

Flexport Research

Making Global Trade Easy for Everyone

The Price of Specialization - SEASCI Q3 2021 Update

Vietnam's cost advantage over China improved in Q3'21, led by apparel.

What does comparative advantage look like in practice? Where's the best place to produce consumer goods in Asia? Does the latest data suggest that changes in supply chain practices are needed?

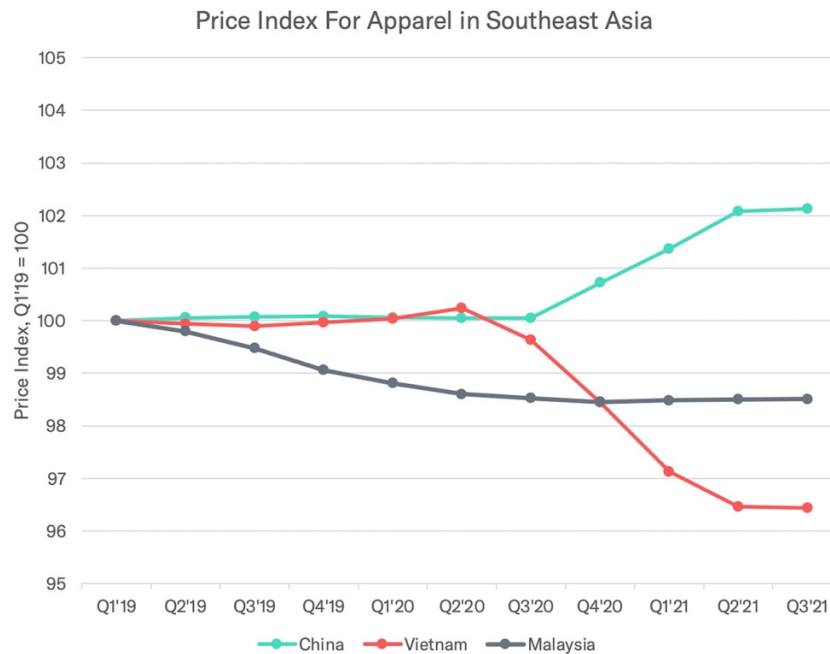
The Flexport Southeast Asia Sectoral Cost Indices (SEASCI) provide a comparison of the wholesale cost of U.S. imports of apparel, electronics and furniture from Southeast Asia and China. This report updates our [original analysis](#) for quarterly data running through September 2021.

Our latest analysis shows that Vietnam's price advantage over China has widened slightly in Q3'21 compared to prior quarters. In apparel the trend has slowed while in electronics China has lost ground after having started to erode Vietnam's advantage previously.

Apparel - Cost Trends Work in Vietnam's Favor

Figure 1 shows our resale price indices for apparel in China, Malaysia and Vietnam across all imports in Flexport's dataset. After a period of marked divergence in costs between China (rising) and Vietnam (falling) in the 12 months to Q2'21 there has been stability in the latest quarter.

