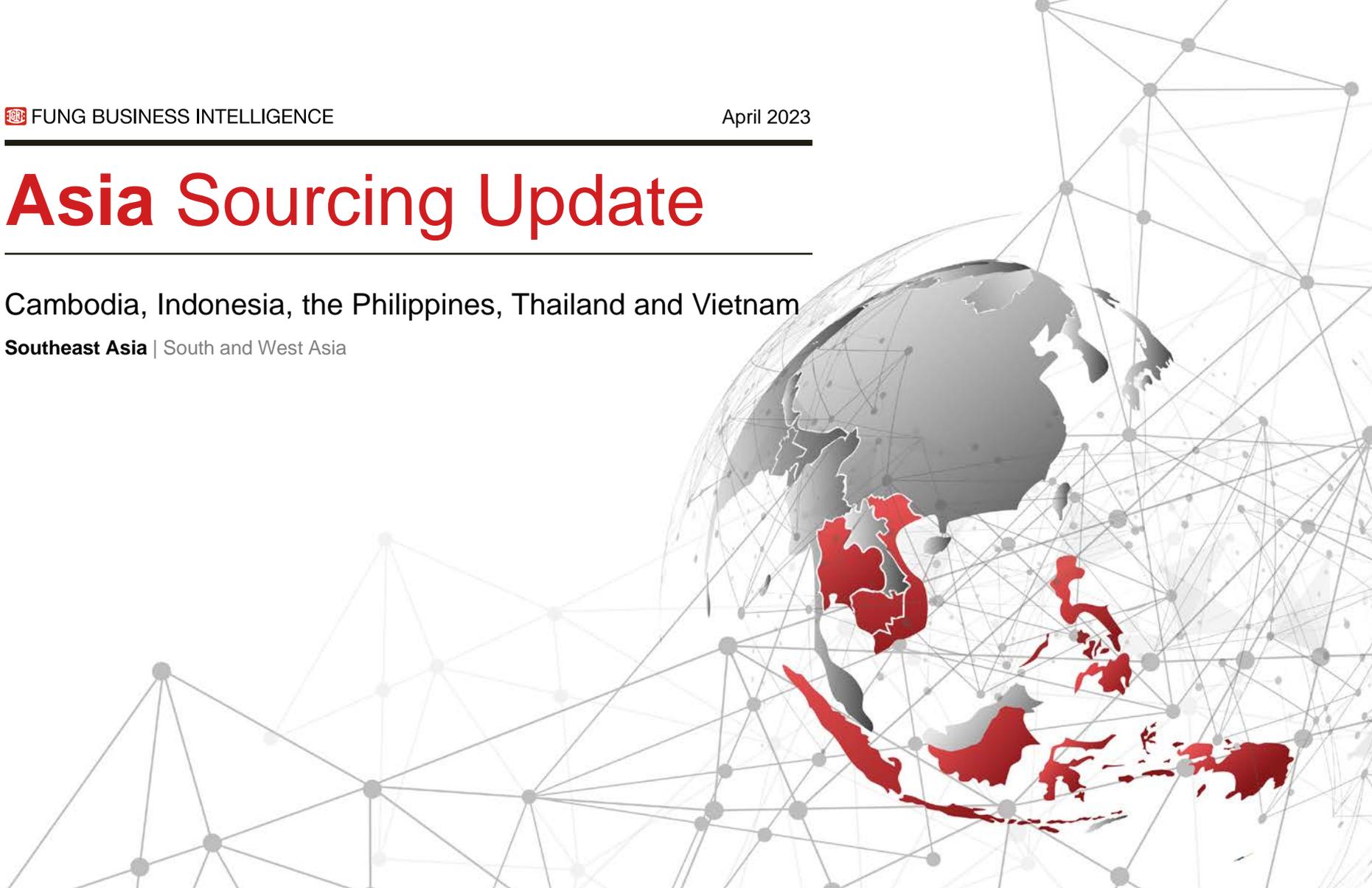


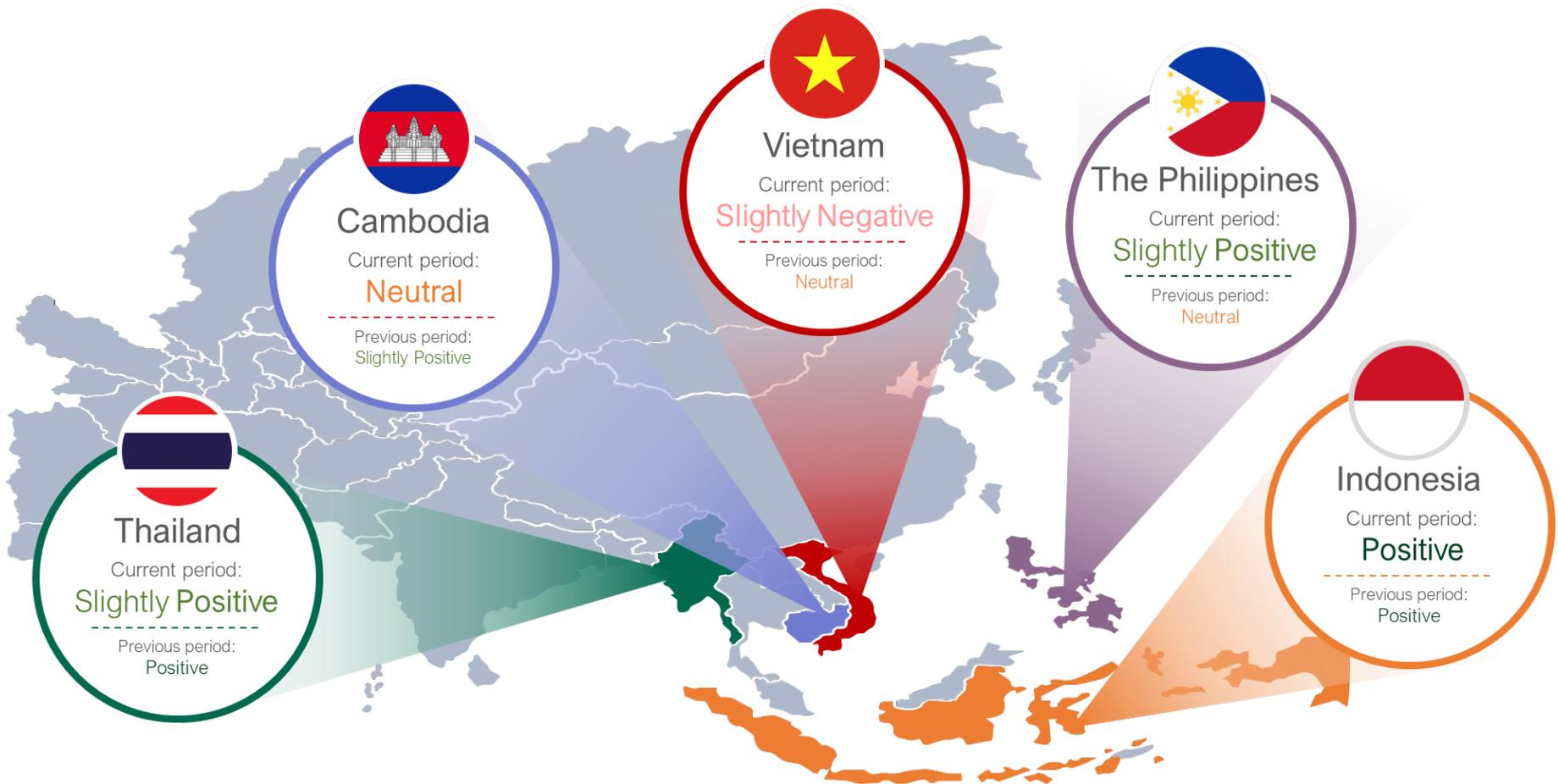
Asia Sourcing Update

Cambodia, Indonesia, the Philippines, Thailand and Vietnam

Southeast Asia | South and West Asia



Highlights: 12-month sourcing outlook



Cambodia

Fast facts



CPI (Feb 2023)
+2.21% yoy



Exchange rate (USD: KHR, as of 31 Mar 2023)
4,054 (1.55% appreciation year-to-date)



Merchandise exports (Feb 2023)
-10.8% yoy ▲



Garments
-24.1% yoy ▲



Footwear
-50.2% yoy ▼



Electrical parts
-64.0% yoy ▼



Bicycles
-37.1 yoy ▲

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

12-Month Sourcing Outlook: Neutral

The Cambodian economy grew 5.3% yoy in 2022, mainly driven by tourism, domestic consumption, and garment exports. However, exports have continued to decline since the last month of 2022 due to sluggish demand in both the EU and the US markets. Exports of the GFT sector (garments, footwear, travel goods and other textile-related products), Cambodia's largest foreign exchange earner, slumped by 22.6% yoy in the first quarter of 2023. Cambodian industry experts expected that orders for GFT goods would not revive until mid-2023, as retailers in Europe and the US are clearing the stocks of unsold goods from the previous seasons.

