

Progress in economic reforms needed to maintain and strengthen the competitiveness of exports

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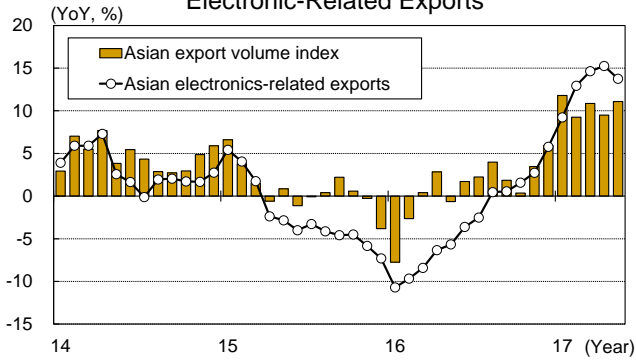
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On the whole, Asian economies continue to grow on the back of resilient domestic demand and strong exports. Looking at the real GDP growth rates of countries who have already published their Q2 figures, Vietnam's accelerated by 6.2% year-on-year (YoY) mainly due to an expansion of its manufacturing sector owing to strong exports (in Q1 it was 5.2% YoY). Meanwhile, China (6.9% YoY) and Singapore (2.5% YoY) maintained their growth from the previous quarter. Turning to the trend of exports in major Asian countries and regions, growth of electronics-related exports was in the double figures (Chart 1), and there was firm growth in exports to developed countries as well as to China and other Asian countries (Chart 2). However, when examining this favourable export data, it is necessary to take into account the positive contribution from both the semiconductor market, which has boomed since the IT bubble in the 2000s, as well as the Chinese economy, where the government is ensuring stability ahead of the National Congress of the Communist Party of China held in autumn.

A recovery in the global economy has led to a current increase in domestic demand, which is forecast to support exports. However, from a medium- to long-term perspective, it will be necessary to continue economic reforms in order to maintain and strengthen the competitiveness of exports. This August marks a turning point in the 50 years of ASEAN, which was established in 1967. Since the start of 2010, the six founding members of ASEAN* have eliminated import tariffs, and the four newer members* are also planning to remove import tariffs in 2018. This will present a challenge for Vietnam, whose strength is the manufacturing and assembly of mobile phones and electronic products as it takes advantage of its comparatively cheap production costs, such as wages. However, if the tariff on completed vehicles (currently 30%) is eliminated entirely, the number of imported vehicles from countries such as Thailand and Indonesia will increase, and there are concerns that there will be a significant impact on Vietnam's infant automobile industry. The Vietnamese government is addressing this issue by assisting in the development of its automotive industry; it has given preferential treatment to companies who produce major components and the types of vehicles it has prioritised. This includes partly subsidising the cost of R&D and human resource development. It is likely that these actions will lead to a steady increase in the level of sophistication of domestic industries as well as the nurturing of supporting industries.

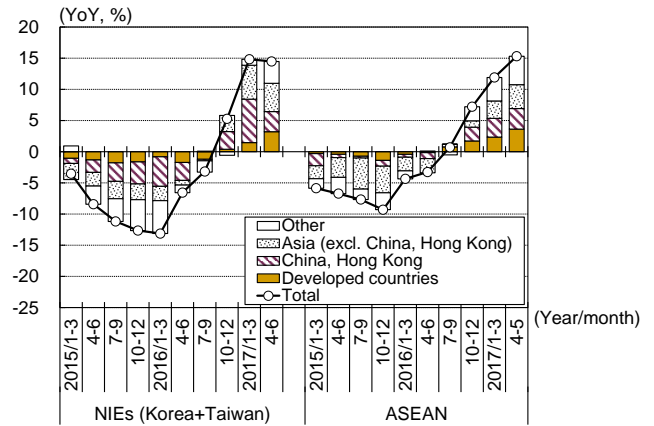
*The six founding members of ASEAN are Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand. The four newer members are Vietnam, Cambodia, Laos and Myanmar.

Chart 1: Volume of Exports from Asia and Electronic-Related Exports



Note: "Export volume" and "electronics-related exports" are YoY growth rate of the average volume of exports and the rate of the export of electronic products from S. Korea, Taiwan, Singapore, Malaysia, Thailand in 2016 weighted respectively. 3-month moving average.
Source: Each country's national statistics, BTMU Economic Research Office

Chart 2: Major Asian Regions' Exports by Destination



Note: "ASEAN" is Indonesia, Malaysia, Thailand, the Philippines, Vietnam.
Source: Each country's national statistics, BTMU Economic Research Office

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