EUROPEAN BUSINESS ORGANISATION
WORLDWIDE NETWORK

BUSINESS SENTIMENT REPORT 2024-2025

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MESSAGE

from the Chair of EBOWN, Jason Collins

On behalf of the European Business Organisation Worldwide Network (EBOWN) Asbl, I am pleased to present the **Business Sentiment Report 2024-2025**, a collective analysis reflecting the insights from European Business Organisations (EBOs) across various regions. This report embodies our commitment to fostering European business interests worldwide and serves as a vital resource for stakeholders navigating complex global markets.

The EBO network of European Chambers and Business Councils continues to play an essential role in advocating European business interests worldwide, serving as a bridge between local markets and European companies navigating complex regulatory, economic, and political environments. We extend our sincere gratitude to each EBO that has contributed its expertise and data, gathered from in-depth research and advocacy efforts within their respective countries. This collaborative effort strengthens our shared mission to support and enhance European business interests across diverse markets.

The Business Sentiment Report 2024-2025 is a comprehensive resource designed to inform and guide European companies operating globally. The report outlines key factors that shape the current and future economic landscape in each EBO's country, including projections of economic changes, regulatory shifts, and sectoral growth opportunities that align with government priorities, as well as potential risks, such as political and legal challenges.

Additionally, it highlights the importance of aligning with EU trade and commerce policies, along with critical themes like Environmental, Social, and Governance (ESG) standards and supply chain resilience.

As a facilitator of dialogue and collaboration between our network's member organisations and EU institutions, EBOWN is dedicated to supporting European businesses through informed guidance on sustainable growth and alignment with ESG standards. Our efforts continue to align closely with the EU's Global Gateway mission, which underscores our commitment to sustainable, inclusive development and responsible business practices worldwide.

Looking forward, EBOWN remains committed to supporting stakeholders through innovative initiatives that enhance collaboration and market insight. Future efforts will focus on expanding our network's research capabilities, advancing alignment with EU policies, and strengthening partnerships with local governments, the EU Commission, and key stakeholders. Through these initiatives, EBOWN is dedicated to fostering an environment that empowers European companies to thrive and succeed globally.

We trust this report will serve as a strategic resource for informed decision-making, policy formulation, and strategic planning. We invite you to share any feedback or insights that may arise from the report's findings, as we remain open to discussions that can further strengthen our shared mission.

Thank you for your continued engagement and support. We look forward to another year of effective collaboration and shared achievements.

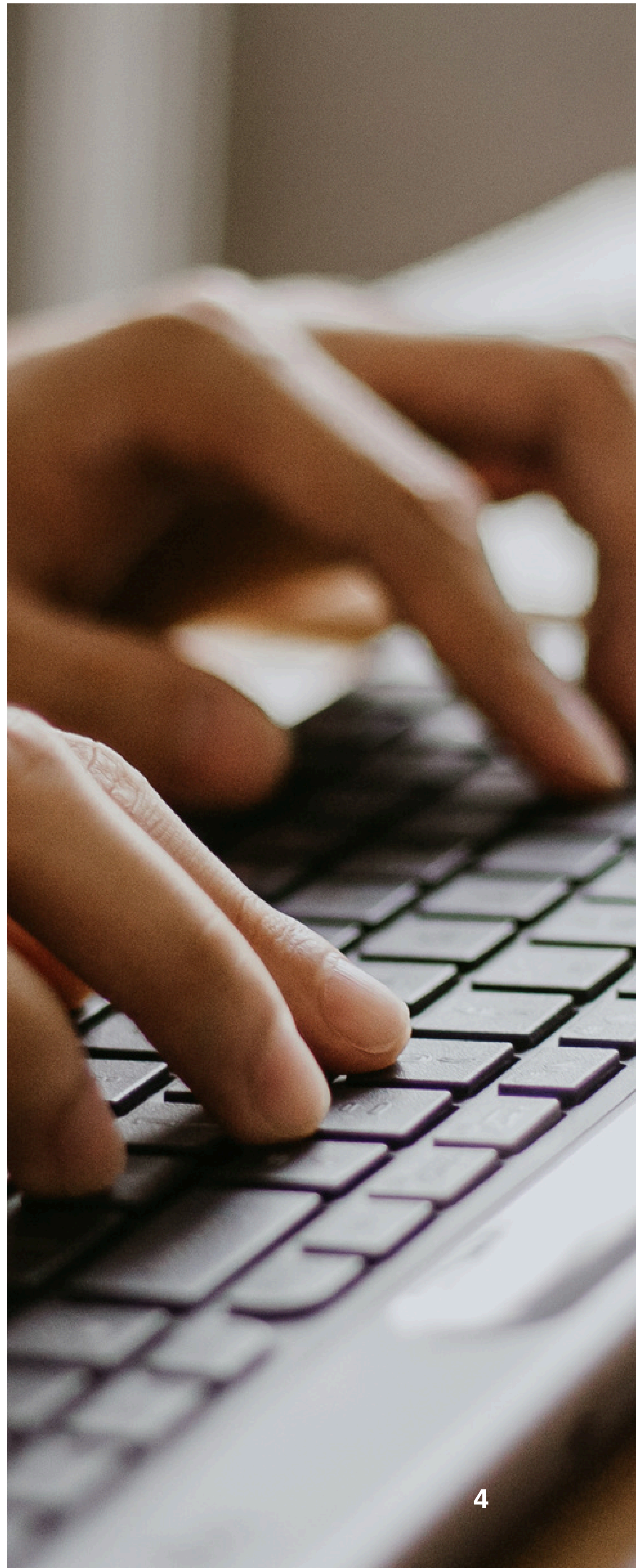
METHODOLOGY

The creation of the EBOWN Business Sentiment Report 2024-2025 was a collaborative effort involving individual European Business Organisations (EBOs) from diverse regions, including Africa, the Americas & Caribbean, ASEAN, East Asia & Pacific, Europe & Eastern Partnership, and the South & Middle East. These EBOs, representing the interests and activities of European businesses in their respective countries, contributed valuable data, insights, and analyses drawn from their published position papers.

To ensure consistency and accuracy, a standardised template outlining the required data sets was provided to the EBOs. This template guided their input, enabling them to compile and share insights effectively based on their local expertise and observations.

Their inputs provided a detailed perspective on the economic landscapes, challenges, and opportunities within each region. The report harnessed the local expertise of these EBOs, leveraging their in-depth understanding of market conditions, regulatory frameworks, and industry dynamics to ensure accuracy and relevance.

The data and insights presented in the report were primarily based on the collective contributions shared by the EBOs, resulting in a comprehensive overview of the business sentiment across various regions.



ABOUT EBOWN

"The EBOWN is committed to be the voice of the European business abroad."

The European Business Organisation Worldwide Network (EBOWN) is an association of European chambers and business organisations from over fifty countries worldwide. The network has grown to include member organisations representing over 30,000 European businesses.

EBOWN was established in 2001 and was legally registered in 2011 at Brussels, Belgium. Over the past few years, it has evolved from merely a network into a worldwide organisation that provides advocacy representing 57 markets outside the European Union.

The purpose of our network is to coordinate activities and exchange at both global and regional levels and to facilitate effective dialogue between our network and member organisations with the EU institutions in a truly 'Team Europe' approach.

Our on-ground expertise, networks and profile enable us to be a trusted partner for EU Delegations and other arms of the EU institutions for two-way communication on market conditions and intelligence and for joint efforts to advocate for improved access and opportunities for European business (as a whole) to succeed in third countries.

OUR MISSION AND VISION

Our mission is to be a trusted catalyst in creating an environment where European businesses and the community prosper in third markets.

Our vision is to emerge as the foremost business network, representing European businesses in every nation outside the EU and serving as their primary support and advocacy body.

OUR NETWORK PRIORITIES

Support
To support the development of European Business Organisations in markets outside the European Union.

Encourage
To encourage advocating for European Business and producing position papers.

Internationalisation
To support the internationalisation of European Small, Medium, Enterprises (SMEs) in third markets.

Cooperation
To strengthen the links between EU institutions and EBOs in third markets.

Economic Security
To contribute to the economic security of the European Union, through increased business dialogue in third markets.

Economic Diplomacy
To further the EU's outreach on Economic Diplomacy.

Team Europe
To join forces to achieve better efficacy & impact by sharing our resources and knowledge as Europe.

Global Gateway
To align efforts under the Global Gateway initiative, achieving greater efficacy and impact through shared resources and collective knowledge of Europe.

OUR GLOBAL NETWORK

AFRICA

- Chambre de Commerce Européenne du Bénin (Link)
- Eurocham Burkina Faso (Link)
- European Chamber of Commerce Cameroon (Link)
- European Chamber in Ethiopia (Link)
- EuroCham Ghana (Link)
- Chambre de Commerce Européenne en Côte d'Ivoire (Link)
- European Chamber of Commerce in Liberia (Link)
- Eurocham Mali (Link)
- Associação dos Empresários Europeus em Moçambique (Link)
- Chambre Européenne de Commerce du Niger (Link)
- Organisation of European Business in Nigeria (Link)
- European Business Chamber in Rwanda (Link)
- Chambre de Commerce Européenne au Sénégal (Link)
- European Union Chamber of Commerce and Industry of Southern Africa (Link)
- European Chamber of Commerce in Sudan (Link)
- European Union Business Group Tanzania (Link)
- Chambre de Commerce Européenne au Togo (Link)

AMERICAS & CARIBBEAN

- Eurocamaras Brazil (Link)
- Eurocámara Argentina (Link)
- European Union Chamber of Commerce in Canada (EUCCAN) (Link)
- EuroChile (Fundación Empresarial Comunidad Europea Chile) (Link)
- Eurocámara de Comercio de la República Dominicana (Link)
- European Business Chamber in Trinidad and Tobago (Link)
- Federacion de Camaras Binacionales de Comercio e Industria del Espacio Economico Europeo (FEDEUROPA) (Link)

SOUTH ASIA AND MIDDLE EAST

- European Union Chamber of Commerce in Bangladesh (Link)
- European Economic Chamber Nepal (Link)
- Federation of European Business in India (Link)
- European Chamber of Commerce in the Kingdom of Saudi Arabia (ECCKSA) (Link)
- European Chamber of Commerce of Sri Lanka (Link)

ASEAN

- European Chamber of Commerce in Cambodia (Link)
- European Business Chamber of Commerce in Indonesia (Link)
- European Chamber of Commerce and Industry in Laos PDR (Link)
- EU-Malaysia Chamber of Commerce & Industry (Link)
- EuroCham Myanmar (Link)
- European Chamber of Commerce of the Philippines (Link)
- Eurocham Singapore (Link)
- European Association of Business and Commerce Thailand (Link)
- Eurocham Vietnam (Link)

EAST ASIA AND PACIFIC

- European Australian Business Council (Link)
- European Union Chamber of Commerce in China (Link)
- European Chamber of Commerce in Hong Kong (Link)
- European Business Council in Japan (Link)
- European Chamber of Commerce in Korea (Link)
- Macau European Chamber of Commerce (Link)
- Mongolian European Chamber of Commerce Industry & Business (Link)
- New Zealand European Business Council (Link)
- PNG-Europe Business Council Inc (Link)
- European Chamber of Commerce Taiwan (Link)

EUROPE AND EASTERN PARTNERSHIP

- European Business Association Armenia (Link)
- European Belarusian Business Association (Link)
- European Business Association Georgia (Link)
- European Business Association of Kazakhstan (Link)
- European Chamber Moldova (Link)
- European Business Association Macedonia (Link)
- Association of European Business in the Russian Federation (Link)
- European Economic Chamber of Trade, Commerce and Industry Ukraine (Link)
- Europe-Uzbekistan Association for Economic Cooperation (Link)

Africa Region

BENIN

FUTURE (ECONOMIC) OUTLOOK

Benin is open to foreign trade, which represents 51% of its GDP (World Bank). The country is a member of various trade organisations, including the World Trade Organisation (WTO) and the West African Economic and Monetary Union (WAEMU). The vast majority of its trade passes through the port of Cotonou, whose capacity the government wishes to develop. Benin mainly exports cotton (64.8% of total exports in 2022), oilseeds, petroleum oils and coconuts, while imports mainly consist of rice (18.2%), petroleum oils (15%), medicines and fertilisers (Comtrade data).

The country's main export partners are Bangladesh (45.3%), India (11.9%), China (6.1%), Egypt (4.5%) and Pakistan (4.2%), while imports mainly come from India (15.7%), China (13.1%), France (8.1%), United Arab Emirates (6. 7%) and Nigeria (5.1% Comtrade 2022 data).

For several years, Benin has recorded a structural trade deficit. In 2022, the trade deficit amounted to 7.6% of GDP (World Bank). This is mainly due to weak exports, mainly consisting of low-cost agricultural products, and the country's heavy dependence on foreign countries for its oil and energy supplies. According to WTO data, in 2022, Benin exported goods worth a total of $3.54 billion while it imported goods worth $4.78 billion. Regarding services, Benin exported $540 million and imported $982 million (WTO). According to the national statistics office, during the third quarter of 2023, Benin's merchandise exports decreased by 9.6% compared to the previous quarter, while merchandise imports fell by 20.8% during the same period.

BUSINESS/ INVESTMENT ENVIRONMENT

The Beninese government has validated an action program of more than $20 billion for the next five years. This new Government Action Program (PAG) is an increase of more than 33% compared to the previous one. Here are the three essential points of the 2021-2026 PAG:

- Strengthen democracy, the rule of law and good governance.
- Continue the structural transformation of the economy
- Improving the social well-being of populations

This project aims to boost the economic and social transformation of the country. It aligns with the Sustainable Development Goals of the United Nations 2030 Agenda and the objectives of the African Union Agenda 2063. The Beninese government plans to mobilise these funds for investments with a strong social impact, in particular the upgrading of workers' salaries and the improvement of public administration. Of the planned $20.5 billion, the government will provide 48% of the funds, while the private sector will carry the remaining 52%.

