

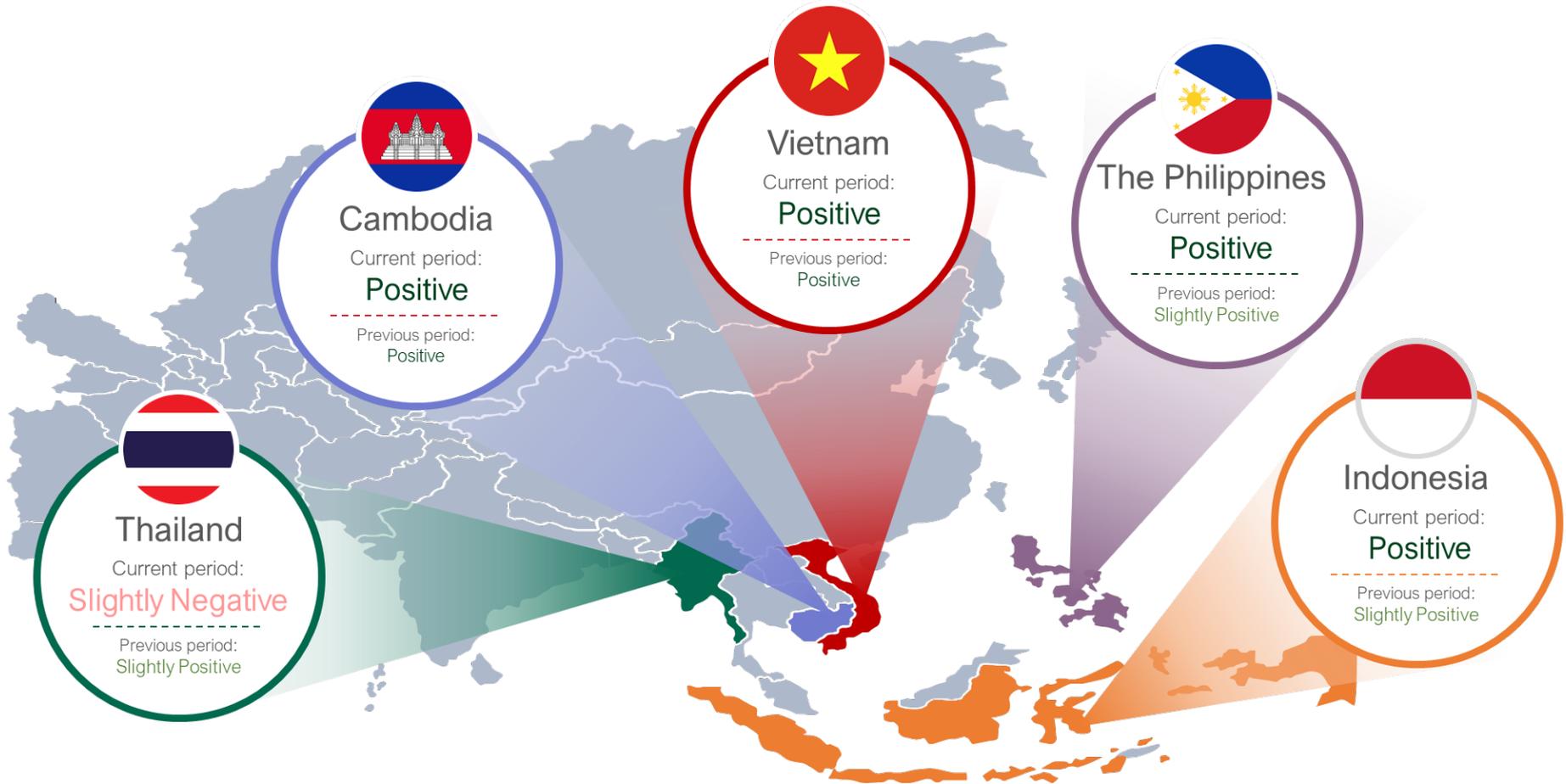
Asia Sourcing Update

Cambodia, Indonesia, the Philippines, Thailand and Vietnam

Southeast Asia | South and West Asia



Highlights: 12-month sourcing outlook



Cambodia

Fast facts



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

12-Month Sourcing Outlook: Positive

The Cambodian government has successfully managed the latest wave of COVID-19 outbreak caused by the Omicron variant, even though it relaxed the travel restrictions in November 2021. Daily Omicron cases has decreased to below 20 cases a day during April after it reached a record of 736 on 20 February. Exports have grown strongly since the start of this year, driven by increasing new orders in the garment-related sectors and the commencement of implementation of two regional free trade agreements, the Regional Comprehensive Economic Partnership (RCEP) and the Cambodia-China FTA (CCFTA), both effective on 1 January 2022.

It is expected that the high vaccination rates (92.8% of total population with first dose and 88.2% fully vaccinated as of 19 April 2022) and the continued expansion of garment exports will support the strong growth of the Cambodian economy this year.

Cambodia

Latest Developments

FBIC's take

Macroeconomic Trends

Cambodia's merchandise exports increased by 25.7% yoy to US\$5.7 billion in the first quarter of 2022. In March 2022, exports increased by 34.2% yoy to US\$2.1 billion, according to the latest report of the General Department of Customs and Excise.

During the first quarter of 2022, the exports of the GFT sector (garments, footwear, travel goods and other textile-related products) increased by 24.8% yoy to US\$3.2 billion, accounting for 55.1% of Cambodia's total goods exports.

The US is the biggest market for Cambodia's exports during the period, with an export value of US\$2.2 billion (rose 43.7% yoy), followed by Vietnam, China, and Thailand with US\$758.8 million, US\$321.8 million, and US\$318.2 million, respectively.

- Cambodia's strong exports growth in the first quarter of 2022 was supported by the effective COVID-19 control measures adopted by the Cambodian government and the major free trade agreements that started to take effect this year.