Fig. 1: Apparel Costs Stable in Q3 2021



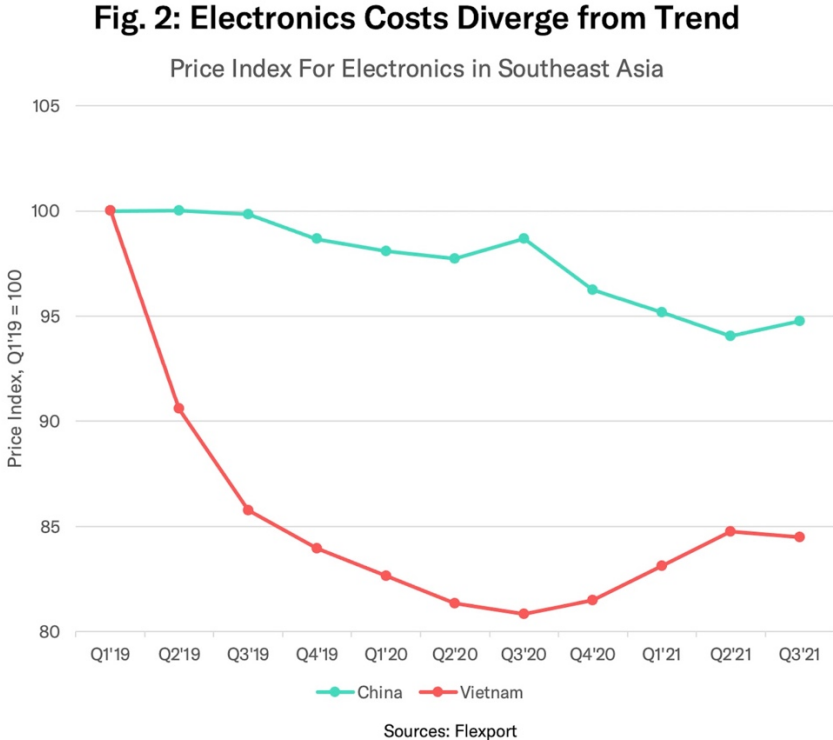
Source: Flexport

The earlier divergence may have reflected increased specialization by Vietnamese factories in lower-cost apparel while U.S. Section 301 tariffs may still have been driving decisions to shift supply chains away from China - rather than to the United States.

Higher-end apparel may have remained in China to retain access to economies of scale while higher profit margins per piece may have made tariff costs less relevant. The stabilization could suggest that the tariff-led trend has now worked itself out, though more quarters of data will be needed for confirmation.

Electronics - Different Directions

In electronics, exporters in Vietnam saw a dip in prices in Q3'21 after nearly a year of increases as shown in Figure 2. The earlier improvement may have reflected a shift towards higher value items, particularly in telecoms, while the upheaval caused by a global shortage of semiconductors may have taken a toll more recently.

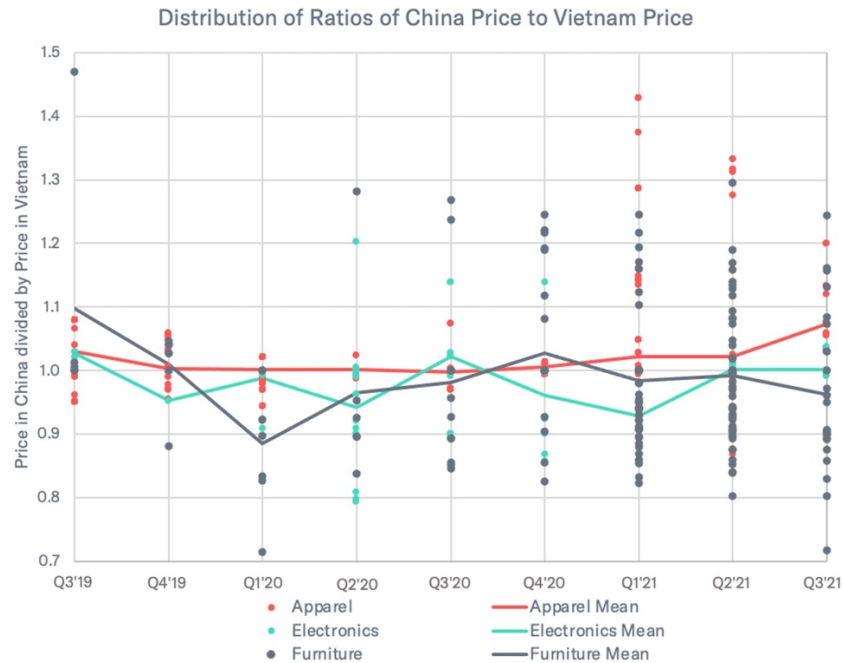


Prices in China meanwhile have headed the other way with earlier declines having since reversed. That may reflect a comparative advantage for Chinese electronics manufacturers who are more closely integrated with their upstream supplies and so may be able to command a premium in a hectic demand environment for consumer electronics.

Vietnam Falls Behind in Furniture, Pulls Ahead in Apparel

Using a subset of the prior data, utilizing identical SKUs from China and Vietnam, shows a similar story for apparel with China's prices rising relative to Vietnam. The average ratio in Figure 3 (solid line) between the two has reached its highest in two years consequently after an extended period of stability.

Fig. 3: Chinese Furniture Gets Cheaper



In the case of furniture, however, the opposite has been true. China has experienced more, lower priced SKUs versus Vietnam in Q3'21 than previously. Factory closures in Vietnam may have led manufacturers there to prefer to focus available capacity on higher margin products.

Electronics has seen little change in Q3'21 versus Q2'21 on a SKU-for-SKU basis despite the divergent performance in average prices flagged in figure 1, though some caution is needed given the paucity of overlap versus the other product groups.

Fig. 4: China's Prices Have Risen Relative to Vietnam's



When taken in the aggregate the overall distribution of prices for common SKUs suggests Chinese prices have increased in Q3'21 versus Q2'21 compared to Vietnam's, as shown in Figure 4. A wider distribution of relative pricing is also notable and suggests SKU-specific factors are driving the shift rather than overall macroeconomic trends.

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