 4: [index\(A536ELPI@EMERGEPR,2019=100\)](#)
A536ELPI@EMERGEPR [Indonesia: Productivity: Output per Employed Person (2010=100)]
Series 5: [index\(N548ELPI@EMERGEPR,2019=100\)](#)
N548ELPI@EMERGEPR [Malaysia: Productivity: Output per Employed Person (NSA, 2010=100)]
Series 6: [index\(N566ELPI@EMERGEPR,2019=100\)](#)
N566ELPI@EMERGEPR [Philippines: Productivity: Output per Employed Person (NSA, 2010=100)]
Series 7: [index\(A578ELPI@EMERGEPR,2019=100\)](#)
A578ELPI@EMERGEPR [Thailand: Productivity: Output per Employed Person (2010=100)]

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