- The high vaccination rates and low infection rate enabled the country to reopen its borders fully last November. This has greatly benefited the Cambodian garment sector at a time when other garment producing countries were still suffering from the impact of the pandemic.
- Going forward, the RCEP trade pact and the CCFTA, both of which have entered into force on 1 January 2022, will help boost Cambodia's trade growth. While the US was still the top export market of Cambodia, China became the largest trading partner of Cambodia with a trade value of US\$2.9 billion during the period of January-March 2022, up 30% yoy.

Cambodia

Latest Developments

FBIC's take

Industrial Developments

On 22 March 2022, Cambodia launched the 'Cambodia Garment, Footwear and Travel Goods (GTF) Sector Development Strategy 2022-2027', aiming to further strengthen and support the development of the GTF sector.

The vision of the strategy is 'to develop the GTF industry in Cambodia into an environmentally sustainable, high value-added industry, focusing on products that can be sold at high prices, competitive and fundamentally supportive of economic diversification by 2027,' according to Phan Phalla, Secretary of State at the Ministry of Economy and Finance.

Five key measures are launched under the strategy to achieve the vision, including further strengthening human resource capabilities to increase productivity and create viable career paths for workers; continuing to improve working conditions and worker welfare; promoting domestic and foreign investment in high value-added industries and focusing on high-value and unique products; attracting investment in connected industries; and promoting market diversification for GTF exports.

On 16 March 2022, the Garment Manufacturers Association in Cambodia (GMAC) and the European Chamber of Commerce in Cambodia (EuroCham) signed in Phnom Penh a memorandum of understanding (MoU) to foster closer cooperation between the two associations and their members, and to support European garment companies and fashion brands in Cambodia.

Under the MoU, EuroCham will set up a public training programme with the Cambodian Garment Training Institute in Phnom Penh, focusing on sustainable textile sourcing, occupational safety and health and compliance.