Sectoral opportunities and challenges to accelerate economic growth (strategic axis 4 of the Government Action Program 2021-2026), it will be necessary to work:

- Development of agro-industry and the valorisation of mining potential.
- Creation of new decent jobs within the sectors and in an induced manner.
- Generalisation of access to digital uses for populations, administrations and businesses.
- Increasing farmers’ income.
- Generalisation of access to energy at an affordable cost for households and businesses.
- Promotion of art, culture and craftsmanship.

The most attractive sectors for private investment in Benin to date are agro-industry (cotton, cashew, pineapple and soy), mining, construction, energy and tourism.

POLITICAL AND ECONOMIC CHALLENGES

The development of trade and the improvement of trade policies remain at the heart of inclusive development and growth strategies in Benin, as highlighted in the latest review of Benin's trade policies (2010).

Improving the business environment as well as promoting trade and investment remain at the heart of Benin's development program. The Strategy of Growth for the Reduction of Poverty (SCRP) 2011-2015 strategic and orientation document underlines this well in the four priority areas of intervention in line with the Government Action Program, including the diversification of the economy through the promotion of new promising sectors for export. and the promotion of regional integration and insertion into global networks.

The formulation and implementation of Benin's trade policy involves several institutions involved in supporting the private sector and promoting trade and investment. The adaptation of strategies and the improvement of commercial policies in Benin have led to the implementation of restructuring reforms in recent years. The most recent example is the creation in 2014 of the Agency for the Promotion of Investments and Exports (APIEx) to curb the activities of three agencies:

- Center for the Promotion of Investments (CPI)
- Beninese Agency for Promotion of Commercial Trade (ABePEC4)
- Single Window for Business Formalisation (GUFE).

In addition, Benin has implemented a Single Charge Slip and an Electronic Tracking Slip for Cargo Shipments for border trade and has limited checkpoints on the corridor by a government decree to reduce the time vehicle control (National Policy for the Promotion of Private Investments, 2021-2030).

Strategies for European companies navigating this dynamic

Since December 2014, Benin has been a signatory to the Economic Partnership Agreement (EPA) between the European Union (EU) and the countries of the African-Caribbean-Pacific (ACP) according to which the EU fully opens its market to West Africa while the latter will gradually reduce its customs tariffs on imports from the EU over a transitional period of twenty (20) years. As a result, Benin, like the countries of West Africa, should liberalise 75% of tariff lines at the end of the transition period. Thus, 25% of tariff lines will remain similar to the tariffs for all third countries. Sensitive products, which are subject to the 35% rate under the ECOWAS CET, are excluded from the EPA as are half of the products subject to the 20% rate. On the other hand, customs tariffs will be gradually eliminated on goods such as equipment and production inputs. As an LDC, Benin also benefits from the EU's Everything But Arms (EBA) initiative, which admits products from these countries duty-free to European markets.

OTHER REGULATORY AND LEGAL CHALLENGES

“The presence of European companies in Benin is limited and concentrated on maritime transport/logistics, agro-industry and services. European companies are interested in Benin, they are faced with an unincentive business environment, marked by corruption, legal and judicial insecurity, an infrastructure/energy deficit, limited access to financing, restrictive taxation and a weak public-private dialogue”.

INTEGRATION WITH EU POLICIES

EU development cooperation in Benin supports reforms and the country's social and economic development, notably by encouraging private sector investment. Since the creation of the first European Development Fund in 1957, Benin has benefited from more than 1.5 billion euros (1,000 billion FCFA) in EU aid.

As part of the Global Gateway strategy, the Multi-Annual Indicative Program (MIP) 2021-2027 mobilised more than 167 billion FCFA during the period covering 2021-2024, particularly in the sectors of the environment and professional training, agriculture, the port of Cotonou, energy, economic and financial governance, including social protection, the private sector, digitalisation as well as security and stability. The EU has also supported the promotion of human rights, democracy and civil society in the country. The link between peoples, the promotion and enhancement of culture are also at the heart of the action carried out by the EU in Benin.

This funding was provided through direct support to the state budget, projects, blended financing and guarantees. For the second period of MIP years 2021-2027, the cooperation programming is being prepared. In a Team Europe logic, the EU Delegation works in complementarity and in coordination with all EU Member States, mainly the Member States present in Benin: Belgium, France, Germany, Luxembourg and the Netherlands, as well as European financial institutions, in particular the European Investment Bank.

EU-BENIN ECONOMIC RELATIONS

INVESTMENT AND TRADE

FTA and other agreements between the EU and Benin

The European Union (EU) and Benin have established strong relations since 1960, covering areas such as human rights, democracy, the rule of law, good governance, security, sustainable growth and Environmental protection. The EU's multiannual indicative program 2021-2027 aims to strengthen this partnership by promoting profound economic transformation in Benin. Key sectors include agro-industry, tourism and information and communications technology. Benin is also working to operationalise the African Continental Free Trade Area (AfCFTA), which aims to stimulate intercontinental trade. Although Benin still has challenges to overcome, it actively participates in regional and international efforts to promote sustainable development and economic integration.

Statistics on European investments and business activities

In remote villages across Benin, families, smallholders and entrepreneurs will have access to cheap, reliable electricity for the first time under a new off-grid solar power program agreed between ENGIE Energy Access, a leader in solar energy, and the European Investment Bank (EIB), one of the world's largest financiers of renewable energy.

The EIB has agreed to provide a EUR 10 million loan to support the deployment of 107,000 high-quality domestic solar installations in Benin. These devices should improve access to clean energy for 643,000 people. These home solar installations include solar panels, and the electricity is stored on batteries; it is paid in several installments ("pay as you go"). This project will also reduce the use of kerosene, charcoal, candles and generators, thereby reducing pollution and helping families save money. Furthermore, EU development cooperation in Benin supports reforms and the social and economic development of the country, in particular by encouraging private sector investments.

The European Union is the origin of around 24% of Benin's imports and the destination of 5.5% of exports in 2017.

Key Industries and Sectors Involved

The industrial fabric of Benin is still embryonic and mainly concerns cotton ginning. The Glo-Djigbé industrial zone is a systemic response to a new vision of industrial development in Benin through the essential agricultural products of cotton, cashew nuts, soya and pineapple.

EUROPEAN COMMERCIAL PRESENCE

Statistics/trends in the presence of European companies since the pandemic

The difficulty of data availability is a reality in African countries in general and in Benin in particular. However, if we must consider the trend of membership in Eurocham Benin, it should be noted that the trends in the presence of European companies in Benin are on the rise. In 2016, there were 40 members while now, almost a hundred are members. The COVID-19 pandemic no longer has any influence on business activities.

Growth or Contraction of the European Business World

The activities of the European business world in Benin are growing. This is due to the political stability of the country, on the one hand, and by the social unrest linked to violent religious extremism in the Sahelian countries, on the other hand.

OPPORTUNITIES AND CHALLENGES

ESG Trends

Most large European companies operating in Benin have their Corporate Social Responsibility (CSR) policies which allow them to carry out their activities generating profits while preserving the economic, social and environmental dimensions. Servair, CIMBENIN and Sobebra are good examples in this area.

Supply Chain Redistribution/Resilience

Post-COVID Developments and Challenges on Supply Chain Landscape

It is true that during COVID 19, restrictions on the movement of goods and people harm food supply chains, at their different stages (production, consumption, marketing, market access). But today, supply chains have returned to their pre-COVID fluidity.

Impacts on European businesses and the Potential for Diversification or Relocation of the Supply Chain

During COVID, European hotel and catering companies, for example, had developed innovative home or local service mechanisms without the customer traveling. With the resumption of activities, they have maintained the innovative services associated with the classic services that they are familiar with.

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Report Reference

- www.tradesolutions.bnpparibas.com/fr/explorer/benin/les-chiffres-du-commerce-exterieur-
- Programme d'Actions du Gouvernement du Bénin –PAG 2021-2026
- Politiques commerciales du Bénin et échanges avec ses partenaires, INSTaD, Octobre 2022
- Note thématique sur la cooperation de l'UE avec le Bénin en matière d'appui au secteur privé et du commerce

BURKINA FASO

FUTURE (ECONOMIC) OUTLOOK

Due to the political and social situation, companies are observing and implementing resilience procedures rather than investing.

BUSINESS/ INVESTMENT ENVIRONMENT

As the country has moved to a war economy, only companies involved in armaments can have opportunities. The major challenge for companies is to implement resilience strategies.

POLITICAL AND ECONOMIC CHALLENGES

The political changes are too recent to provide clarity of political influences on commercial operations. The difficulties of obtaining foreign currency for import-export operations remain a concern.

The key word remains the implementation of resilience strategies.

OTHER REGULATORY AND LEGAL CHALLENGES

The announced exit of Burkina-Faso from ECOWAS and probably from UMOA remains the major obstacle to which is added the war economy which directs investments towards the war economy.

INTEGRATION WITH EU POLICIES

Little or no communication on integration with EU policies. But no announcement on a possible rupture of the agreements. Companies are therefore in the spectives.

EU-BURKINA FASO ECONOMIC RELATIONS

Investment and Trade

Relative to the Gross Domestic Product (GDP), the turnover (CA) of the 17 largest member companies of EUROCHAM-Burkina represents 10.16% in 2020, 10.61% in 2021 and 10.94% in 2022, i.e. on average 10.57% over 3 years.

In total, 30% of EUROCHAM-Burkina members contribute 11% to the creation of wealth which progresses over the years.

The key industries and sectors involved are Brewery, Mining industries, Energy and Telecommunications.

EUROPEAN BUSINESS PRESENCE

The number of European companies has increased since the pandemic. We have recorded several company departures since 2023 due to insecurity and the contraction of the economy.

Factors influencing market entry are mainly the sector of activity.

OPPORTUNITIES AND CHALLENGES

ESG Trends

Eurocham-BF members implement a CSR policy which they adapt to the local context. Mining companies are the most impacted. However, companies in Burkina Faso do not benefit from the support measures to which European companies in the same field of activity are eligible.

Energy efficiency leads companies to invest in solar.

Supply Chain Redistribution/Resilience

The majority of members were impacted by the disorganisation of the supply chain. On the other hand, few members, so to speak, no member to our knowledge has benefited directly from help or support. Each member had to develop their resilience. However, the security crisis combined with the post-covid crisis combined with the absence of support got the better of the development of several of our members who had to leave Burkina.

The impacts resulting from the diversification or relocation of the supply chain are mainly to the disadvantage of Europe. Indeed, increasing supply chain costs make European products and services uncompetitive.

EBO Contact Information

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CAMEROON

FUTURE (ECONOMIC) OUTLOOK

Cameroon is experiencing moderate but steady economic growth (estimated at 4% in 2024). However, the economy remains vulnerable to commodity price fluctuations (oil and cocoa) and security challenges in some regions. Economic diversification is a priority, focusing on industrialisation and innovation.

BUSINESS/ INVESTMENT ENVIRONMENT

Government priorities

- Industrialisation
- Digitalisation
- Agriculture
- Renewable energy.

Key sectors

- Agriculture: Agro-processing and value chain development.
- Energy: Renewable energy projects and energy efficiency solutions.
- Infrastructure: Transport, affordable housing, and PPP projects.
- Technology/Digitalisation: Fintech, telecom, and digital services.

Sectoral challenges

- Inadequate infrastructure
- High import/export costs
- Competition from the informal sector

POLITICAL AND ECONOMIC CHALLENGES

Political influences

Political uncertainties and corruption can hinder business operations.

Strategies for European companies

- Strengthen partnerships with local stakeholders.
- Leverage chambers of commerce like Eurocham to navigate regulatory complexities.

OTHER REGULATORY AND LEGAL CHALLENGES

Specific challenges

- Complex customs regulations (e.g. PECAE, VAT).
- Administrative delays in business registration and permit acquisition.

INTEGRATION WITH EU POLICIES

Alignment with EU policies, such as sustainability standards and Economic Partnership Agreements (EPA), provides opportunities (e.g. duty exemptions) but also presents challenges, particularly for SMEs struggling to meet stringent compliance requirements.

EU-CAMEROON ECONOMIC RELATIONS

Investment and Trade

Agreements

The interim EPA between Cameroon and the EU has been in effect since 2016, facilitating mutual market access.

Statistics

The EU is Cameroon's largest trade partner (40% of exports, mainly cocoa, timber, and oil).

European imports to Cameroon includes machinery, chemicals, and vehicles.

Key sectors

- Agriculture
- Energy
- Infrastructure

EUROPEAN BUSINESS PRESENCE

Post-pandemic trends

- Slight contraction of European SMEs in non-essential sectors, but resilience among large enterprises in strategic sectors such as energy and telecommunications.
- New entrants in sustainable agriculture and technology sectors.

Market entry factors

- Opportunities created by the EPA.
- High demand for innovative technologies and sustainable practices.

OPPORTUNITIES AND CHALLENGES

ESG Trends

The ESG landscape in Cameroon is still emerging, but there is growing momentum, particularly in sustainable agriculture and renewable energy projects.

European companies are key players in raising awareness and funding sustainable projects (e.g. GIZ, ENEO).

Supply Chain Redistribution/Resilience

Post-COVID landscape

Persistent logistical and customs challenges have encouraged partial reshoring or diversification of supply chains.

Impact on European businesses

Necessity to diversify supply sources and strengthen local partnerships to ensure resilience.