Despite the difficulties in the export sector, the overall economic prospect for Cambodia is promising this year because of the robust tourism recovery and the expected high growth in the services sector. In March, the government adjusted its economic growth forecast for 2023 to 6.6% from 5.6% it made in January this year. The International Monetary Fund, in its latest *World Economic Outlook* published in April 2023, sets Cambodia's economic growth pace in 2023 at 5.8%, the second fastest (on par with that of Vietnam) among the 15 members of the Regional Comprehensive Economic Partnership Agreement.

Cambodia

Latest Developments

FBIC's take

Macroeconomic Trends

Cambodia's goods exports decreased by 5.7% yoy to US\$5.4 billion in the first quarter of 2023, according to the General Department of Customs and Excise.

During this period, the exports of the GFT sector (garments, footwear, travel goods and other textile-related products) decreased by 22.6% yoy to US\$2.4 billion, accounting for 43.8% of Cambodia's exports in the period. Electric parts were the second largest export category in the period, which increased by 101.7% yoy to US\$736.8 million, accounting for 13.7% of Cambodia's exports in the same period.

The US remained the biggest market for Cambodia's exports in the first quarter of 2023, with an export value of US\$1.8 billion (accounting for 33.8% of Cambodia's total exports in the period), followed by Vietnam (US\$909.8 million, 16.9%) and Thailand (US\$334.2 million billion, 6.2%).

- Cambodia maintained a good export performance in 2022 as a whole, but growth momentum of exports stalled in the last month of 2022 due to sluggish demand in both the EU and the US market caused by high inflations. Exports have dropped for four consecutive months as of March 2023, on a year-on-year basis.
- Exports of Cambodia's GFT sector, Cambodia's largest foreign exchange earner, dropped substantially in the first three months of 2023. Exports of the sector decreased by 28.0% yoy in January, 24.5% yoy in February, and 14.6% yoy in March. According to industry experts in Cambodia, orders for GFT goods would not revive until mid-2023, as retailers in Europe and the US are clearing stocks of unsold goods from the previous seasons.

Cambodia

Latest Developments

FBIC's take

Industry Developments

The Cambodian government is launching a scheme to provide financial support to workers in the garment and textile sector who lost their earnings following factory closures or suspension since April 2023.

The Ministry of Labour and Vocational Training and the Ministry of Economy and Finance are working with factory owners on compensation for workers laid off due to factory closures.

For workers who are suspended from their employment contracts, the two ministries and factory owners have agreed that each of them will get a subsidy of US\$70 per month, in which US\$30 will be contributed by factory owners and US\$40 by the government. This type of financial support will continue during the suspension of their contracts.

- The GFT sector is the largest foreign exchange earner for Cambodia, accounting on average for over 50% of Cambodian total export value each year. The sector consists of roughly 1,100 factories and branches, employing approximately 750,000 workers, mostly female.
- In the first two months of this year, 71 factories have suspended their business operations, leaving 32,023 workers temporarily unemployed, of whom 26,055 are female.
- A slide of GFT exports in the first quarter of this year raises the spectre of more factory closures or suspensions. Therefore, the scheme would be a timely support for workers in the GFT sector.

Policy & Regulations

On 31 March, a new draft taxation law was approved at a cabinet meeting chaired by Prime Minister Hun Sen.

The new draft taxation law consists of 20 chapters and 255 articles. It is designed to fill gaps in the existing fiscal laws and to facilitate, improve and ensure consistency by compiling a set of tax laws and regulations under a single decree.

The new draft taxation law has not been fully released yet. The General Department of Taxation (GDT) expects the new law will be promulgated in the next two or three months.

- The new draft taxation law aims to bring the Cambodian tax regime more in line with current and anticipated international standards and economic environment. The GDT officials are making a special effort to align this law with the new Law on Investment promulgated in October 2021, to provide clarity in tax-related incentives for potential investors to choose targeted industries.
- It is also expected to promote the Cambodian business sector and ensure fair competition, with a particular focus on supporting the small and medium-sized enterprises (SMEs).