Other areas of cooperation include sustainable production-related issues and environmental awareness along the production chain, exploring opportunities of Industry 4.0, and assisting European brands with responsible sourcing from Cambodia.

- GFT is an important export sector of Cambodia, accounting for over 70% on average of Cambodia's annual export since 2008. In 2021, Cambodia exported US\$11.4 billion worth of GFT products, a 15.2% growth over 2020.
- However, the Cambodian GFT sector is currently at the low-value segment of the global supply chain. The sector is heavily dependent on imported raw materials, equipment, and designs. It also relies on a low-skilled workforce and a labour-intensive model driven by low wages.
- This strategy is actually the first strategy of Cambodia to spur the growth of the GFT sector both in the short and medium-to-long term. It shows Cambodia's ambition to transform its low value-added manufacturing into high value-added and sustainable production, so as to meet the upcoming competition and environmental requirements.

- The EU is a key destination of Cambodian textile-related exports. In 2021, Cambodian exports of textile-related products to the EU was US\$2.7 billion, accounting for 23.6% of Cambodia's total textile-related exports in the year.
- However, as the GMAC chairman Kong Sang points out, the success and export growth of the Cambodian garment industry are in large part attributed to the preferential market access to the EU market granted by the Everything But Arms (EBA) scheme under the Generalised System of Preferences (GSP) of the EU, which was partially withdrawn from Cambodia on 12 August 2020. Therefore, it is important for Cambodian exports to further strengthen its competitiveness, so as to maintain its growth momentum. This MoU is considered to be an important step towards this goal through capacity building in specific areas set and through joint advocacy to influence relevant policies.

Indonesia

Fast facts



GDP (Oct-Dec 2021)
5.0% yoy ▲



Manufacturing PMI (Mar 2022)
51.3 ▼



CPI (Mar 2022)
+2.64% yoy



Merchandise exports (Feb 2022)
+34.2% yoy ▼



Textiles and textile products
+23.6% yoy ▼



Footwear
+29.7% yoy ▼



Sports requisites
+41.1% yoy ▲



Furniture
+5.0% yoy ▼



Exchange rate (USD: IDR, as of 31 Mar 2022)
14,357 (0.6% depreciation year-to-date)

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

Source: StatisticsIndonesia, BankIndonesia, IHS Markit

12-Month Sourcing Outlook: Positive

Indonesia's Purchasing Managers' Index (PMI) rose from 51.2 in February to 51.3 in March, reflecting a continuous recovery of production activities with the effective control of COVID-19 variants spread since late January. Moreover, the new healthy lifestyle, widespread use of digital technology, diversification of global supply chains and new investments are the key drivers of the recovery of the Indonesian economy.

However, the economy is still facing numerous global challenges. The World Bank has revised downward the 2022 economic growth forecast for Indonesia from 5.2% to 5.1% due to the Russia-Ukraine war and related inflation pressure on food and energy prices.

Indonesia

Latest Developments

FBIC's take

Policies and Regulations

The Ministry of Finance adjusted the value-added tax (VAT) rate from 10% to 11%, effective 1 April. The increase in VAT is aimed at redistributing wealth from the rich to the poor and reducing the economic gap. Considering the current situation of the domestic economy, the government raised the VAT rate by only 1 ppt.

The VAT rate adjustment has been accompanied by a reduction in personal income tax rate (from 15% to 5%) for individuals with income below 60 million rupiah.

The Indonesian government decided to postpone the imposition of carbon tax, which should have been effective on 1 April. In the coming three months, the government will make the new carbon tax scheme synchronize with the country's roadmap for reaching the zero-emission goal by 2060.

Under the initial plan, the government wanted to introduce a US\$2.1 tax per metric ton of carbon dioxide equivalent (CO₂e) emission, starting with the coal-fired power factories.