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ETHIOPIA

ETHIOPIAN ECONOMY AND THE BUSINESS CLIMATE AT A GLANCE

Ethiopia, with a population of 129.7 million expected to double within 28 years, has a youthful demographic, with 39% under the age of 14. The economy is projected to grow at 6.2% in 2024 and 6.5% in 2025, reaching a GDP of $164 billion. Inflation has seen a significant decrease, dropping from 28.7% in December 2023 to 18.6% by July 2024. The Ethiopian Birr has sharply depreciated, moving from ETB/USD 57.5 in July 2024 to a range of 113.1 (buy) to 115.4 (sell) by October 2024. External debt stood at $27.7 billion as of September 2023, with China accounting for roughly half ($13.7 billion). The current account balance remains in deficit, recorded at -$4.788 billion in 2023, reflecting Ethiopia's large trade deficit, where exports ($3.47 billion) cover only a fraction of imports ($15.3 billion), resulting in a trade balance of -$11.85 billion.

These factors underline Ethiopia's dynamic but challenging economic environment, with substantial growth potential amidst inflationary pressures, currency fluctuations, and ongoing external financing needs.

On July 29, 2024, Ethiopia enacted a comprehensive economic reform package, marking a pivotal shift toward a market-driven economy. Key reforms included a floating of the Ethiopian Birr and the establishment of a market-based exchange rate system, allowing commercial banks to set their own rates. Supported by an IMF Extended Credit Facility of $3.4 billion and a $10.7 billion package from the World Bank and bilateral donors, the reforms aim to stabilise the economy and enhance investor confidence.

Major changes include the elimination of FX surrender requirements, empowering commercial banks to retain FX from exports and remittances, and the removal of FX priority allocation for certain sectors. This deregulation extends to current account transactions, although capital account transactions remain restricted.

Further, monetary policy reform has ceased budgetary monetary financing, promoting fiscal responsibility, and capital market expansion will now allow foreign investment in Ethiopia's newly launched stock exchange, expected in 2024. Companies operating within Special Economic Zones benefit from new rights, such as retaining 100% of FX earnings, enhancing competitiveness.

In addition, Ethiopia has reached a debt restructuring agreement with G20 bilateral lenders, including China, which will improve fiscal sustainability. The anticipated opening of the banking sector to foreign investors by the end of 2024 will increase competition, innovation, and overall economic integration, positioning Ethiopia as an emerging hub for investment in the region.

FUTURE (ECONOMIC) OUTLOOK

Ethiopia's economic outlook is marked by anticipated growth driven by structural reforms and strategic investments, although challenges such as inflation, currency depreciation, and external debt remain key risks. Potential shifts in market dynamics are expected, particularly as the government opens previously restricted sectors to foreign direct investment (FDI) in telecommunications, logistics, and finance. This liberalisation is likely to attract more global players, increase competition, and drive technological innovation, but it also brings regulatory complexities. The regulatory landscape may evolve further, with increased involvement from international bodies like the IMF, which advocates for fiscal discipline and market-friendly reforms. Ethiopia's National Bank is likely to refine its foreign exchange policies to stabilise the currency and support inflation control, potentially shaping a more predictable and investor-friendly environment. Overall, while the economic reform agenda presents substantial opportunities, it requires balancing investor interests with Ethiopia's domestic development goals.

BUSINESS/ INVESTMENT ENVIRONMENT

Ethiopia offers significant growth potential for European companies, especially as the government prioritises economic diversification, FDI attraction, and job creation. The Ethiopian government is focused on industrialisation, agricultural modernisation, digital transformation, and infrastructure development, aiming to drive long-term economic stability and create new opportunities for foreign investment.

Sectorial Opportunities

Manufacturing and Agro-processing: Strong demand in textiles, leather, and food processing, with government support through industrial parks and incentives. Challenges include limited infrastructure in rural areas and complex logistics.

Renewable Energy: Ethiopia's abundant hydro, wind, and solar resources align with government ambitions for green energy expansion. However, project financing and regulatory bottlenecks are hurdles.

ICT and Digital Services: With an expanding digital agenda and telecom liberalisation, there's demand for European expertise. The primary challenges involve data regulations and limited connectivity in rural areas.

Healthcare and Pharmaceuticals: A growing population and government focus on health access highlight opportunities in pharmaceutical production and medical equipment. Regulatory requirements and skilled labor shortages, however, may impact setup timelines.

Challenges include navigating evolving regulations, currency fluctuations, and addressing local infrastructure gaps, which may require strong partnerships with Ethiopian stakeholders. Overall, Ethiopia's investment landscape is promising for European companies that can adapt to the dynamic market and leverage government priorities.

POLITICAL AND ECONOMIC CHALLENGES

In Ethiopia, political influences play a substantial role in business operations, as the government's active involvement in key sectors and regulatory processes can directly impact market entry, resource allocation, and operational stability.

Overall, European companies can succeed in Ethiopia by maintaining a flexible approach to political and regulatory changes, fostering relationships with Ethiopian authorities, and building goodwill through initiatives that align with the country's development goals.

EU-ETHIOPIA TRADE RELATIONS

Ethiopia and the EU maintain robust trade relations, with the EU serving as Ethiopia's second-largest trading partner after China. In 2023, EU imports from Ethiopia totaled €688 million, a 24% decrease from 2022, with €310 million benefitting from the EU's "Everything But Arms" (EBA) trade scheme, which grants duty-free, quota-free access for least-developed countries. Ethiopia's preference utilisation rate under EBA is high, at 92%, highlighting strong usage of trade preferences.

Ethiopian exports to the EU are predominantly agricultural, comprising 78% of total exports. Key exports include coffee and spices, sesame seeds, flowers, apparel, vegetables, and hides and skins. On the other hand, EU exports to Ethiopia were valued at €1.259 billion in 2023, underscoring the EU's importance in supplying goods to the Ethiopian market. The trading relationship reflects the EU's role in supporting Ethiopian exports through preferential trade arrangements and in providing essential imports, reinforcing economic ties despite recent challenges in trade volume.

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GHANA

OVERVIEW (ECONOMIC) OUTLOOK

Ghana's medium-term growth prospects remain optimistic, with projections forecasting growth of around 5% by 2026. This outlook is expected to be supported by continued growth in key sectors such as agriculture, services, and extractive industries. However, the path to sustained growth will require addressing several structural and macroeconomic challenges.

Under the leadership of President Mahama, who was recently sworn in for a second term, the country faces the critical task of stabilising the economy and implementing transformative policies aimed at fostering long-term growth. The Mahama administration is anticipated to introduce key policy shifts with a focus on enhancing infrastructure, addressing energy sector inefficiencies, and improving social services.

Key priorities for the government in the coming years will include improving agricultural productivity and climate resilience, accelerating industrialisation to create jobs and reduce poverty, and fostering greater regional trade integration through ECOWAS and the African Continental Free Trade Area (AfCFTA), thus, attracting and reaffirming foreign investors.

While Ghana's economy has shown signs of resilience with positive GDP growth, declining inflation, and efforts at fiscal consolidation, significant risks remain that could challenge the achievement of these objectives. These include the volatility of global commodity prices, pressures from high domestic financing needs, and lingering challenges in the energy sector, which continues to struggle with underperformance. Balancing fiscal discipline with the need for increased government spending on infrastructure and social services will be crucial for maintaining investor confidence and ensuring a sustainable economic trajectory.

President Mahama's ability to effectively manage these issues and guide Ghana through a period of economic transformation will be pivotal. A successful implementation of policy reforms, aimed at improving the ease of doing business and addressing structural barriers, will help unlock the country's potential as an investment hub in West Africa.

BUSINESS/ INVESTMENT ENVIRONMENT

Government Priorities under President Mahama

The return of President Mahama to office signals a renewed commitment to inclusive growth and socio-economic development. His administration's manifesto outlines several key priorities that will form the basis of Ghana's development strategy over the next term. These include:

Reviewing the IMF-Supported Post-COVID-19 Economic Growth Plan

The Mahama administration aims to review and realign the existing IMF program to integrate a more ambitious focus on social services and infrastructure development. Key areas include improving healthcare, education, and housing, while also focusing on job creation through industrialisation. Additionally, a strong emphasis will be placed on rural development and expanding social protection programs to reduce inequality and enhance social cohesion.

Accelerating Energy Sector Reforms

A major pillar of the government's development agenda will be to address the country's energy sector challenges. This includes expanding power generation capacity, with a specific focus on renewable energy sources such as solar, wind, and hydropower. The government will work towards modernising power distribution networks, reducing system losses, and improving the overall energy infrastructure to provide affordable and reliable electricity to both households and businesses. Diversifying Ghana's energy mix will be crucial for enhancing energy security and reducing reliance on fossil fuels in the long term.

Strengthening Agricultural Modernisation Initiatives

Agricultural modernisation remains a top priority, given the sector's importance to Ghana's economy and its growth potential.

The administration plans significant investments in mechanisation, irrigation, and access to quality inputs like seeds and fertilisers to improve productivity. Agro-industrial zones will be developed, and value chains will be enhanced to promote sustainable agriculture and food security. Addressing the impact of climate change through resilient farming practices, coupled with focused support for youth and women in agriculture, will also be key components of this effort.

Reforming the Cocoa Sector

Cocoa remains vital to Ghana's agricultural economy, driving export revenues and rural livelihoods. The new administration is committed to addressing key challenges, including droughts, illegal mining (galamsey), and the erosion of cocoa land, which have diminished yields and impacted farmer livelihoods. These issues have led to reduced confidence from international buyers, who increasingly prioritise sustainable sourcing.

Reforms will focus on adjusting price mechanisms and promoting investments in processing facilities. This could align with President Mahama's emphasis on inclusive growth and reducing inequality, as fair cocoa pricing directly supports rural farmers. Past efforts under Mahama's leadership have also aimed to enhance agricultural value chains and create jobs.

EU-Ghana partnerships offer opportunities in sustainability and innovation. EU expertise in traceability programs, climate-smart agriculture, and agro-industrial technology can improve cocoa production, strengthen value chains, and boost Ghana's global competitiveness.

Focus on Digital Transformation

President Mahama prioritises digital transformation as a key driver of economic growth. This includes modernising Ghana's technological infrastructure, expanding access to broadband, and enhancing e-government services. His goal is to improve service delivery, promote innovation, and attract foreign investment in the tech sector. EU companies have opportunities to collaborate in these areas, particularly in digital infrastructure and innovation, to support Ghana's transition to a more digital economy.

Enhancing Regional Integration Efforts within ECOWAS

Ghana will continue to prioritise regional trade integration within ECOWAS, working to harmonise trade policies, eliminate non-tariff barriers, and improve transport and logistics networks. The government will leverage Ghana's strategic position within the African Continental Free Trade Area (AfCFTA) to boost trade and attract foreign investment. Ghana's leadership in regional collaboration, particularly in energy and agriculture, will be key to promoting shared prosperity and increasing economic stability across West Africa.

By aligning these priorities with a broader national development agenda, the new administration has the potential to foster an economy that is more inclusive, resilient, and sustainable. A focus on infrastructure, energy, agriculture, and regional trade integration presents significant opportunities for both domestic and international partnerships to contribute to Ghana's long-term progress.

Sectorial Opportunities & Challenges for EU Companies

Under President Mahama, EU companies will likely see expanded opportunities, particularly in the sectors of infrastructure development, agribusiness, and renewable energy, all of which align with his administration's priorities. However, companies must be mindful of the challenges posed by regulatory frameworks, market competitiveness, and evolving political conditions.

Construction and Engineering Services

With a renewed focus on infrastructure development, including roads, railways, and affordable housing, EU firms stand to benefit from participation in public-private partnerships (PPPs). However, challenges such as financing, skilled labour shortages, and project delays will need to be addressed to ensure successful collaboration.

Agribusiness Processed Products

The push for agricultural modernisation presents significant opportunities for European companies specialising in irrigation systems, mechanisation, and agricultural technology. At the same time, regulatory clarity and efficient implementation will be essential to attract sustained investments.

Energy Sector Opportunities

Ghana presents significant potential for investments in renewable energy, including solar, wind, and hydropower, aimed at meeting growing energy demands sustainably. These projects offer opportunities for partnerships with EU companies to bring advanced technology and expertise to Ghana's renewable energy landscape.

Efforts to reduce inefficiencies in energy distribution through grid modernisation create opportunities for firms specialising in energy infrastructure and smart grid technologies.

Ghana's ambitions to lead West Africa's energy transition open the door for collaborations in clean energy innovations, strengthening the country's energy security and reducing reliance on fossil fuels.

Digital Transformation and 24/7 Economy: Opportunities for EU Investors

President John Dramani Mahama prioritises digitalisation and job creation to drive Ghana's economic growth. Key initiatives include Zonal ICT parks and regional Digital Centre, training in digital skills and support to the FinTech sector. Projects like the Accra Digital Centre and a nationwide fibre-optic network laid the foundation for a dynamic, digitally connected economy, empowering small businesses and startups during his former tenure.

Mahama's vision also encompasses a 24/7 economy, leveraging digital infrastructure to enable round-the-clock business operations. This approach aims to boost productivity, expand market access for SMEs, and Business Process Outsourcing and create jobs, particularly for the youth.

These initiatives align with EU priorities and present significant opportunities for European investors in sectors such as IT and BP Outsourcing, e-commerce, and fintech and create employment in Ghana while addressing the skills gap in Europe. With a stable policy framework and a growing demand for technology-driven solutions, Ghana is positioned as an attractive partner in the global digital economy.

Opportunities in Mining Sector

The mining sector remains pivotal, with a focus on gold, bauxite, and manganese. European firms can contribute to maximising revenue while promoting sustainable mining practices aligned with environmental and social governance standards.

There is a potential for EU companies to develop facilities that process raw minerals locally, enhancing value addition and creating local employment opportunities.

While the sector offers lucrative opportunities, regulatory compliance and increasing demands for local participation require EU companies to adopt tailored strategies that meet Ghana's local content policies and maximise stakeholder benefits.

Renewable Energy

Given Ghana's ongoing energy challenges, there will likely be an increased emphasis on renewable energy projects under President Mahama's administration, particularly in solar and hydropower.