Cambodia

Latest Developments

FBIC's take

FTAs, Trade Preferences and Investment Agreements

On 16 March 2023, Cambodian Minister of Commerce and the Emirati Minister of State for Foreign Trade announced the conclusion of talks for the Cambodia-United Arab Emirates Comprehensive Economic Partnership Agreement (CAM-UAE CEPA).

The CAM-UAE CEPA will cover trade in goods, trade in services, technical barriers to trade, rules of origin, customs and trade facilitation, sanitary and phytosanitary measures, trade remedies, electronic commerce, investment, and intellectual property.

Other areas incorporated into the deal will include economic and technical cooperation, SMEs, transparency, dispute settlement, administrative and institutional provisions, general provisions and exceptions, and final provisions.

The two sides hope to formally sign the agreement this year.

- The trade pact was concluded after three rounds of formal negotiations between the two countries held, respectively, in Abu Dhabi on 24-26 October 2022, Phnom Penh on 19-21 December 2022, and Dubai on 20-22 February 2023. It would be Cambodia's third bilateral trade agreement if signed, following the ones with China and South Korea which came into force in 2022.
- Key Cambodian export items that will benefit from the agreement include agricultural products, bicycles, electronic vehicles, travel bags, footwear and garments. The UAE will benefit from its exports of services in construction, engineering and environment-protection, as well as professional and business services.
- In 2022, Cambodia's goods and services trade with the UAE was US\$105 million, with an export value of US\$70 million to the UAE market and an import value of US\$35 million from the UAE.

Indonesia

Fast facts



GDP (Oct-Dec 2022)
5.0% yoy ▼



Manufacturing PMI (Mar 2023)
51.9 ▲



CPI (Mar 2023)
+4.97% yoy



Merchandise exports (Feb 2023)
+4.5% yoy ▼



Textiles and textile products
-19.7% yoy ▲



Footwear
-24.1% yoy ▼



Sports requisites
-12.1% yoy ▲



Furniture
-27.2% yoy ▲



Exchange rate (USD: IDR, as of 31 Mar 2023)
14,977 (4.1% appreciation year-to-date)

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

Source: Statistics Indonesia, Bank Indonesia, IHS Markit

12-Month Sourcing Outlook: Positive

Indonesia's inflation rate was 4.97% yoy in March 2023, the lowest since August 2022, and down from 5.47% yoy in February, as prices increased less than usual during the fasting month of Ramadan. However, the inflation rate stayed above the central bank's target of 4% amid global food and energy price hikes.

Despite the global economic slowdown, Indonesia's manufacturing sector expanded in the first quarter of 2023. Indonesia's Manufacturing Purchasing Managers' Index (PMI) in March was 51.9, up from 51.3 in January and 51.2 in February, reflecting the business optimism of the country.

Indonesia

Latest Developments

FBIC's take

Macroeconomic Trends

Indonesia experienced a trade surplus of US\$5.5 billion in February, the 34th consecutive month with a trade surplus since May 2020. In February, exports rose 4.5% yoy to US\$21.4 billion, after a 16.4% yoy increase in January; imports decreased by 4.3% yoy to US\$15.9 billion due to a drop in purchases of raw materials.

- The three largest contributors in the non-oil and gas sector to the trade surplus in February 2023 were machine, electrical equipment, and their parts (a surplus of US\$141 million), animal or vegetable oil and fat (US\$106.2 million), and tin and its derivative products (US\$46.4 million).
- In terms of trading partners, the US (with a trade surplus of US\$1.3 billion), India (US\$1.1 billion), and China (US\$1.0 billion) accounted for the largest chunks of Indonesia's trade surplus in February 2023.

Infrastructure

In mid-March, Indonesia and Singapore signed an MoU on developing Indonesia's new capital Nusantara (IKN), on the sidelines of a leaders' retreat between Indonesian President Joko Widodo and Singaporean Prime Minister Lee Hsien Loong in Singapore.

During the leaders' retreat, 20 private companies from Singapore submitted letters of intent to invest in IKN.

- According to the Singaporean Prime Minister, the MoU aims to accommodate cooperation between the two countries in building, financing, and innovation of smart and sustainable infrastructure. Singapore will support Indonesia through knowledge-sharing activities, research activities, and joint development.
- Singapore's interest in participating in the IKN project is a significant step for the Indonesian government to attract investment for the IKN development.