- Certain goods and services will be provided with VAT-free facilities, such as basic foodstuff, water, electricity, health services, education services, social services, insurance services, financial services, public transportation services, labour services, etc.
- The government also lowered taxes for micro-, small- and medium-sized enterprises (MSME) with a turnover of up to 500 million rupiah, and applied a final VAT at certain smaller rates, specifically 1%, 2% or 3%.
- The government has committed to formulating policies to redistribute income and reduce income inequality, so as to support economic recovery and help vulnerable groups.

- Indonesia, where coal powers 60% of the electricity use, is the 8th largest greenhouse gas emitter in the world. The planned implementation of carbon tax is part of the country's efforts to phase out the dirty fuel and reach the zero-emission goal.
- However, due to the recent increases in energy prices, the government decided to delay the tax implementation. The country's inflation rose from 2.1% yoy in February to 2.6% yoy in March, the highest level in nearly two years.
- In fact, the proposed carbon tax rate of Indonesia would be among the lowest in the world. Japan, one of the major coal importers from Indonesia, imposes a US\$3 carbon tax. Columbia sets the tax at US\$4.45, while France at US\$49.
- According to the Ministry of Finance, unbalanced carbon taxes worldwide may slow down Indonesia's effort to reach the zero-emission goal. However, as the country is still struggling to restore the economy from the pandemic, the Indonesian government has decided to implement the carbon tax gradually and more cautiously.

Indonesia

Latest Developments

FBIC's take

Other Issues

On 28 March, Jakarta's provincial government announced the ten development goals for Jakarta in 2023, after thorough discussions in the regional development planning forums (Musrenbang) throughout the capital.

The theme of the 2023 Musrenbang is to accelerate Jakarta's excellence to become a resilient, inclusive, and equitable city with global competitiveness.

Revealed by Jakarta's governor Anies Baswedan, the ten development goals cover various areas, including reduction of inequality, improvement of public services, urban health and urban infrastructure, economic growth, digital transformation, empowerment of the workforce, and low-carbon development.

- As Indonesia's capital, Jakarta is the gateway between Indonesia and the rest of the world. In the future, Jakarta will no longer be the capital of the country, but will continue to be the center of economy, culture and cross-ethnic activities.

The Philippines

Fast facts



GDP (Oct–Dec 2021)
+7.7% yoy ▲



Manufacturing PMI (Mar 2022)
53.2



CPI (Mar 2022)
+4.1% yoy



Merchandise exports (Feb 2022)
+15.0% yoy ▲



Woodcrafts and furniture
-18.5% yoy ▼



Garments
+13.7% yoy ▲



Travel goods and handbags
+38.7% yoy ▼



Exchange rate (USD: PHP, as of 31 Mar 2022)
51.960 (2.3% depreciation 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: Positive

The Philippine economy has been on its way to a full recovery since February 2022 with the COVID-19 case numbers dropping continuously and the gradual relaxation of anti-COVID restriction measures. In March, the S&P Global Philippines Manufacturing PMI climbed to a three-year high at 53.2. The Philippine Board of Investment, an agency of the Department of Trade and Industry, expected a robust first-quarter GDP performance and believed that manufacturing output will continue to expand in the following months. Despite the effects of the Russia-Ukraine conflict on the global economy, the Asian Development Bank has kept its 6% growth forecast for the Philippines for the year 2022, noting that the Philippines is in a good position to weather the latest bout of geopolitical tensions in Europe.

The Philippines

Latest Developments

FBIC's take

Macroeconomic Trends

The Philippines' exports in February 2022 increased by 15.0% yoy to US\$6.2 billion.

Electronic products continued to be the country's top exports, with a total export value of US\$3.4 billion, accounting for 55.9% of the country's total exports in the month. This was followed by other manufactured goods (US\$392.0 million, accounting for 6.4% of the total export value); ignition wiring set and other wiring sets used in vehicles, aircrafts and ships (US\$204.8 million, 3.3%); cathodes and sections of cathodes, of refined copper (US\$202.2 million, 3.3%); and coconut oil (US\$195.7 million, 3.2%).