European companies with expertise in these areas are well-positioned to help expand Ghana's renewable energy capacity.

POLITICAL AND ECONOMIC CHALLENGES

While there are numerous growth opportunities, President Mahama's administration will face challenges in balancing the need for increased public spending with fiscal sustainability. The country's debt distress, combined with the necessity for structural reforms, presents risks that could affect investor confidence. Delays in fiscal consolidation or debt restructuring could create tension with international creditors, which may impact foreign direct investment flows.

EU-GHANA ECONOMIC RELATIONS

Implications of the New Administration

The Mahama administration is expected to deepen economic collaboration with the European Union, particularly in areas that align with sustainable development, governance, and trade facilitation. Existing agreements, including the Economic Partnership Agreement (EPA), will continue to play a central role in shaping the trade and investment landscape. However, new initiatives focused on green energy and industrial development could further enhance economic ties between the two regions.

EUROPEAN BUSINESS PRESENCE

Trends in European Business Presence Under the New Administration

European businesses are likely to benefit from increased government investment in infrastructure, as well as a renewed emphasis on industrialisation. However, the evolving regulatory environment, particularly concerning local content laws, tax regimes, and trade policies, will require firms to remain agile and responsive to policy shifts.

Local Content Regulations

The new administration is expected to strengthen local content regulations, particularly in the energy and mining sectors, to enhance the participation of Ghanaian businesses in these industries. This approach aims to foster local economic growth by ensuring that a significant portion of these projects benefits local enterprises, thereby creating jobs and supporting capacity development.

Local content policies have been a key component of Ghana’s economic strategy under Mahama’s previous terms, especially in sectors such as oil, gas, and mining. These policies aim to empower local industries but have sparked debates about their impact on foreign investment and operational flexibility.

While Mahama's administration supported local empowerment, balancing these goals with an attractive investment climate remains a sensitive issue. The new administration’s focus on economic development and job creation aligns with these policies, but challenges may arise in terms of regulatory adjustment and investor response.

Conclusion

While challenges remain, the new administration presents an opportunity for Ghana to address key economic issues and set a course for sustainable long-term growth. By aligning its priorities with the needs of both domestic and international businesses, the government can create a more favourable environment for foreign investment, job creation, and capacity building.

Fostering partnerships in sectors like infrastructure, energy, agriculture, and mining, while addressing key challenges such as local content regulations and energy sector inefficiencies, will be crucial for unlocking Ghana's potential.

The focus on regional integration, sustainability, and value-added industries further strengthens Ghana's position as a key player in West Africa's economic transformation. If successfully implemented, these policies have the potential to enhance Ghana's attractiveness as an investment hub and drive inclusive economic growth across sectors.

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IVORY COAST

FUTURE (ECONOMIC) OUTLOOK

Côte d'Ivoire has emerged as one of the fastest-growing economies in sub-Saharan Africa over the past five years. It contributes 40% of the region's GDP, supported by a robust foreign trade sector that accounts for 35% of the country's economic activity.

In 2023, the economy recorded a strong GDP growth rate of 6.2%, and projections for 2024 anticipate a further increase to 6.5%.

Inflation has decreased significantly from 5.2% in 2022 to 4.4% in 2023, reflecting improvements in economic stability. The budget deficit also narrowed by 1.6%, settling at 5.2% in 2023, highlighting progress in fiscal management.

Agriculture plays a central role in Côte d'Ivoire's economy, contributing 25% of its GDP. The country is the world's leading producer of cocoa and cashew nuts, the third-largest producer of natural rubber globally, and ranks as the third-largest producer of petroleum oil in West Africa. This diversity in production underscores its position as a critical player in global markets.

Foreign trade remains a cornerstone of the economy, accounting for 52.3% of GDP in 2022.

Export revenues amounted to $18.4 billion, driven primarily by cocoa (18.1%), gold (12.8%), natural rubber (11.2%), petroleum oil (11%), and nuts (6.8%). Imports totaled $18.8 billion, dominated by petroleum oils (23.1%), light vessels (4.9%), frozen fish (4.4%), and rice (3.8%).

Looking to the future, Côte d'Ivoire aims to accelerate its economic transformation and achieve middle-income status by 2030. This ambitious vision is underpinned by a focus on:

- Consolidating of peace and security,
- Reinforcing macroeconomic reforms,
- The efficiency of public services,
- Mobilising domestic resources,
- Mitigating the country's vulnerability to climate change,
- Regulation in favour of economic activities,
- The quality of the economic and social infrastructure on offer,
- Consolidation of democracy, political stability and security.

Côte d'Ivoire is making strategic investments to sustain growth and achieve its development goals. The government has outlined priorities across key sectors to drive economic transformation and strengthen its global position.

Agriculture and Biodiversity

Agriculture remains a cornerstone of Côte d'Ivoire's economy, with efforts focused on transformation and sustainability. The government plans to establish nine agricultural hubs, known as Agropoles, to boost production and processing capacity. These hubs are part of the National Program for Agricultural Investment (Second Generation), emphasising local development and food security.

To ensure environmental sustainability, Côte d'Ivoire is implementing agroforestry projects and restoring its forestry capital. The ambitious Strategy for Preservation, Rehabilitation, and Extension of Forests aims to increase forest cover to 20% by 2045, integrating biodiversity preservation into agricultural practices.

Mineral resources

Côte d'Ivoire is rich in mineral resources, contributing 5% of its GDP. The country produces 40 tons of gold annually and extracts 1.3 million tons of manganese and nickel each year. These resources are central to diversifying the economy and attracting foreign investments.

Energy and Renewable Resources

Côte d'Ivoire aspires to become a regional energy hub. Its electricity production capacity stands at 2.5 gigawatts, with 11% exported to neighboring countries and 40% generated from renewable sources.

Under the National Development Plan, the government is prioritising the construction of renewable energy facilities, including:

- Seven solar photovoltaic plants,
- Two hydroelectric power stations,
- One biomass energy plant.

Efforts are also underway to rehabilitate thermal power stations to ensure energy reliability. Côte d'Ivoire has introduced mandatory energy audits for high-energy consumers as part of the 2024 energy efficiency reforms. These measures aim to provide stable, affordable, and sustainable electricity to businesses and households.

Oil and Gas

The oil and gas sector has achieved remarkable milestones, including the record-breaking production from the Baleine deposit in 2023, just two years after its discovery. In 2024, the Calao deposit was identified, further enhancing the country's energy potential. Côte d'Ivoire is poised to become one of Africa's top oil and gas producers, targeting a daily production of 200,000 barrels within three years. To support local participation, the government introduced a local content regulation in December 2023, mandating companies to involve Ivorian stakeholders across the value chain.

Transportation and Infrastructure

Côte d'Ivoire boasts a well-developed transportation network, including two major ports (Abidjan and San Pedro) and an international airport that serves over two million passengers annually. Its road infrastructure spans 80,000 kilometers, representing half of West Africa's network.

Reforms are being implemented to enhance safety and mobility, including a five-year strategy to reduce road accident fatalities by 50% by 2030. These initiatives align with the country's ambition to position itself as a regional logistics hub, improving connectivity and driving economic growth.

The Government enforced reforms on security, safer transportation and optimised mobility. E.g. Five-year strategy on road security to meet the country's engagement to reduce by 50% the mortality rate by 2030.

Business Hub

Banks, regional stock exchange, insurances, polyclinics, international schools, so many regional hubs: 170 international congresses and gatherings take place annually.

Financial Rating

In 2024, the economic resilience allowed Côte d'Ivoire to improve its rating and ranks at BB- (stable) from Standard and Poor's Agency.

Digitalisation

A transversal priority to digitalise the whole ecosystem is considered as an effective support to prevent, ensure good governance, reduce corruption. But also, a key asset for the banking sector and the overall competitivity and an inclusion axis.

Regulation in terms of collection, usage and exportation of personal data requires to obtain a certification.

BUSINESS/ INVESTMENT ENVIRONMENT

Government Priorities

Côte d'Ivoire presents a dynamic environment for investment, driven by a comprehensive National Development Plan (PND) that outlines six strategic pillars to accelerate its economic and social transformation:

- Accelerating economic transition through industrialisation and the development of industrial clusters.
- Strengthening human capital and employment opportunities.
- Enhancing private sector participation and increasing public and private investment.
- Promoting social inclusion and solidarity.
- Organising sustainable regional development.
- Transforming governance and administrative efficiency.

Growth Opportunities for European Companies

The Ivorian government has identified private investment as a cornerstone of its strategy, emphasising partnerships to finance its ambitious plans. Opportunities span various sectors, including industrialisation, renewable energy, healthcare, and digital transformation.

Industrialisation

Côte d'Ivoire seeks to maximise the value of its raw materials by developing processing industries. The PND identifies seven industrial clusters based on regional potential:

- Agroindustry,
- Chemicals and plastics,
- Textiles,
- Construction materials,
- Pharmaceuticals,
- Packaging,
- Automotive spare parts.

Investments are being directed toward integrated industrial sones to support these clusters.

Energy Hub

As part of its vision to become a regional energy leader, Côte d'Ivoire is developing infrastructure for energy production and distribution. Key projects include solar plants, hydroelectric dams, and biomass facilities. A significant challenge lies in building local technical expertise to support renewable energy expansion.

Oil and Gas

Côte d'Ivoire's rapidly growing oil and gas sector is attracting foreign interest. However, challenges include administrative complexities, capacity-building needs, and maintaining investment attractiveness.

Transportation

Private sector participation is integral to enhancing logistics and infrastructure. Key projects aim to decentralise transportation networks and improve secondary cities, supporting Côte d'Ivoire's ambitions as a regional logistics hub.

Digital Transformation

Digitalisation is a priority across public administration and key economic sectors like agriculture, energy, and healthcare. Initiatives include streamlining tax systems, trade processes, and company registrations, creating a more efficient business environment.

Healthcare

Côte d'Ivoire aims to enhance its healthcare system by expanding human resources, rehabilitating infrastructure, and fostering local production of drugs and vaccines. These efforts align with broader goals of inclusion and competitiveness.

POLITICAL AND ECONOMIC CHALLENGES

Côte d'Ivoire's business environment is shaped by a mix of domestic policies, regional agreements, and international conventions. These frameworks aim to foster stability, enhance governance, and facilitate economic growth, though challenges persist.

Political Influences on Business Operations

Ivorian laws are rooted in national regulations and international agreements adopted by key African organisations, such as:

- **WAEMU:** West African Economic and Monetary Union,
- **ECOWAS:** Economic Community of West African States,
- **OHADA:** Organisation for the Harmonisation of Business Law in Africa,
- **OAPI:** African Intellectual Property Organisation,
- **CIMA:** Inter-African Conference on Insurance Markets,
- **AU:** African Union.

These regional affiliations provide businesses with a unified legal framework but also require compliance with multiple overlapping regulations.

Strategies for European Companies

European companies can effectively operate in Côte d'Ivoire by focusing on:

- Establishing public-private partnerships to influence policy development,
- Engaging in advocacy to improve the business climate,
- Building robust networks for better integration into local market,
- The Ivorian government has prioritised governance reforms, integrity, and corporate social responsibility (CSR), creating opportunities for collaboration on sustainability and ethics.

INTEGRATION WITH EU POLICIES

Alignment with EU policies in Trade and Commerce

Côte d'Ivoire's alignment with EU policies strengthens trade, investment, and environmental sustainability. These agreements offer mutual benefits, though businesses must adapt to evolving regulations.

Key Agreements and Initiatives

Forest Law Enforcement Governance and Trade (FLEGT):
A legally binding trade agreement promoting sustainable and legal timber trade between Côte d'Ivoire and the EU.

Low Carbon Transition Project (2023):
Côte d'Ivoire has committed to reducing its carbon footprint through initiatives that align with EU standards. The project emphasises governance, transparency, and private sector collaboration.

Benefits of Alignment

- Improved governance and investment security,
- Enhanced trust through transparency,
- Opportunities for partnerships between European and Ivorian SMEs and entrepreneurs.

Challenges of Alignment

While alignment fosters integration, it also presents challenges:

- Complex Business Environment: The local ecosystem must adapt to stringent EU regulations, such as the Deforestation Regulation,
- Impact on Competitiveness: European companies operating in Côte d'Ivoire face increased costs due to compliance with environmental and governance standards.

Need for Dialogue: Public-private consultations are essential to address these challenges and maintain the competitiveness of European businesses.

EU-CÔTE D'IVOIRE ECONOMIC RELATIONS

Investment and Trade

Score BReady World Bank: 52,67/100[1]

Côte d'Ivoire has implemented an updated Investment Code since 2018, offering incentives to attract private investment and adapt to evolving economic conditions. The private sector is expected to contribute 60% of the financing required for the National Development Plan (PND), highlighting its vital role in the country's growth trajectory.

The **Centre for the Promotion of Investments in Côte d'Ivoire** oversees the deployment of the National Investment Strategy, focusing on:

- Strengthening investment guarantees.
- Promoting small and medium enterprises (SMEs),
- Developing rural zones,
- Simplifying procedures to improve the ease of doing business.

Trade Agreements and Market Access

Under the **Economic Partnership Agreement (EPA)** with the EU, Côte d'Ivoire has progressively dismantled tariffs to foster trade liberalisation. As of April 2024, 55% of targeted goods have been liberalised, covering 2,305 tariff lines.

Key imported goods under this agreement include:

- Machinery,
- Chemicals,
- Base metals,
- Plastics,
- Rubber,
- While 100% of Côte d'Ivoire's exports, excluding armaments, are duty-free in the EU.

Trade Statistics (2022)

- **Exports to the EU:** 32% of Côte d'Ivoire's total exports.
- **Imports from the EU:** 28% of the country's total imports.

Key exported products include cocoa, rubber, and agricultural commodities, while imports focus on industrial machinery and chemical goods.