Indonesia

Latest Developments

FBIC's take

FTAs, Trade Preferences and Investment Agreements

Indonesian Trade Minister Zulkifli Hasan and Indian Commerce and Industry Minister Piyush Goyal held a meeting in New Delhi on 14 March.

During the meeting, the Indonesian Trade Minister envisioned that the two countries can begin the negotiation on the bilateral Preferential Trade Agreement (PTA), which has been under consideration since 2020.

On 15 March, the Indonesia Investment Authority (INA) and the US International Development Finance Corporation (DFC) signed an MoU on catalyzing investments and promoting economic development in Indonesia.

- In the meeting, the two ministers discussed several issues related to bilateral trade, including the exports of Indonesian tires and fiber products to India and the imports of Indian buffalo meat, automotive, sugar, and rice into Indonesia.
 - They also discussed strengthening bilateral cooperation in various sectors such as information technology, health, textiles, furniture, education, and human resources.
 - India is Indonesia's fourth largest export market and the 21st largest source of foreign investment. The PTA is expected to further explore the two countries' economic potential.
 - India, Indonesia, and other ASEAN member countries are currently participants of a regional trade bloc, the ASEAN-India Free Trade Agreement, signed in 2009.
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- The MoU aims to deepen economic relations between Indonesia and the US. With a shared vision of promoting joint investments, the MoU also aims to unfold numerous opportunities for sustainable development projects in Indonesia.
 - The INA and the DFC will identify investment opportunities across Indonesia that align with their respective investment mandates and demonstrate considerable strategic and developmental potentials.

The Philippines

Fast facts



GDP (Oct–Dec 2022)
+7.1% yoy ▼



Manufacturing PMI (Mar 2023)
52.5 ▼



CPI (Mar 2023)
+7.6% yoy



Merchandise exports (Feb 2023)
-18.1% yoy ▼



Woodcrafts and furniture
-28.3% yoy ▲



Garments
-15.5% yoy ▲



Travel goods and handbags
-39.6% yoy ▼



Exchange rate (USD: PHP, as of 31 Mar 2023)
54.429 (3.11% appreciation 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: Slightly Positive

The Philippines' gross domestic product (GDP) grew 7.1% yoy in the fourth quarter of 2022, resulting in a 7.6% yoy growth in the whole year of 2022. The S&P Global Philippines Manufacturing PMI slipped a bit in March to 52.5 from 52.7 in February, still staying above the crucial 50.0 neutral threshold for the fourteen consecutive month. Headline inflation rate cooled down to a six-month low of 7.6% in March and is expected to ease further. In April, the Bangko Sentral ng Pilipinas (BSP) revised downward its inflation forecast for 2023 from 6.1% to below 6%.

The Asian Development Bank (ADB) projects that the Philippine economy will grow 6% this year, citing the expected slowdown of domestic inflation, the recovery of tourism, employment and retail trade, the continued growth of the manufacturing sector, and the government's bid to further increase infrastructure investment as the main driving factors. However, a slowdown in the world economy, tightening global monetary conditions, and a still high inflation rate domestically will continue to pose pressure on the country's economy this year.

The Philippines

Latest Developments

FBIC's take

Macroeconomic Trends

The Philippines' exports decreased by 15.6% yoy to US\$10.3 billion in the first two months of 2023. In February alone, exports decreased by 18.1% yoy to US\$5.1 billion.

In February 2023, electronic products continued to be the country's top exports, with a total export value of US\$2.7 billion, accounting for 52.7% of the country's total exports in the month. This was followed by other manufactured products (US\$337.2 million, accounting for 6.6% of the total export value), and ignition wiring set and other wiring sets used in vehicles, aircrafts and ships (US\$239.5 million, 4.7%).

Japan was the Philippines' largest export market in February 2023, accounting for 16.2% of the total export value of the Philippines in the month (US\$822.7 million), followed by the US (US\$756.0 million, 14.9%), China (US\$611.6 million, 12.0%), Hong Kong SAR, China (US\$526.9 million, 10.4%), and Singapore (US\$310.6 million, 6.1%).

In 2022, net foreign direct investment (FDI) into the Philippines decreased by 23.2% yoy to US\$9.2 billion. In January 2023, net FDI inflow dropped further by 45.7% yoy to US\$447.6 million.

Japan was the top source of FDI pledges in January 2023 (US\$66.6 million), followed by the US (US\$10.2 million), Malaysia (US\$8.5 million), Sweden (US\$5.7 million), and Singapore (US\$5.4 million).