The US was the Philippines' largest export market, accounting for 15.7% of the total exports value of the Philippines in February 2022 (US\$1.0 billion), followed by Japan (US\$900.0 million, 14.6%), China (US\$806.0 million, 13.1%), Hong Kong (US\$783.0 million, 12.7%), and Singapore (US\$410.0 million, 6.7%).

The Philippines' net inflow of foreign direct investment (FDI) in January 2022 decreased by 16.0% yoy to US\$818.5 million. Japan was the largest foreign investor of the Philippines with a net FDI inflow of US\$61.4 million in January 2022; followed by the US (US\$13.1 million), the Netherlands (US\$9.7 million), and Malaysia (US\$9.66 million).

The FDI inflow was directed mainly to manufacturing (US\$60.8 million), financial and insurance activities (US\$20.4 million), real estate activities (US\$9.9 million), and administrative and support service activities (US\$7.1 million).

- The Philippines' exports have been increasing for 12 consecutive months since March 2021, an impressive performance especially as the rest of the world was hit hard by waves of COVID-19 outbreaks over the past year.
- In February and March, the Philippine government further relaxed the restriction measures in view of the continuous decrease in COVID-19 infection cases. Besides, so far the Philippine economy has not been affected much by the Russia-Ukraine conflict. It is expected that the growth momentum of Philippine exports will continue in the coming months.

- The decline in FDI is due largely to investor concerns over the resurgence of the Omicron cases in the country and the re-imposition of stricter quarantine measures in early January 2022.
- In fact, the prospect for FDI inflows this year is promising for the country, as a series of reforms to ease or remove restrictions on foreign investment have been carried out earlier this year. These reforms include the amendments to the Retail Trade Liberalization Act, the Public Service Act, and the Foreign Investment Act.

The Philippines

Latest Developments

FBIC's take

Industrial Development

In March 2022, the face mask manufacturer Medtecs International Corp. Ltd. (Medtecs) discussed with the Philippine Board of Investments (BOI) about its plan to develop a US\$1.9-billion industrial town for textile manufacturing and electric vehicle (EV) assembly. The development will be located at the Medtecs Compound in Mariveles City and is expected to generate around 125,000 jobs in seven years.

The planned industrial town would include production facilities for EVs, personal protective equipment, and integrated textile manufacturing (using tropical fibers, particularly abaca, bamboo and banana), among others.

- This project will fill the gaps in the country's textile supply chain by bringing yarn production, spinning, and weaving into the country, including the production of recycled polyester textile or a mix of polyester with recycled materials from post-consumer bottles.
- According to the Philippines' current incentive policies, the planned business activities of Medtecs are all listed in the Strategic Investment Priority Plan and, as such, are eligible for incentives under the Corporate Recovery and Tax Incentives for Enterprises Act, in which highly desirable projects with minimum investment capital of 50 billion Philippine pesos or at least 10,000 job generation may be entitled to incentives for up to 40 years.

Policy & Regulations

On 2 March 2022, President Rodrigo Duterte signed into law the Republic Act (RA) 11647, which amends the Foreign Investments Act.

The new law allows, for the first time, international investors to set up and fully own domestic enterprises (including micro and small enterprises) in the Philippines.

Under the new law, an Inter-Agency Investment Promotion Coordination Committee (IIPCC) will be set up and tasked with integrating and coordinating all promotion and facilitation efforts to encourage foreign investments and developing both a medium-term and long-term comprehensive and strategic Foreign Investment Promotion and Marketing Plan (FIPMP) that would operate as the national framework for the promotion of foreign investments in the country.