European Financial Support

The EU has committed significant financial resources to Côte d'Ivoire:

- €32.8 million allocated for the Sustainable Development Goals (SDG) program from 2024–2026,
- €500 million invested over five years through the European Investment Bank (EIB), targeting renewable energy, transportation, and healthcare projects.

Global Gateway Strategy

The EU's Global Gateway initiative focuses on sustainable energy development in Côte d'Ivoire, with three major areas of partnership:

- Construction of solar power plants in Boundiali and Sérebou, alongside network upgrades,
- Development of a high-voltage transmission backbone,
- Implementation of the WASUNA water and sanitation project.

Key Industries and Sectors

Côte d'Ivoire offers promising opportunities in renewable energy, agriculture, water supply, transportation, and healthcare. Collaboration in these areas is expected to strengthen trade and investment relationships between the EU and Côte d'Ivoire.

EUROPEAN BUSINESS PRESENCE

Statistics/trends in the presence of European companies since the pandemic

Côte d'Ivoire's economy demonstrated a certain resilience during the COVID-19 pandemic. Team Europe mobilised a fund of 150 billion FCFA to support SMEs and companies impacted by the crisis. Despite this stability, a survey conducted by Eurocham Côte d'Ivoire revealed that 52% of European companies declared having significant disruptions to their activities during the pandemic.

Growth or Contraction of the European Business Community

European companies represent 42% of the Foreign Direct Investment.

Post-pandemic, the European business community in Côte d'Ivoire is expanding, driven by strategic economic delegations from EU member states. These delegations have fostered partnerships in priority sectors, including:

- Cocoa industry (The Netherlands, Switzerland),
- Oil and gas (Italy),
- Renewable energy (Spain),
- Healthcare (France),
- Employment and training (Germany).

Estimates indicate a strong European presence, with over 700 French companies, 80 Italian firms, 50 Belgian and Spanish companies each, and notable participation from Dutch, Swiss, German, Portuguese, Norwegian, and Swedish enterprises.

Estimated companies 700 French, 80 Italian, [1] 50 Belgian, 50 Spanish, 20 Dutch, 35 Swiss but also German, Portuguese, Norwegian, Swedish.

Factors Influencing Market Entry

European businesses benefit from Côte d'Ivoire's strategic location and growing infrastructure. However, several challenges persist:

- Taxation: The total tax rate stands at 50.1% of profits (2022),
- Access to Funding,
- Corruption and Bureaucracy,
- Infrastructure,
- Labour Force.

OPPORTUNITIES AND CHALLENGES

ESG Trends

The ESG Landscape and Adaptation to Local Regulations by European businesses.

Côte d'Ivoire is prioritising sustainability, creating a favorable environment for ESG-focused investments.

The African Development Bank (AfDB) has allocated €400 billion in partial credit guarantees for ESG projects, targeting sectors such as:

- Sustainable agriculture and agro-industry,
- Renewable energy and water sanitation,
- Affordable housing and education
- Financial inclusion and entrepreneurship.

Public/Private task forces were created to solve the main issues for the development of CSR in Côte d'Ivoire and especially implementation of CSR in the companies' strategy, funding of projects with CSR impact, communication.

Emerging Sustainability Initiatives and the Level of Corporate responsibility

Côte d'Ivoire is advancing sustainability through the enforcement of progressive environmental policies and initiatives. The government recently implemented the 2013 legislation addressing plastic waste production and management, reflecting its commitment to reducing environmental pollution. To promote energy efficiency, mandatory audits have been introduced for businesses with high energy consumption. Additionally, multi-stakeholder initiatives have been launched to enhance corporate social responsibility (CSR) awareness among SMEs and improve the supporting legal framework. In line with its environmental goals, Côte d'Ivoire has introduced a carbon credit program to fund its ambitious reforestation roadmap and is exploring the implementation of a National Carbon Tax to further incentivise sustainable practices.

Supply Chain Redistribution/Resilience

Post-pandemic developments have improved Côte d'Ivoire's logistics and supply chain infrastructure:

- Worldbank Funding for the improvement of transportation network to support food security,
- Digitalised import desks and centralised systems have streamlined customs processes,
- A second terminal at the Port of Abidjan manages 1.5 million containers annually, accommodating larger vessels with a draft of 16 meters,
- The Aero Hub processes 5-6 million products per year for national and regional supply, achieving 20% annual growth in 2023,
- The new Aero hub processes 5 to 6 million products/year for Ivoirian and regional supply with an annual growth of 20% in 2023.

The Resulting Impacts on European Businesses and the Potential for Supply Chain Diversification or Reshoring.

The national strategy for the development of transportation network let an important part to the private sector and focuses on the following priorities:

- Logistic,
- Strengthening the competitivity of ports and airports,
- Security of the seafront,
- Training,
- Digitalisation.

The electric mobility becomes an emerging sector thanks to the introduction of the Association of electric mobility professionals and the investment by the government in electric vehicles with the targeting 40% adoption by 2030.

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MALI

BUSINESS/INVESTMENT ENVIRONMENT

The economy proved resilient in 2022 with GDP growth estimated at 3.5%, despite the combined effects of ECOWAS sanctions and the consequences of the war in Ukraine, reflecting a rebound in cereal production and the strong performance of the mining sector. GDP growth is expected to reach 3.7% in 2024 (0.6% per capita), supported by agriculture and services, while persistent electricity shortages are expected to hinder industrial production. The extreme poverty rate is projected to fall to 20.8% due to lower inflation at 1.2%.

The sharp deterioration in terms of trade in 2022 eased in 2023, reflecting a drop in oil prices alongside rising gold prices. However, this was moderated by a decrease in cotton exports following a weak season in 2022 and a resumption of import flows after the lifting of ECOWAS sanctions. These developments led to the stabilisation of the current account deficit at 6.8% of GDP in 2023, while the decline in external financial flows intensified in 2023.

Budget expenditures, which have accelerated since 2020 in response to multiple shocks, continued to increase in 2023, driven particularly by the wage bill and security spending. At the same time, tax revenues rebounded in 2023 with the resumption of trade flows after the lifting of ECOWAS sanctions and the easing of inflationary pressures and tax expenditure needs, leading to a stabilisation of the fiscal deficit at 4.8% of GDP.

Following the lifting of sanctions announced by ECOWAS, short-term priorities include preserving the benefits of regional integration through the establishment of bilateral agreements for the free movement of goods, services, people, and capital with ECOWAS countries that are not members of the WAEMU, while continuing reforms to improve public expenditure management and the performance of tax administration.

POLITICAL AND ECONOMIC CHALLENGES

Mali has been experiencing a period of instability and conflict since the military coup of 2012 and the occupation of northern regions by armed groups.

Following the institutional rupture on August 18, 2020, a government and a National Transitional Council (NTC), acting as a national assembly, were established pending the organisation of democratic elections. Colonel Assimi Goïta was proclaimed head of state on May 28, 2021, by the Constitutional Court.

The inter-Malian dialogue for peace and national reconciliation, organised by the transitional authorities from April 13 to May 10, 2024, was presented as an initiative aimed at restoring peace and social cohesion through "consensual solutions." However, two of the recommendations attracted the most attention. One concern extending the transition period from three to five years before democratic elections. The other is the amendment of Article 9 of the Transitional Charter to allow President Assimi Goïta to run in the next presidential election.

On July 11, the government lifted the suspension that had affected political parties since April 10. The authorities had suspended, "until further notice," the activities of political parties and associations with a political character across the entire territory, citing "political and security reasons."

The country's security situation significantly deteriorated on September 17 with attacks by terrorist groups targeting the National Gendarmerie School and Bamako-Sénou Airport. A branch of the local Al-Qaeda affiliate (JNIM) claimed responsibility for the attack. According to media reports, these attacks resulted in several deaths and injuries.

Other Regulatory and Legal Challenges

Mali is a landlocked country, challenging to manage due to its size, surrounded by seven borders and connected to the sea by three deteriorating road routes. The Bamako/Dakar railway line is also inactive. Transportation accounts for 25 to 30% of the cost of essential goods. Roads are the dominant mode of transportation, accounting for 90% of the movement of people and goods, and 95% of the transport of exports to departure ports in neighboring countries. However, Mali's road network is limited, with a road density (paved and dirt roads) of 1.87 km per 100 km², compared to 3.1 km per 100 km² for ECOWAS and 4.7 km per 100 km² for Africa as a whole. Climate change, among other things, affects rainfall patterns and disrupts already precarious balances between pastoralists and sedentary populations. These new imbalances, for which there are yet no solutions, are increasingly exploited by religious extremists and add to the instability in areas that have long been fragile due to their isolation and the limited presence of state services. Modeling by the Intergovernmental Panel on Climate Change (IPCC) indicates an increase in precipitation in some areas (west and south) and a decrease in the north and east of the country, with greater variability, a rise in average temperatures, and more extreme weather events for Mali. Environmental degradation is being accelerated by increased human activity linked to rapid population growth, compounded by migratory flows of people moving toward stable urban areas, with rural exodus steadily rising since the security crises.

EU-MALI ECONOMIC RELATIONS

Investment and Trade

The European Union (EU) has trade and development agreements with Mali, notably the Economic Partnership Agreement (EPA) with ECOWAS, which is still awaiting ratification, and the "Everything But Arms" (EBA) initiative, offering duty-free access to Malian products, except arms. The EU is a key trading partner for Mali, especially for exports of cotton and gold, though European direct investments remain limited due to security concerns.

Key sectors in the Malian economy include gold mining, agriculture (notably cotton), renewable energy, infrastructure, and financial services. The EU contributes to supporting these sectors, particularly through development projects for sustainable agriculture, infrastructure, and access to energy, aiming for economic stability and sustainable growth in Mali.

EUROPEAN BUSINESS PRESENCE

The presence of European companies in Mali has experienced some contraction since the pandemic, primarily due to increased security concerns and the political instability that has affected investor confidence. The number of new European companies entering the Malian market has decreased, while some existing companies, particularly in non-essential sectors, have scaled back or temporarily suspended operations.

However, European involvement has remained stable in critical sectors such as mining, renewable energy, and infrastructure. Companies from France and other EU countries continue to play a key role, particularly in the mining sector, given Mali's significant gold reserves.

Since the pandemic, European investments have shown a shift towards sustainable projects, such as renewable energy and agriculture, reflecting global trends toward resilience and sustainability.

The European business community in Mali has generally contracted since the pandemic due to the combined effects of COVID-19, security issues, and economic disruptions. While some sectors remain active, such as mining and renewable energy, other industries have seen reduced European engagement. Travel and logistical constraints due to the pandemic, coupled with ECOWAS sanctions and political tensions, have further limited new entrants and expansions within the European business community in Mali.

Security issues, particularly in northern and central Mali, have been a significant deterrent. Political instability and conflicts with extremist groups have created a challenging environment for European businesses.

Recent political upheavals and ECOWAS sanctions have made the regulatory environment unpredictable, which has raised concerns about investment security.

Despite the challenges, high demand in specific sectors such as mining, renewable energy, and infrastructure presents opportunities for companies with risk tolerance and experience in emerging markets. The EU and European development banks have supported some of these sectors, enhancing their appeal for European firms.

Increased global emphasis on sustainability has encouraged European companies focused on renewable energy and sustainable agriculture to enter or remain active in Mali, particularly with support from EU-backed development projects.
Overall, while European presence in Mali has contracted since the pandemic, companies focused on critical and sustainable sectors have maintained or even increased their involvement, driven by sectoral demand and strategic development initiatives.

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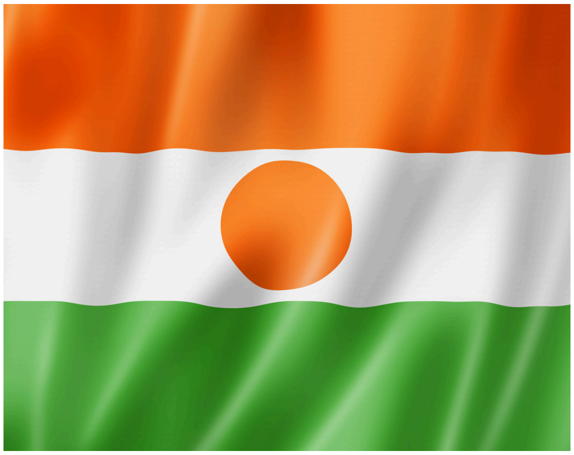
NIGER



FUTURE (ECONOMIC) OUTLOOK

Economy has slowed in 2023 and 2024 due to political instability, security issues and climate change impacts on local food production.

In addition to that, economic embargo from EU and ECOWAS degraded the business environment.

Most indicators are in the red including nutrition and health.

BUSINESS/ INVESTMENT ENVIRONMENT

The business landscape is pretty wide and presents few major investments which represents a lot of opportunity. Most analysts agree to a market with a lot of potential.

Thus, it has become very complicated for European companies to do business in the country.
Even simple procedure such as issuing visas has become a tedious process.

POLITICAL AND ECONOMIC CHALLENGES

Military regime since July 2023, no visibility whatsoever for delay of transition.

OTHER REGULATORY AND LEGAL CHALLENGES

Most of multilateral agreements have been cancelled including some diplomatic major conventions.

INTEGRATION WITH EU POLICIES

Most agreements are frozen.

EU-NIGER ECONOMIC RELATIONS

Investment and Trade

Most investments and trade collaborations have been cancelled and or frozen till further notice.

EUROPEAN BUSINESS PRESENCE

Most companies have closed shop since July 2023.

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NIGERIA

FUTURE (ECONOMIC) OUTLOOK

Nigeria's economy is projected to grow at 3.1% in 2024, driven by recovery in non-oil sectors such as agriculture, technology, and manufacturing.

Diversification efforts are expected to reduce reliance on oil, with stronger contributions from renewable energy, services, and export-oriented industries.