The net FDI inflows were directed mainly to manufacturing (US\$70.0 million), real estate (US\$9.5 million), wholesale and retail trade (US\$7.8 million), information and communications (US\$3.3 million), and construction (US\$2.6 million) sectors.

- In February, the Philippines' exports decreased for the third consecutive month since last December and posted the biggest drop since August 2020, due to the deterioration in the world market.
- It is generally expected that more headwinds, such as the high inflation in the Philippines, the interest rate hikes in major developed countries, and the soft overseas demand amidst the worldwide economic recession, will further weaken the export performance of the Philippines in the coming months.

- The slump in net FDI inflows of the Philippines suggests that global economic uncertainties and high inflation continued to weigh on investor decisions at the start of this year.
- However, the recent foreign trips of President Ferdinand R. Marcos Jr. (to China in January and to Japan in February) may bring positive prospects for the country's FDI inflows in 2023. The Philippine Board of Investments (BoI) reported that, in the first quarter of 2023, the FDI projects it approved surged by 3722% yoy in value to 165.4 billion pesos (about US\$3.0 billion), from 4.3 billion pesos in the same period last year; and a big chunk of this was intended for sectors including renewable energy, manufacturing, administrative services, transportation and storage, and agriculture.

The Philippines

Latest Developments

FBIC's take

FTAs, Trade Preferences and Investment Agreements

The Regional Comprehensive Economic Partnership (RCEP) will enter into force in the Philippines on 2 June 2023, sixty days after the Philippine government deposited the instrument of ratification with the ASEAN Secretary General on 3 April.

On 20 April 2023, the National Economic and Development Authority (NEDA) Board also approved an executive order (EO) that would operationalize the implementation of the country's tariff commitments under the RCEP agreement. The EO will be effective on the same day as the RCEP agreement enters into force (i.e. on 2 June).

The RCEP EO maintains the current preferential tariffs for at least 98.1% of the 1,718 agricultural tariff lines and 82.7% of the 8,102 industrial tariff lines at present.

- The RCEP is the biggest free trade agreement in the world, which entered into force on 1 January 2022. It has 15 members at present, including Australia, China, Japan, South Korea, New Zealand, and the 10 members of the Association of Southeast Asian Nations. Apart from Myanmar, the Philippines was the last among the 15 countries to ratify the agreement.
- In September 2021, the then Philippine President Rodrigo Duterte ratified the RCEP agreement and brought it to the Senate for approval. However, the Senate failed to ratify the agreement in December 2021 before the free trade deal took effect. Objections mainly came from agricultural groups, who worried that the country's agricultural sector will be hurt by imported produce.
- The Philippine Senate finally ratified the trade agreement on 21 February 2023, completing the process for participation in the trade pact.
- The RCEP EO maintains the current tariffs for most products at this stage in an effort to protect the domestic industries from cheap imported goods.

Thailand

Fast facts



GDP (Oct-Dec 2022)
+1.4% yoy ▲



Manufacturing PMI (Mar 2023)
53.1 ▼



CPI (Mar 2023)
+2.8% yoy



Merchandise exports (Feb 2023)
-4.7% yoy ▼



Textiles and apparel
-16.1% yoy ▼



Furniture
-31.0% yoy ▼



Footwear
-4.4% yoy ▲



Exchange rate (USD: THB, as of 31 Mar 2023)
34.095 (1.32% appreciation 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: Slightly Positive

Thailand's GDP increased by 2.6% yoy in 2022, higher than the 1.5% growth in 2021. The country's manufacturing sector expanded steadily in the first quarter of 2023, with a headline S&P Global Thailand Manufacturing PMI of 53.1 in March. Inflation fell to a fifteen-month low of 2.8% in the same month.

Thai exports, on the other hand, declined for the fifth straight month in February. Prospects for Thai exports look weak in light of the likelihood of a global recession, the impact of the prolonged Russia-Ukraine war, high inflation in advanced countries and currency fluctuations. The Thai government expects that exports will decrease by 1.6% yoy in 2023, compared with a 5.5% yoy growth in 2022.

Despite the weak export prospects, the Thai government expects that the economy will grow 2.7-3.7% in 2023, citing a strong recovery in tourism sector, the expansion in both private and public investments, the continued expansion of private consumption, and the favorable growth of the agricultural sector as main factors.