- This is another effort by the Philippine government to relax its controls on foreign investment and further open its economy to foreign investors. The OECD FDI Regulatory Restrictiveness Index based on 2020 data shows that the Philippines has the most restrictive foreign investment laws among ASEAN countries.
- Over the past few months, the Duterte government also amended the Public Service Act to allow 100-percent foreign ownership of public services and amended the Retail Trade Liberalization Act to reduce the minimum paid-up capital for foreign retail enterprises. These reforms are welcomed by foreign investors as timely actions that address the difficulties of foreign-owned firms.

Thailand

Fast facts



GDP (Oct–Dec 2021)
+1.9% yoy ▲



Manufacturing PMI (Mar 2022)
51.8 ▼



CPI (Mar 2022)
+5.7% yoy



Merchandise exports (Mar 2022)
+19.5% yoy ▲



Textiles and apparel
+11.5% yoy ▼



Furniture
+11.9% yoy ▼



Footwear
+23.5% yoy ▼



Exchange rate (USD: THB, as of 31 Mar 2022)
33.305 (0.2% 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 Negative

Thailand's manufacturing sector expanded for a third straight month in March this year as shown by the latest S&P Global PMI data. Export growth in the first two months of 2022 also beat expectations. The Thailand Industry Sentiment Index (TISI) rose to 89.2 points in March, the highest in 25 months. More encouragingly, international tourist arrivals increased to an average of 11,623 a day in the first week after the pre-travel COVID-19 test requirement had been scrapped on 1 April without aggravating the country's COVID-19 pandemic situation.

However, the Russia-Ukraine conflict is posing huge uncertainty on the prospect of Thailand's economy. Driven by the price increases for oil, electricity and food, inflation in March hit a 13-year high of 5.73%. The World Bank slashed its 2022 Thai economic growth forecast from 3.9% to 2.9%, and the Bank of Thailand lowered its forecast from 3.4% to 3.2%, both citing the Russia-Ukraine conflict as a key factor for the downward revisions.

Thailand

Latest Developments

FBIC's take

Macroeconomic Trends

Thai exports reached US\$44.7 billion in January-February 2022, increased by 12.2% yoy. In February 2022, exports increased by 16.2% yoy to US\$23.5 billion.

The top five export markets with the highest growth in the January-February period are: Russia (33.4% yoy), the other countries of ASEAN-5 (Indonesia, Malaysia, the Philippines, Singapore, 31.5% yoy), Hong Kong (29.8% yoy), South Korea (28.9% yoy), and the US (27.2% yoy).

- Thailand's export performance in the first two months of 2022 beat expectations, due primarily to the higher international demand with the recovery of the global economy. The Regional Comprehensive Economic Partnership (RCEP), which came into force on 1 January 2022, is another factor driving the export growth. According to the director-general at the Department of Foreign Trade, from 1 January to 28 February, Thai exporters had sought certificate of the country of origin for RCEP exports valued at US\$35.6 billion.
- However, more severe impact of the Russia-Ukraine conflict which broke out in late February is likely to be seen in the coming months, as the war has already pushed up the costs of oil, natural gas and rare minerals. The Thai National Shippers' Council (TNSC) reported in April that the price of Thai export goods increased by 5-10% due to the rise in production costs resulting from the conflict, and it adjusted downward its export estimate for the first quarter from 7-8% to around 5%. The TNSC also expected that export growth would fall below 5% in the second quarter, as the ongoing war will not only cause raw materials shortages but will also disrupt the global supply chain.

Policy & Regulations

On 2 March 2022, the Thai cabinet approved additional special incentives for seven economic zones in its Eastern Economic Corridor (EEC).

The seven economic zones comprise: EEC for aviation (EECa), EEC for innovation (EECi), EEC for digital (EECd), EEC for the medical hub (EECmd), EEC of genomics (EECg), EEC of high-speed rail (EECh), and the Digital and High Technology Centre, Ban Chang, Rayong.

The EEC Office is allowed to offer privileges to investors in the seven zones on a case-by-case basis.

Details of the special incentives had been scheduled to be announced a few days after the approval, but were been available to the public yet as of end of April.