Population Growth and Urbanisation

Nigeria's rapidly growing population is expected to reach to 230 million by 2030, presents a large consumer market for goods and services.

Urbanisation trends will spur demand for housing, infrastructure, and utilities, creating opportunities for European companies in construction and urban development.

Inflation and Currency Stability

Inflation is expected to moderate slightly but remain elevated due to structural challenges.

Efforts to unify exchange rates and build foreign reserves may stabilise the Naira, enhancing predictability for foreign investors.

Potential Changes in Market Dynamics

- **Digital Economy Expansion:**
  - Continued growth in fintech and e-commerce, fueled by increasing internet penetration and adoption of digital payments.
  - Opportunities in tech-enabled sectors such as healthtech, edtech, and logistics.
- **Agricultural Modernisation:**
  - Government focus on mechanisation and value chain development will improve productivity and open new markets for agro-processing and export-oriented agriculture.
- **Energy Transition:**
  - Rising investments in renewable energy, mini-grids, and energy efficiency will transform the energy landscape, aligning with global sustainability goals.
- **Infrastructure Development:**
  - Large-scale projects in transportation (rail, road, and ports) and power generation will continue, with more public-private partnerships (PPPs) expected.
- **Regional Trade Integration:**
  - Implementation of the African Continental Free Trade Area (AfCFTA) will reshape trade dynamics, enabling Nigeria to serve as a regional hub for goods and services.

Regulatory Landscape Shifts

- **Tax Reforms:**
  - Potential simplification of the tax system to attract foreign investment, alongside stricter enforcement of tax compliance.
  - Increased focus on digital tax frameworks to capture revenues from e-commerce and tech companies.
- **Sustainability Regulations:**
  - Introduction of policies aligned with global ESG standards, requiring businesses to adopt sustainable practices in operations and reporting.
- **Customs and Trade Facilitation:**
  - Expected modernisation of customs processes, including digitalisation and streamlined procedures, to reduce delays and corruption.
- **Local Content and Industrial Policies:**
  - Expansion of local content requirements across sectors, particularly in energy, manufacturing, and technology, to boost local job creation and value addition.
- **Investment Protection:**
  - Strengthening of investment protection frameworks to improve investor confidence, including dispute resolution mechanisms and clearer regulatory guidelines.

Opportunities for European Businesses

- **Consumer Market Expansion:** Rising middle-class purchasing power will drive demand for FMCGs, tech products, and services, creating new markets for European businesses.
- **Sustainability Leadership:** European expertise in renewable energy, waste management, and ESG compliance positions businesses to lead in Nigeria's green transition.
- **Export Potential Under AfCFTA:** European businesses can leverage Nigeria's position as a regional hub to tap into broader African markets.
- **Infrastructure Investments:** Continued opportunities in construction, transport, and energy infrastructure development under Nigeria's National Development Plan.

Challenges to Monitor

- **Regulatory Complexity:**
  - Ongoing reforms may create transitional uncertainties, requiring businesses to stay agile and informed.
- **Security Concerns:**
  - Persistent security issues in certain regions could affect operations and logistics.
- **Inflationary Pressures:**
  - High costs of goods and services may challenge profitability and consumer demand.
- **Political Transitions:**
  - Changes in leadership or policy focus after elections could influence economic priorities and regulatory environments.

Conclusion

Nigeria's future economic outlook is characterised by growth potential in diverse sectors, supported by government diversification efforts and regulatory modernisation. While challenges like inflation, security, and regulatory complexity remain, European businesses can capitalise on emerging opportunities by aligning with Nigeria's evolving market dynamics and sustainability priorities. Strategic partnerships, innovation, and agility will be essential for navigating this dynamic landscape.

BUSINESS/ INVESTMENT ENVIRONMENT

Government priorities

- Economic diversification into non-oil sectors like renewable energy, agriculture, and technology.
- Implementation of AfCFTA to position Nigeria as a regional trade hub.
- Investments in infrastructure development, including transport and power.

Sectorial opportunities & challenges

- **Renewable Energy:** Opportunities in solar and mini-grids; hindered by financing gaps and regulatory delays.
- **Technology:** Growth in fintech and e-commerce, limited by infrastructure gaps.
- **Agriculture:** Mechanisation and export opportunities; hindered by poor infrastructure and land disputes.
- **Manufacturing:** Local content policies create opportunities but face high production costs and multiple taxes.

POLITICAL AND ECONOMIC CHALLENGES

Political influences on business operations

- Policy instability, corruption, and favoritism in public tenders hinder business confidence.
- Weak governance structures and inconsistent judicial enforcement create uncertainty.

Strategies for European companies navigating these dynamics

- Engage in collective advocacy through EuroCham to address systemic challenges.
- Diversify investments into resilient sectors (e.g., technology and renewable energy).
- Collaborate with local stakeholders to navigate regulatory complexities.

INTEGRATION WITH EU POLICIES

- **Benefits:** Collaborative opportunities in sustainability, renewable energy, and digital transformation through EU-backed funding (e.g., Global Gateway).
- **Challenges:** Regulatory inconsistencies and non-tariff barriers create compliance hurdles for European businesses.

EU-NIGERIA ECONOMIC RELATIONS

Investment and Trade

Statistics on European investment and trade activities

- EU-Nigeria trade volume was €28.7 billion in 2021, with Nigeria maintaining a trade surplus.
- The EU remains Nigeria's largest investor, with significant presence in oil & gas, manufacturing, and agriculture.

Key Industries and Sectors

- Oil & gas dominates exports.
- Manufacturing and agriculture present growing opportunities for European businesses.

EUROPEAN BUSINESS PRESENCE

Statistics/Trends in the Presence of European companies since the pandemic

Over 230 European companies operate in Nigeria, employing 130,000+ workers.

Growth or contraction of the European business community

42% of these companies entered Nigeria in the last decade, reflecting growing market appeal.

Market Entry Statistics and Trends

Strategic location and a large consumer market attract investors; regulatory complexity and infrastructure deficits deter some entrants.

OPPORTUNITIES AND CHALLENGES

ESG Trends

- **Opportunities:** Growing demand for renewable energy, waste management, and sustainability initiatives.
- **Challenges:** Weak enforcement of ESG regulations, high costs of implementation, and limited infrastructure for green projects.

Supply Chain Redistribution/Resilience

Post-COVID Adjustments

- Increased local sourcing and digitalisation in supply chains.
- AfCFTA provides opportunities for regional supply chain diversification.

Challenges

- Customs inefficiencies
- Port congestion
- Infrastructure bottlenecks.

The resulting impacts on European businesses and the potential for supply chain diversification or reshoring.

- Cost adjustments and investments in local capacity are helping companies adapt to Nigeria's logistical challenges.

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RWANDA

FUTURE (ECONOMIC) OUTLOOK

Rwanda's economy is poised for continued growth, driven by a focus on technology, agriculture, and services. The government's Vision 2050 aims to transform Rwanda into a high-income country, emphasising sustainable development and economic diversification.

In early 2024, Rwanda's GDP growth reached 9.7%, rising from 8.2% in 2023, with a significant boost from consumer activity within the services and industry sectors. Government policies, particularly those enhancing infrastructure and supporting digital transformation, have played a substantial role in this economic expansion. Additionally, stable inflation rates have provided a more predictable business environment, with inflation declining to 5% due to targeted monetary policies and improved food supplies, bringing it within the National Bank of Rwanda's target range.

Despite facing global economic challenges, Rwanda's economy is anticipated to maintain its resilience and growth momentum, supported by strategic investments and a favourable policy environment geared toward high-impact, long-term economic development.

BUSINESS/ INVESTMENT ENVIRONMENT

Government Priorities

Rwanda's government prioritises economic transformation through its Vision 2050, which focuses on:

- Enhancing human capital development.
- Focusing on skills development to meet private sector needs.
- Promoting sustainable agriculture.
- Boosting the manufacturing and service sectors.
- Advancing ICT and innovation.

Sectoral Opportunities and Challenges

- **Agriculture:** Opportunities in modernising agricultural practices and improving value chains, with challenges related to climate change and access to finance.
- **ICT:** Significant growth potential in tech startups and digital services, supported by government initiatives like Smart Rwanda Master Plan, though there are challenges in scaling and market reach.
- **Tourism:** Potential for growth in eco-tourism and conference tourism, but challenges include regional competition and infrastructure development.

Potential Changes in Market Dynamics

Market dynamics in Rwanda are expected to evolve with increasing digitalisation, urbanisation, and a growing middle class. The service sector, particularly finance and IT, is likely to expand, while agriculture will continue to modernise. The integration of technology in various sectors will drive efficiency and productivity improvements.

Regulatory Landscapes

Rwanda's regulatory environment is becoming more conducive to business, with ongoing reforms aimed at improving the ease of doing business. Key regulatory changes include enhancements in property registration, credit information systems, and investor protections. The country's commitment to regulatory excellence is reflected in the latest Business Ready Report, where it ranked 3rd globally in operational efficiency (81.31), 8th in public services (67.37), and 17th in regulatory frameworks (70.35). These achievements underscore Rwanda's drive to position itself as a premier destination for global investors and businesses.

More can be done to include the voice of the EU Private sector stakeholders in regulatory processes before new reforms come into place plus give more time for economic planning and implementation of reforms.

POLITICAL AND ECONOMIC CHALLENGES

Political Influences on Business Operations

Rwanda's stable political environment generally supports business operations, but businesses must navigate policies designed to balance economic growth with social development. Political stability and strong governance are positive factors. Foreign investor support is reinforced through streamlined regulations and robust infrastructure, especially within the Kigali Special Economic Zone.

However, companies must remain agile and informed about policy shifts and government priorities to navigate Rwanda's evolving economic landscape effectively.

Strategies for Navigating Dynamics

European companies can navigate these dynamics by:

- Engaging with local stakeholders and government agencies.
- Investing in community development and aligning with national development goals.
- Diversifying investments across sectors to mitigate risks associated with policy changes.

INTEGRATION WITH EU POLICIES

Alignment with EU Policies in Trade and Commerce

Rwanda aligns with EU policies through various trade agreements and development partnerships. This alignment provides benefits such as access to European markets and support for sustainable development initiatives, but challenges include meeting stringent EU standards and regulations.

EU-RWANDA ECONOMIC RELATIONS

Investment and trade

- **FTA's and Other Agreements:** The Economic Partnership Agreement (EPA) between the EU and the East African Community (EAC), which includes Rwanda, aims to facilitate trade and investment. However, full implementation is still pending.
- **Statistics on European Investment and Trade Activities:** European investment in Rwanda is concentrated in sectors like agriculture, finance, and ICT. Trade statistics show a growing exchange of goods, particularly agricultural products and machinery.
- **Key Industries and Sectors Involved:** Key sectors include agriculture (coffee, tea), manufacturing, and ICT.

TRENDS IN EUROPEAN COMPANIES IN RWANDA

European Business Presence

- **Statistics/Trends:** The presence of European companies in Rwanda has been growing, particularly in the tech, agriculture, and finance sectors.
- **Growth or Contraction:** The European business community has generally seen growth post-pandemic, driven by new investment opportunities and government incentives.
- **Factors Influencing Market Entry:** Factors include Rwanda's stable political environment, strategic location within East Africa, and pro-business reforms.

Opportunities and Challenges

ESG Trends

European companies in Rwanda are increasingly focusing on Environmental, Social, and Governance (ESG) criteria, driven by both local regulations and corporate policies. Emerging sustainability initiatives include renewable energy projects, sustainable agriculture, and community development programs.

Supply Chain Redistribution/Resilience

Post-COVID, there is a shift towards strengthening supply chain resilience. European businesses are exploring supply chain diversification and reshoring opportunities to mitigate disruptions. This includes investing in local supply chains and logistics infrastructure to enhance reliability and reduce dependency on global supply chains.

EUROPEAN BUSINESS PRESENCE IN RWANDA

Statistics/Trends in the Presence of European Companies Since the Pandemic

Since the COVID-19 pandemic, the presence of European companies in Rwanda has shown resilience and a gradual recovery. Key statistics and trends include:

Investment Inflows

European investment in Rwanda saw a temporary decline during the peak of the pandemic but has since been recovering. For instance, the European Union (EU) remains one of Rwanda's major trading and investment partners. The EU's Foreign Direct Investment (FDI) in Rwanda has shown a steady increase in recent years, reflecting renewed interest and confidence in Rwanda's economic stability. Furthermore around 300 European companies, especially small and medium sized companies are believed to be in the country, and out of 180 members in the European Business Chamber 100 of them have European ownership.

New Entrants and Expansions

Several European companies have entered or expanded their operations in Rwanda post-pandemic. Companies in sectors such as renewable energy, construction, technology, and manufacturing have been particularly active. For example, German, French, and Belgian firms have been notable in sectors like construction and technology.

Trade Statistics

Trade between Rwanda and European countries has also been on the rise. The EU is one of Rwanda's largest export markets, particularly for coffee and tea. In 2022, Rwanda's exports to the EU increased, indicating a robust trade relationship.

Growth or Contraction of the European Business Community

Growth

The European business community in Rwanda has generally seen growth. This is driven by Rwanda's strategic efforts to create a conducive business environment, such as improving infrastructure, reducing bureaucratic hurdles, and providing incentives for foreign investors. The Kigali Special Economic Zone has been particularly attractive to European businesses.

Contraction

While there was a contraction during the early stages of the pandemic due to global economic uncertainties, the overall trend post-pandemic has been one of recovery and growth. Some smaller enterprises may have exited the market, but larger firms have continued to invest and expand.

Factors Influencing Market Entry

Political and Economic Stability

Rwanda's political stability and consistent economic growth have been major draws for European investors. The government's Vision 2050 plan, which aims to transform Rwanda into an upper-middle-income country, has also attracted long-term investments.