Thailand

Latest Developments

FBIC's take

Macroeconomic Trends

Thai exports decreased by 4.6% yoy to US\$42.6 billion in the first two months of 2023. In February alone, exports decreased by 4.7% yoy to US\$22.4 billion.

In January-February 2023, the US was Thailand's biggest export market, accounting for 16.3% of Thailand's total export value, followed by China (10.9% of total export value), Japan (9.3%), Malaysia (4.27%), and Indonesia (4.25%).

Key export products during the period included automotive (US\$6.7 billion, 15.7% of total export value), agro-manufacturing products (US\$6.2 billion, 14.6%), electrical appliances (US\$4.6 billion, 10.7%), electronics (US\$4.4 billion, 10.4%), and machinery & equipment (US\$3.8 billion, 8.8%).

- Thailand's exports declined for the fifth straight month in February. Prospects for Thai exports look weak in light of the likelihood of a global recession, the impact of the prolonged Russia-Ukraine war, high inflation in advanced countries and currency fluctuations. As a result, the Thai government expects that exports will decrease by 1.6% in 2023, compared with a 5.5% growth in 2022.
- The Thai National Shippers' Council (TNSC) expects that the Thai exports will start to recover in the second and third quarters. The recovery will be partially helped by China's reopening, lower world freight rates and the revival of global purchases.

FTAs, Trade Preferences and Investment Agreements

On 15 March 2023, Thailand and the European Union (EU) announced the relaunch of negotiations on a bilateral free trade agreement (FTA).

Negotiations will cover trade in goods and services as well as investment in key Thai industries where the EU is keen to increase its share, such as renewable energy, electric vehicles and chip-making. Thailand aims to eliminate tariffs on exports to the 27 EU countries, particularly cars and automobile parts, electronics, garments and textiles, food, and rubber.

Thailand will host the first senior-level meeting in July 2023 and the two parties hope to conclude the talks within two years to reach a deal by 2025.

- Securing a FTA with the EU has been a longtime goal of the Thai government, but trade talks were stalled for nearly a decade after the 2014 military coup in Thailand.
- The EU began reopening the channel for talks when Thailand held elections in 2019. In February 2023, the Thai cabinet approved the proposal by Thai Commerce Minister Jurin Laksanawisit to proceed with negotiations.
- The EU is Thailand's 4th largest trading partner, with EU-Thailand trade amounting to US\$41 billion in 2022, accounting for 7% of Thailand's total foreign trade value in the year.
- The new FTA with the EU would be the 15th FTA of Thailand with other economies. It would also be the EU's third bilateral FTA in Southeast Asia, after Singapore in 2019 and Vietnam in 2020.

Thailand

Latest Developments

FBIC's take

Infrastructure

In March 2023, the Airports of Thailand (AOT) announced that it will move forward with its plans to transform 723 rai (116 hectare) of land adjacent to the Suvarnabhumi International Airport into an “airport city”, after the Interior Ministry of Thailand had given approval for farmland around the Suvarnabhumi Airport to be converted into infrastructure and buildings.

The AOT plans to use one year to build a bridge and road connecting the airport and the 723-rai plot, as well as to install basic infrastructure. Then, the AOT will hire a private company to develop the airport city into a hub for trading agricultural products, a centre for monitoring the quality of exports, and a distribution centre for export goods. Warehouses will also be built for online vendors and imported goods.

- The Airport project aims to enhance the potential of the Suvarnabhumi Airport. The project will also raise the non-flight income of the AOT from 43% to 50%.
- The Suvarnabhumi Airport is located in the Samut Prakan province, 30 kilometers east of Bangkok. It covers an area of 8,000 hectares, with an annual cargo handling capacity of 3 million tonnes and an annual passenger capacity of 45 million. It is one of the biggest international airports in Southeast Asia and a regional aviation hub.

Vietnam

Fast facts



GDP (Oct-Dec 2022)
+5.9% yoy ▼



Manufacturing PMI (Mar 2023)
47.7 ▼



CPI (Mar 2023)
+3.35% yoy



Merchandise exports (Jan 2023)
-23.5% yoy ▼



Textiles and garments
-37.0% yoy ▼



Toys and sports goods
-8.1% yoy ▼



Wood and wooden products
-48.0% yoy ▼



Footwear
-29.4% yoy ▼



Exchange rate (USD: VND, as of 31 Mar 2023)
23,600 (0.051% 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: Slightly Negative

Vietnam's GDP grew by 3.3% yoy in the first quarter of 2023, a sharp fall from the growth of 5.9% in the previous quarter. The economic slowdown in Vietnam was attributed to the reduction in production and export.