Applications for these incentives must be filed by the end of 2022.

- The EEC covers a combined 30,000 rai (48 sqkm) in the provinces of Chon Buri, Rayong and Chachoengsao to accommodate investment in targeted industries, focusing largely on advanced technology. The EEC is regarded as the Thai government's flagship development project and part of the government's strategy to move Thailand towards a high-tech economy.
- Thailand's investment promotion and facilitation policies are usually handled by the BOI. The delegation of the authority to issue incentives to the EEC Office would increase the flexibility in implementing these incentives and thus increase the attractiveness of the seven economic zones to investors.

Thailand

Latest Developments

FBI C's take

Policy & Regulations

At the board meeting of the Board of Investment (BOI) of Thailand on 7 April chaired by the prime minister, BOI officials urged the Thai government to accelerate the revision of investment incentives in coping with the planned reform of the international tax regime.

The reform of the international tax system was finalised at the OECD on 8 October 2021, when the *Statement on the Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy* (hereafter the Statement) was agreed by 136 countries and jurisdictions under the OECD/G20 Inclusive Framework on BEPS*.

The Statement introduces a global minimum corporate tax rate set at 15%, to be imposed from 2023 onward. The minimum tax will apply to Multinational Enterprises (MNEs) with revenue above 750 million euros and governments in countries where parent companies are located will be allowed to collect a higher corporate tax until the 15% rate is reached if affiliated companies that invest worldwide pay less than 15% in corporate tax.

The BOI is conducting a study on the impact of the OECD's requirements on the investment climate in Thailand, evaluating Thailand's current privilege structure in order to carry out additional measures to attract investment and maintain Thailand's competitiveness under the changed international tax regime.

** BEPS, Base erosion and profit shifting, refers to tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to locations with no/low tax rates and no/little economic activity.*

- The new global tax regime brought up by the OECD tries to ensure that MNEs pay their fair share of tax. With the new rules introduced by the Statement, for companies organising their affairs in a way that their profits in a given jurisdiction (whether in a low-tax jurisdiction or otherwise) are subject to an effective tax rate lower than the minimum rate, those of their profits would still be taxed at a minimum rate of 15%.
- Under such circumstances, tax holidays or reductions become less effective in attracting foreign direct investment, and therefore additional or alternative incentives may need to be provided by host countries to remain attractive to foreign investors.
- Thailand currently offers a corporate income tax exemption for up to 13 years and a subsequent 50% tax reductions for 3 to 5 years to investors in Thailand, depending on the business activities they invest in and the location of their investments.

Vietnam

Fast facts



GDP (Jan-Mar 2022)
+5.0% yoy ▼



Manufacturing PMI (Mar 2022)
51.7 ▼



CPI (Mar 2022)
+2.41% yoy



Merchandise exports (Mar 2022)
+17.1% yoy ▲



Textiles and garments
+12.1% yoy ▼



Toys and sports goods
-0.2% yoy ▼



Wood and wooden products
+1.7% yoy ▼



Footwear
+17.0% yoy ▲



Exchange rate (USD: VND, as of 31 Mar 2022)
23,100 (0.20% 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: Positive

In the first quarter this year, Vietnam's economy grew steadily at 5.0% yoy. The manufacturing sector was the key driver of growth, especially the electronics sector. However, the Vietnam Manufacturing Purchasing Managers' Index (PMI) fell to 51.7 in March from 54.3 in February, as the new wave of COVID-19 outbreak since mid-March led to a labour shortage.

In addition, the surge in global oil prices amidst the Russia-Ukraine crisis poses new challenges to economic recovery in Vietnam. As Vietnam is importing an increasing amount of crude oil and refined petroleum, the spiraling oil prices will greatly increase production costs and the costs of living in the country, thereby slowing down the country's economic recovery.

Vietnam

Latest Developments

FBIIC's take

Macroeconomic Trends

In March, Vietnam's exports rebounded by 45.5% month on month to US\$34.1 billion.