Business Environment

Rwanda ranks highly in the World Bank's Ease of Doing Business index, which appeals to foreign investors. Reforms aimed at reducing red tape and improving regulatory frameworks have made market entry smoother for European companies.

Strategic Location

Rwanda's location in East Africa provides a gateway to the East African Community (EAC) market, which is a significant factor for European businesses looking to access a larger regional market.

Incentives and Support

The Rwandan government offers various incentives to foreign investors, including tax holidays, exemptions, and favorable land lease terms. The Rwanda Development Board (RDB) actively supports foreign businesses through facilitation and advisory services.

Sector-Specific Opportunities

Key sectors attracting European companies include renewable energy, ICT, agriculture, and infrastructure. For instance, the renewable energy sector has seen significant investments from European firms, supported by Rwanda's push towards sustainable development.

Human Capital

Rwanda's investment in education and skills development has resulted in a relatively well-educated workforce, which is attractive to European companies seeking skilled labor.

In summary, the European business presence in Rwanda has shown a positive trend towards recovery and growth since the pandemic. Factors such as political stability, a favorable business environment, strategic location, government incentives, and sector-specific opportunities have been crucial in influencing European companies to enter and expand in the Rwandan market.

OPPORTUNITIES AND CHALLENGES

The ESG Landscape and Adaptation to Local Regulations by European Businesses

In recent years, Rwanda has made significant strides in promoting sustainability and corporate responsibility, positioning itself as a regional leader in environmental, social, and governance (ESG) practices. The Rwandan government has implemented various policies aimed at fostering sustainable development, such as the Green Growth and Climate Resilience Strategy, which outlines ambitious goals for reducing carbon emissions, enhancing renewable energy usage, and promoting sustainable land use.

European businesses operating in Rwanda have shown a growing commitment to aligning with these local regulations and contributing to the country's sustainability goals. Multinational corporations are increasingly integrating ESG criteria into their operations, driven by both regulatory requirements and a heightened awareness of the importance of sustainability. Initiatives such as zero-waste production, renewable energy adoption, and community development programs are becoming more common among European firms in Rwanda. Companies are also focusing on improving labor conditions, ensuring fair wages, and supporting local communities through various social responsibility programs.

Moreover, the push for greater corporate transparency and accountability has led to improved ESG reporting standards. European businesses are now more frequently disclosing their environmental impact, social contributions, and governance practices, in line with both Rwandan regulations and international standards. This trend not only enhances corporate reputation but also builds trust with stakeholders and local communities.

Supply Chain Redistribution/Resilience

The Changing Supply Chain Landscape Post-COVID

The COVID-19 pandemic has fundamentally altered global supply chains, revealed vulnerabilities and prompted a reassessment of supply chain strategies. For European businesses operating in or sourcing from Rwanda, these changes have been particularly significant.

The pandemic-induced disruptions highlighted the risks associated with over-reliance on specific geographic regions and single-source suppliers.

In response, many European companies have begun diversifying their supply chains to enhance resilience. This involves a strategic shift towards multi-sourcing, increasing inventory buffers, and exploring alternative supply routes. Additionally, there is a growing emphasis on building more robust local supply chains within Rwanda to reduce dependency on international logistics, which were severely disrupted during the pandemic.

Impacts on European Businesses and Potential for Supply Chain Diversification or Reshoring

The post-COVID landscape presents both challenges and opportunities for European businesses in Rwanda. On one hand, supply chain disruptions have led to increased costs and logistical complexities. On the other, the drive for diversification offers potential benefits, such as greater stability and reduced risk of future disruptions. European companies are now considering reshoring—bringing production closer to home—or nearshoring to neighboring African countries with more stable supply chains.

Rwanda's strategic location and improving infrastructure make it an attractive option for supply chain diversification. The country's investment in transportation networks, including roads, railways, and the Kigali International Airport, enhances its appeal as a logistics hub in the region. Additionally, Rwanda's commitment to business-friendly policies and its growing role in the African Continental Free Trade Area (AfCFTA) provide further incentives for European businesses to invest in local supply chains.

In conclusion, the evolving ESG and supply chain landscapes in Rwanda present European businesses with both challenges and opportunities. By embracing sustainability initiatives and adapting to local regulations, companies can enhance their corporate responsibility and reputation. At the same time, the lessons learned from the COVID-19 pandemic are driving a more resilient and diversified approach to supply chain management, positioning European businesses to better navigate future uncertainties.

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SENEGAL

FUTURE (ECONOMIC) OUTLOOK

The Sénégal should became an oil & gas producer. Those resources are intended to be exported. It should make a huge change in the export balance of the country in term of foreign currencies and should allow the state to reimburse is depth. Part of the gas should be used as gas to power in order to lower the energy price which could be good for agriculture and industry development.

BUSINESS/ INVESTMENT ENVIRONMENT

Government Priorities

- Improve purchasing power of population
- Create more formal activities and employees
- Improve taxes income by creating formal companies and activities

Sectoral Opportunities and Challenges

- Oil & Gas sectors are top opportunities as production should began soon.
- Then agriculture and industry around agriculture products should be focused by investors.
- Construction is still an ongoing sector with the constant raise of the population.
- The main challenge is to fight against unformal economy.

POLITICAL AND ECONOMIC CHALLENGES

Political Influences on Business Operations

The actual new government is looking for money only on formal economy who is pressed like a lemon. No sign of fight against unformal economy is seen.

The legislative election on 17th November is uncertain for the new government, we could have cohabitation or coalition after the election.

Strategies for European Companies Navigating these Dynamics

European companies, which follow all the rules, must be prepared for 2025, because after one year of audit and lack of activities (and money), the economy has to rise again with oil & gas production.

Other Regulatory and Legal Challenges

The “local content” on oil & gas, soon on mining industry and tomorrow, perhaps on other sectors is mostly against European companies.

Another main issue is the 9th article of the BCEAO which try to rule bank account deposit in the “Zone Franc”. The article is not well written and can be interpreted against companies, which can result in extra taxes.

INTEGRATION WITH EU POLICIES

Sénégal is still under the “all except weapon” agreement, which is good for exportation from Sénégal to Europe, but in the other way, customs taxes are expensive. As there is a strong unformal economy, European companies can fight equally when they have to import goods (or now, services).

EU-SENEGAL ECONOMIC RELATIONS

Investment and Trade

FTA’s and other agreement between the EU and your country (status; implementation)

“All except Weapon” agreement, which means all exportation from Sénégal to Europe are tax free for formal companies (mainly European one in agriculture and fishing). It’s not the case in the other way.

Statistics on European Investment and Trade Activities

Europe is the first investor in Sénégal for years, China is not far behind. Europe is still the main economic partner of the Sénégal, as Mali has issue. European companies' activities represent one-thirds (1/3) of Sénégal's GDP.

Key industries and sectors involved

Europe is present in every sector: Agriculture, Mining, Fishing Industry, Bank, Insurance, Infrastructures, Services, Pharmacy.

EUROPEAN BUSINESS PRESENCE

Statistics/Trends in the Presence of European Companies since the Pandemic

Covid has no effect on the presence of European companies. There was a break in new players, things went well until the presidential election at the beginning of this year. We hope that the country will be attractive again next year.

European community is still the same, especially if you consider binational peoples (French, Spanish, Italian and belge – Senegalese).

Factors Influencing Market Entry

The weather and the climate are one of the most attractive points. The way the Sénégal use to be present at an international level was a positive attractive point.

Violence during the election, and the nationalist speech of the new prime minister are bad points.

OPPORTUNITIES AND CHALLENGES

ESG Trends

European companies are almost the only one who have ESG plans. It would become mandatory in Oil & Gas & mining.

Supply Chain Redistribution/Resilience

The management of the Dakar harbour is the main issue on supply chain, because boats don't stop anymore in Dakar, so goods must be transported in other countries. It cost much more, and delay is longer.

Europe is closer than China, so we have an advantage in supplying cereals and goods. The international boat line issues play for shorter distance.

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Americas and Caribbean Region

CANADA

INTRODUCTION

In collaboration with 27 European bilateral chambers of commerce (and business associations), with endorsement from the Delegation of the European Union to Canada, EUCCAN (EU Chamber of Commerce Canada) serves as a pivotal resource for European businesses operating in Canada. EUCCAN's mandate rests on three pillars: Advocacy, Information, and Representation.

EU-CANADA ECONOMIC RELATIONS

CETA: Comprehensive Economic and Trade Agreement

As a staunch proponent of free trade, Canada maintains 15 trade agreements with 51 countries, providing access to global markets. Canada has more comprehensive trade agreements than any other G7 country. Central to Canada's trade policy with the EU is the Comprehensive Economic and Trade Agreement (CETA), which has been a linchpin in reducing trade barriers and boosting economic ties between Canada and the EU. The agreement has eliminated duties on 98% of tariff lines and incorporates progressive provisions on sustainable development, labor, and environmental standards.

Since CETA's provisional implementation in 2017, bilateral trade has increased more than 65% in goods, almost 73% in services, and 2-way investment stands at C$445 billion. The trade pact not only enhances the flow of goods but also bolsters services and investment across the Atlantic.

However, obstacles remain, including the partial ratification by EU member states (balking because of the clause on investor-state dispute settlement) and ongoing issues regarding mutual recognition of professional qualifications (though an MRA for architects is now in effect), duplicative inspections and divergent product standards, Canada's supply management system (dairy), and Canada's Bill C-19 which imposes a luxury tax on the sale and import of subject vehicles that exceed $100 K.

EU-Canada Strategic Partnership Agreement

The EU and Canada enjoy a broad-based Strategic Partnership Agreement, addressing global issues ranging from security to climate change. This includes a dedicated partnership on raw materials, where Canada plays a key role in the EU's critical mineral supply chains. An emerging Canada-EU Digital Partnership also underscores a joint focus on artificial intelligence and next-generation networks. Moreover, in 2024, Canada joined Horizon Europe under Pillar 2, further embedding its role in Europe's innovation landscape.

The European Business Presence

Canada has been called the most European of non-European countries. Toronto, Montreal, and Vancouver are home to many expats from EU member states. Canada's open market, stable institutions, and proximity to the US make it an attractive destination for European businesses, with EU companies investing $246.9 billion in the country. European small and medium enterprises represent 79% of EU exporters to Canada, using the country as a gateway to the North American market. Canada and the EU exchange more than $136 billion in two-way trade in goods and services.

BUSINESS ENVIRONMENT

Facing elevated economic uncertainty due to US tariffs, Canada is seeking to diversify its trade partnerships as a counter to dependence on the US. Canada's economic fundamentals remain solid, with low corporate tax rates and a resilient banking sector, though regulatory burdens and internal trade barriers hamper the country's competitive edge. Given the threats from the south, there is growing political will to address the challenges of interprovincial trade. Ongoing trade disputes with China could introduce further uncertainties.

Sectoral Opportunities

Within G20 nations, Canada ranks among the top performers in several sectors and is one of the top three countries for FDI inflows. It is a global leader in EV supply chains, boasting abundant resources such as lithium and nickel. Its agribusiness and advanced manufacturing sectors are similarly well-positioned for growth, bolstered by government incentives for clean energy and innovation.

Notably, Canada's technology sector continues to thrive, with international firms attracted by the country's skilled labor force and supportive R and D policies. The country remains a destination for firms specialising in AI, cybersecurity, and biotech, with visa fast-tracks helping to draw top global talent.

Supply Chain Resilience and Challenges

Canada established a National Supply Chain Office in 2023, aiming to strengthen logistical networks. However, labor shortages, fragmented transportation policies, and the slow certification of skilled trades remain significant bottlenecks. Construction and manufacturing bear the brunt of domestic input challenges. Extreme weather events and policy misalignment also add to the complexity, as the country seeks to modernise its infrastructure and enhance resilience.

Sustainability and Corporate Responsibility

Canada is a prominent advocate for sustainable development. Through CETA, the country has committed to maintaining its high environmental standards. By 2030, Canada aims to reduce its greenhouse gas emissions by 40% to 45% below 2005 levels. The country is actively building socially responsible supply chains, particularly in critical minerals and cleantech sectors, while collaborating with global partners to promote renewable energy.

Labor rights remain a cornerstone of Canada's trade agreements, with the government prioritising transparency and ethical business practices. Recent legislation, such as Bill S-211, seeks to address labor abuses in supply chains, pushing firms to adopt higher standards.

The WTO conducted its twelfth Trade Policy Review of Canada in June 2024. Overall, the review highlights that Canada's trade regime remained open and transparent despite global challenges like the COVID-19 pandemic, supply chain disruptions, and geopolitical risks. Delegations commended Canada for its economic resilience and swift recovery from the pandemic-induced recession. Canada was praised for pursuing an inclusive and "feminist" trade policy, aiming to ensure trade benefits are widely shared among traditionally under-represented groups. Some concerns were expressed about Canada's supply management system. Canada's commitment to aligning trade and environmental sustainability goals was welcomed, though some delegations noted the importance of ensuring any future carbon border adjustment mechanism would comply with WTO rules.

CONCLUSION

Despite facing regulatory and supply chain challenges, Canada remains a crucial player in global trade, particularly with the EU. Its commitment to sustainability, innovation, and a progressive trade agenda positions it as an increasingly attractive destination for European businesses seeking stable, long-term growth opportunities. As both partners navigate evolving geopolitical landscapes, the EU-Canada relationship appears poised for further expansion.

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Report Reference

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DOMINICAN REPUBLIC

INTRODUCTION

The Eurochamber of Commerce of the Dominican Republic (Eurochamber-DR) is a confederation of European Member States' Chambers of Commerce, dedicated to fostering and enhancing economic and trade relations between the European Union (EU) and the Dominican Republic. With a strong focus on promoting European business interests in the country, the Eurochamber-DR serves as a key liaison between European companies and the Dominican market. In close collaboration with the Delegation of the European Union to the Dominican Republic, it operates as a vital resource for the European private sector either currently operating in or seeking entry into the Dominican market. Through various initiatives, the Eurochamber-DR provides a platform to strengthen partnerships, improve market access, and promote sustainable growth.