During the first quarter, the Index of Industrial Production saw a decline of 2.2% yoy, due to the impact of the global economic slowdown on domestic production and business. The S&P Global Vietnam Manufacturing Purchasing Managers' Index also reflected a decline in manufacturing production. The March index was 47.7, down from 51.2 in February, dipping below the 50 no-change mark for the fourth time within five months.

Besides, trade values in January, February, and March plunged by 13.3%, 11.9%, and 14.7% yoy respectively. During the first quarter of 2023, exports to major markets such as the US, China, and the EU dropped by 21.1%, 12.6%, and 8.1% yoy, respectively, as a result of the reduction in export orders.

Vietnam

Latest Developments

FBIC's take

Macroeconomic Trends

Vietnam saw a trade surplus of US\$4.1 billion in the first quarter of 2023. In 1Q23, Vietnam's exports and imports were US\$79.2 billion and US\$75.1 billion, down by 11.9% and 14.7% yoy, respectively.

In January-March, the US remained the largest export market of Vietnam, with an export turnover of US\$20.6 billion. Vietnam recorded a trade surplus with the US at US\$17.5 billion during the period, down by 23.4% yoy.

Vietnam's consumer price index (CPI) in the first quarter of 2023 increased by 4.2% yoy. In March alone, the CPI rose by 3.4% yoy, but dropped by 0.2% mom.

- During the first quarter of 2023, exports of all sectors in the country recorded a downward trend, mainly due to global economic uncertainty and inflation pressure worldwide. However, export earnings of garment and textile jumped by 17.4%, smartphones and parts by 15.0% yoy, and electronics, computers and parts by 10.9% yoy.
- Meanwhile, the changing export requirements in developed countries may pose additional challenges to Vietnamese exports, as many developed countries are increasingly concerned about consumer safety, sustainable development, and climate change issues. Some countries plan to set new standards and regulations for imported goods, regarding the supply chain, clean raw materials, labour, and the environment.
- In 2022, the inflation rate of Vietnam was 3.15%, much lower than the average rate of 7.85% in Southeast Asia.
- The relatively high inflation rate for 1Q23 was mainly due to the rising price of housing and construction materials (up 7.2%) and food products (4.5%).
- According to the Ministry of Finance, the inflation pressure is expected to continue into the second quarter, since the domestic prices of many local commodities are heavily affected by international prices. The Ministry projects a 3.9 - 4.8% inflation in 2023.

Vietnam

Latest Developments

FBIC's take

Others

On 22 March, the Organization for Economic Cooperation and Development (OECD) and Vietnam signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAAC), bringing the total number of jurisdictions participating in the Convention to 147.

The MAAC aims to reform international tax rules and ensure that multinational enterprises pay a fair share of tax. Under the policy of global minimum tax (GMT) initiated by the OECD, enterprises with annual revenues of 750 million euros or above are eligible for a GMT of 15%, effective 2024.

- The signing of MAAC will pave the way for Vietnam to exchange information with 146 other jurisdictions. Also, Vietnam joins international efforts towards greater tax cooperation and exchange of information, and further strengthens the reach of the Convention in Asia.
- However, the GMT policy is also a challenge for the country to attract foreign direct investment (FDI). According to the media, over 1,000 foreign enterprises in Vietnam will be affected when the GMT policy comes into force.
- Vietnam's current tax incentives for foreign investment are considered much more attractive than those of other Asian countries. Specifically, Vietnam offers preferential rates of 10%, 15%, and 17% to foreign enterprises, depending on the industries, sizes, and locations of the investment. Some investors are even offered special rates of 5%, 7%, and 9%. Vietnam also offers other incentives such as tax exemptions and reductions for certain periods. Currently, some corporations in Vietnam are entitled to tax incentives ranging from 2.75% to 5.95%, much lower than the GMT rate.
- To maintain the country's attractiveness for investment, Vietnam needs to build an effective investment policy and develop a new, holistic investment promotion plan to lure strategic foreign investors. Before the GMT comes into force, Vietnam may have to provide solutions to compensate enterprises that are currently enjoying favourable tax incentive packages but will be subject to a GMT of 15% on their profits.

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