In the first quarter, exports increased to US\$88.6 billion, up by 12.9% yoy. 16 export items generated export turnover of over US\$1 billion each, accounting for 83.4% of the total export turnover; of which, phones and components was the largest export item, raking in US\$14.2 billion.

- The US remains Vietnam's largest export market with an export value of US\$25.6 billion in the first quarter, followed by China, the EU, ASEAN, South Korea and Japan.
- Backed by the global economic recovery and the implementation of the Free Trade Agreements (FTAs) Vietnam has joined, it is expected that the country's exports will continue to grow in the coming months.
- Moreover, the ongoing waves of overseas investment, driven by supply chain restructuring of foreign corporations, will boost trading activities and exports of Vietnam in the longer term.

Industry development

In March, Vietnam's government has signed Decision No. 360/QD-TTg to deepen the restructuring of state-owned enterprises (SOEs) in 2021-25. The Decision aims to improve the operational efficiency and competitiveness of SOEs, with the aid of technology and innovative management.

- Vietnam's SOEs play a dominant role in certain important sectors of the country, such as energy, telecommunications, and banking, contributing roughly 30% of the country's GDP.
- At the start of 2021, approximately 500 firms in Vietnam were 100 percent owned by the government; and the state holds controlling shares of nearly 200 enterprises. SOEs currently hold a great amount of resources in Vietnam, including around 10% of equity in the market, 26% of total production and business capital, and 23% of the value of fixed asset and long-term investments. However, the overall productivity and business efficiency of SOEs remain low.
- The newly signed Decision would focus on resolving the issues facing the weak and loss-making SOEs. At the same time, it would help profitable SOEs to further develop and enhance their business and production efficiencies.

Vietnam

Latest Developments

FBI C's take

Labour and Compliance

On 23 March, Vietnam's government decided to raise workers' monthly overtime cap from 40 to 60 hours. The decision is effective from 1 April till the end of this year.

The annual overtime cap has also increased by 50% from 200 hours to 300 hours for almost all sectors. In the past, only selected sectors which are prioritized by the government for economic growth had an overtime cap of 300 hours.

On 12 April, the National Wage Council approved a proposal for raising minimum wages, effective from 1 July. If the proposal is approved by the government, the monthly minimum wages in Regions 1, 2, 3 and 4 will increase by 180,000 Vietnamese dong, 210,000 dong, 240,000 dong and 260,000 dong, to 4.6 million dong, 4.13 million dong, 3.67 million dong and 3.33 million dong, respectively.

- Regarding the new overtime cap, some companies have urged to further raise the annual overtime cap to 400-500 hours, in view of the persistent labour shortages in Vietnam. Some point out that the unused overtime limit from the low season cannot be carried forward, while the overtime limit is not enough for the peak season or for fulfilling urgent orders.
- However, Le Dinh Quang from the Vietnam General Confederation of Labour welcomed the government's decision and emphasized that the increased overtime cap should strictly be a short-term measure for supporting economic recovery.
- Quang also pointed out that many workers had resigned in the first quarter this year due to low pay. The postponement of raising minimum wage over the past two years amid COVID-19 is one of the factors leading to labour shortages in Vietnam. Many companies offer salaries a bit higher than the minimum wage, which are still not enough to cover the continuously increasing living costs.

- According to the National Wage Council, the minimum wage hike would increase the production costs of enterprises by an average of 0.5%-0.6%; for textile and garment enterprises, costs would rise by 1.1-1.2%.
- Eight domestic and foreign industry associations have counter proposed the government to postpone the minimum wage hike until 1 January 2023, instead of mid-2022 as proposed by the National Wage Council. According to these associations, the delay in wage hike will cushion enterprises from the pandemic disruption. Otherwise, the enterprises may have to lay off workers and scale down production, and will not be able to fulfill orders.

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