EU-DOMINICAN REPUBLIC ECONOMIC RELATIONS

The economic relationship between the European Union and the Dominican Republic has steadily grown over the years, underpinned by strategic trade agreements and collaborative frameworks aimed at enhancing bilateral trade, investment, and development. The European Union is one of the Dominican Republic's most significant trade partners, contributing both to the diversification of the country's economy and to its integration into the global market.

Key aspects of this relationship include

- **Trade:** The Dominican Republic is the European Union's main trading partner in the Caribbean region, with its bilateral trading relationship in 2023 surpassing over 4,038 million euros. Meanwhile, the European Union is the DR's third largest trading partner after the United States of America and China.
- **Investment:** The European Union is one of the main investment partners in the Dominican Republic. According to the Central Bank of the DR, EU investment in the country reached over 700 million euros in the Dominican Republic in the year 2023, in important sectors such as tourism, energy, renewable energy, agriculture, solid waste, and logistics and maritime infrastructure.

EU-CARIFORUM Economic Partnership Agreement (EPA)

The Economic Partnership Agreement (EPA) between the EU and CARIFORUM, which includes the Dominican Republic, has been a cornerstone of EU-Dominican economic relations. The agreement promotes trade liberalisation and fosters development cooperation between the Caribbean nations and the European Union. The Dominican Republic is the main trading partner and the main recipient of European investment in the Caribbean region. Since entering the European Union-CARIFORUM Economic Partnership Agreement (EPA) of 2008, bilateral trade in good between these entities has grown by 231 percent.

Digital Partnership

The Digital Partnership between the European Union and the Dominican Republic is increasingly becoming a focal point of bilateral relations. As the world moves towards a more digitalised economy, both parties recognise the importance of building robust digital infrastructure, promoting innovation, and enhancing cybersecurity. European companies are playing a crucial role in the digital transformation of the Dominican Republic, particularly in sectors like e-commerce, fintech, and information and communication technology (ICT).

The European Business Presence

The European business presence in the Dominican Republic is both diverse and significant. As the EU's main trading partner in the Caribbean region, European private investment in the country has surpassed over $700 million dollars. European small and medium enterprises, and European companies operate across various sectors, contributing to the country's economic growth and development.

BUSINESS ENVIRONMENT

The Dominican Republic is the largest economy within the Central America and Caribbean region, and the seventh-largest economy in Latin America overall, boasting a dynamic and diversified economy with robust growth over the past decades. Since 2010, the Dominican Republic has been the fastest-growing economy in Latin America and the Caribbean, and one of the world's fastest growing economies over the past half century. Likewise, according to the International Monetary Fund (IMF), the Dominican Republic's per capital GDP (at current prices) reached $27,230 in 2023. It has become a hub for both regional and international investments, thanks to its strategic location, favorable trade agreements, and strong economic fundamentals. The country has seen steady GDP growth, with key sectors such as tourism, manufacturing, and services playing vital roles in driving economic development.

Looking ahead, the Dominican Republic continues to register one of the best growth rates for Latin America and the Caribbean, with the IMF forecasting 5% growth for 2024 and the rest of the decade, barring any mayor domestic and international events. Moreover, the country has preferential trade agreements with Central America, the United States, Panama, the United Kingdom, the European Union, the Caribbean Community and the member states of the Caribbean Forum (CARIFORUM), which have allowed exporters duty-free access to more than 900 million consumers in 49 countries. The DR has also initiated a partnership with Costa Rica, Panama and Ecuador known as the Alliance for Development in Democracy (ADD), which seeks to promote democratic strengthening and economic growth through the tightening of the countries commercial, demographic and cultural ties.

Sectoral Opportunities

Within the Latin America and Caribbean region, the Dominican Republic shines as a top performer in several sectors and is the main recipient overall of Foreign Direct Investment (FDI) in the region. It's also a regional leader in tourism, manufacturing, renewable energy, and infrastructure development.

Tourism

The tourism sector remains one of the Dominican Republic's most critical economic pillars, contributing significantly to GDP, employment, and foreign exchange earnings. In 2024, the Dominican Republic surpassed 10 million yearly tourists, becoming the second most visited destination in the Latin America region, and outpacing countries like Brazil and Argentina, and is on track to receive over 12 million tourists in 2024. The sector has benefited from strategic marketing initiatives, improved air connectivity, and an increased focus on sustainable tourism practices.

Energy

The Dominican Republic is rapidly integrating renewable energy sources into its national grid. By 2025, the country aims to achieve 25% renewable energy dependence. The DR has become a hub for FDI focused on renewable energy in the region. In 2023, FDI on renewable energy accounted for 23% of all FDI entering the country, second only to tourism.

Supply Chain Resilience, Bureaucracy and Challenges

The Dominican Republic has established the ambitious goal of becoming an International Logistics Hub, given its good geographical location in the middle of the entire Atlantic coast of the Americas. With 8 international airports and 10 seaports, complemented by a network of 33 logistics operators and 84 free zones, the country stands out as an unmatched regional hub to handle global trade flows.

The Dominican Republic has also sought to establish itself as a global leader in nearshoring. The Dominican Republic's 86 Free Trade Zones anchor the country's manufacturing economy, supporting over 800 companies that collectively employ over 200,000 workers, produce over $7.77 billion in exports annually, and have cumulative investments of over $7.16 bullion into the country.

The DR has also made important strides to solidify its institutions and regulatory policy environment. Executive Decree No. 640-20 established the "Bureaucracy Zero" program, aimed at enhancing public administration efficiently through clear and appropriate regulatory frameworks that simplify procedures and services will improving the quality of regulation. To date, over 315 procedures from 63 public institutions have been reformed in the 2020-2024 period.

Sustainability and Corporate Responsibility

The Dominican Republic stands as a leading regional advocate for sustainable development, guided by its National Development Strategy (NDS). The country has set ambitious goals to achieve by 2030, including a 27% reduction in greenhouse gas (GHG) emissions. The government is confident that this target will be met through proactive policies and actions. A key element of this effort is the establishment of socially responsible supply chains, especially in critical minerals and cleantech sectors, while partnering with global actors to advance renewable energy solutions.

Additionally, the Dominican Republic is highly committed to enhancing its capacity to both mitigate and adapt to climate change. It recently became one of the first countries in the region to launch a Guide on Green Bonds, aimed at expanding and diversifying financial instruments available in its stock market. Building on this initiative, on June 25, 2024, the country issued its first sovereign green bond in international markets, featuring a 12-year maturity and an annual coupon rate of 6.6%. Given the country's budgetary limitations, mobilising private and international capital is crucial to meet its sustainable development and climate change objectives.

Beyond these advancements, the Dominican Republic is emerging as a global hub for sustainable tourism. The United Nations Environment Programme (UNEP) recently launched its flagship initiative, the Roadmap for Low Carbon and Resource Efficient Accommodation in the Dominican Republic, which outlines an ambitious program to enhance sustainability in the country's tourism sector.

Conclusion

The Dominican Republic continues to solidify its status as a key player in the Latin America and Caribbean region, attracting significant foreign investment, fostering trade relations, and leading in critical sectors such as tourism, renewable energy, and logistics. Through its robust collaboration with the European Union, as evidenced by trade partnerships like the EPA and innovative financial instruments such as green bonds, the Dominican Republic is steadily advancing toward its ambitious goals for 2030. The country's forward-looking approach—emphasising sustainability, digital transformation, and supply chain resilience—positions it to navigate global challenges while fostering long-term growth. As European businesses continue to play a pivotal role in this trajectory, the Eurochamber-DR remains a vital conduit for strengthening these ties. With an improving regulatory environment and a government committed to transparency and efficiency, the Dominican Republic offers vast opportunities for investors seeking to be part of a growing, resilient, and sustainable economy.

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TRINIDAD & TOBAGO

FUTURE ECONOMIC OUTLOOK

Trinidad and Tobago is an oil and gas-based economy that exports around 5 billion Euro of gas and petrochemical, including liquefied natural gas, anhydrous ammonia, methanol, urea and ammonium nitrate to the European Union annually. While short and medium-term Government priorities continue to focus on maximising opportunities in oil and gas as these sectors are important sources of government revenue and foreign exchange, there are projects for the transitioning to alternative sources of clean energy. Transition projects are driven largely by intended nationally determined contributions under COP/Paris Agreement, the international energy sector present in Trinidad and Tobago, the private sector and the multinational agencies, including the EU and UN and most recently the EU's carbon border adjustment mechanism.

These opportunities could be speeded up, but important supporting legislation and regulations related to renewable energy among other sustainable development areas must be passed in Parliament.

BUSINESS/INVESTMENT ENVIRONMENT

Growth Opportunities for European Companies

Natural Gas

As a result of the Russian aggression and the war in the Ukraine, the demand for LNG from Trinidad and Tobago has increased. However, immediate expansion is constrained by gas supplies. In 2024–2026, natural gas production will be maintained by several projects managed by bpTT, Shell and the American EOG Resources.

Additionally, Trinidad and Tobago and Venezuela share cross border gas fields such as the Dragon Gas Field and Cocuina-Manakin gas field and licences have been negotiated with the US Treasury Office of Foreign Assets Control (OFAC) for Trinidad and Tobago and its partners to explore these fields which can support the increased natural gas demand. OFAC licence is necessary to avoid Trinidad and Tobago from being sanctioned by the US for working with Venezuela. There is some uncertainty now based on the political situation in Venezuela, how and when arrangements will move forward.

Transitioning Opportunities in the Energy Sector

Outside of oil and gas but within the energy sector, opportunities exist for transitioning to clean energy. With several international oil and gas companies already present such as BP, Shell, Repsol, EOG, a good base of energy sector engineers, energy industry training institutes, technical service companies and other aspects of an oil and gas eco system, the base for transitioning exists and many companies are already involved in planning and studies.

The EU Carbon Border Adjustment Mechanism (CBAM) has also created the drive and opportunity for alternative energy to fuel the existing methanol, ammonia, urea, plants and other industries dependent on natural gas-based energy.

Specific project and opportunities

- The **NewGen Energy Limited/ NewGen Carbon Neutral/ Green Hydrogen Project** will produce decarbonised hydrogen via electrolysis of water utilising low carbon power sources such as solar and power from waste heat. Hydrogen will then be used as feedstock to replace natural gas in the production of the exportable commodities. NewGen is a joint venture between the French company HDF Energy and local company Kenesjay Green Limited.
- **A draft strategy for developing a wind industry in Trinidad and Tobago covering the period until 2035 has been developed and funded by the EU.** Having a strategy for wind power generation, the next major step will be to undertake a Wind Resources Assessment Programme.

- **The Government, with Technical Assistance from the Global Climate Change Alliance (funded by the EU) has been working on a national renewable energy policy.** This policy aims to establish a legislative framework for renewable energy generation and includes provisions for a licensing structure and feed-in tariff policy to facilitate private sector participation in renewable energy projects. **This policy is long overdue.**
- A utility-scale solar project jointly owned by BP and Shell is being developed towards achieving the target of 30% of electricity from renewable sources by 2030.
- Additionally, having made very early investment in methanol production, **Proman (formerly German now a Swiss registered company) and Methanex, two of the largest methanol producers are looking to establish a methanol-based marine-fuel bunkering facility.** There has been a move to establish methanol-based fuel as a cleaner alternative to diesel for the shipping industry.

Marine Related Opportunities

- **Dutch company Van Oord and its Spanish subsidiary Dravo won the bid and are in the implementation phase of the dredging and reclamation aspects for.** The San Fernando Waterfront Reclamation Project. The project commenced in July 2024 and is expected to transform the area into a thriving hub for tourism, business, leisure and cultural activities. The project will feature improved transportation facilities, expanded family-oriented spaces and preservation of historical assets through sustainable urban design. EUROCHAMTT visited the work being conducted by Van Oord.
- **The Inter-American Development Bank (IDB) and the Global Infrastructure Facility (GIF) are supporting Trinidad and Tobago in the development of a public-private partnership** that will improve cargo services at the port of Port of Spain, boosting trade and enhancing the country's competitiveness. The PPP is expected to invest up to $270 million, aiming to boost port productivity by more than 50%. **EUROCHAMTT has alerted several of the European companies operating in the region including Port of Antwerp (Belge) and CMA-CGM (French).**

Agriculture

As a policy, the Government intends to make the agricultural sector tax free and intends to review remaining ambiguities surrounding this policy. Priority subsectors for agriculture are cocoa, livestock, fisheries, rice, coffee and coconuts.

Outside of Government policy, there is growing interest in controlled environment agriculture (green houses, hydroponics, aquaculture and combined systems as well as AI and other ICT for managing the agricultural systems). CEAs make sense for island economies with limited space and with climate change and the need to build resilience against changing weather patterns.

The opportunity at present is in AI and ICT systems and technical support for managing of parameters such as humidity, ventilation, fertilisation.

Green Manufacturing

The GoTT is establishing a Green Manufacturing Initiative to assist local manufacturing to adopt and improve green manufacturing practices. This initiative will fund, through an energy efficiency audit, those businesses in the nonenergy manufacturing sector interested in adopting greener practices. The initiative will include tax incentives and waivers for promoting renewable energy and energy efficiency. For this purpose, the GoTT has allocated $5 million in 2024 to the Green Manufacturing Initiative.

The potential opportunity will be to find technical experts with manufacturing, sustainability and energy efficiency experience in sectors such as food and beverage manufacturing which is a large component of manufacturing.

Water

The GoTT intends to establish the Water and Sewerage Authority (WASA) as a modern utility. In this new business model, WASA will reduce its dependence on government subventions which in the 2019–2023 period amounted to TTD$8.118 billion. In the process, the net deficit of WASA is expected to be substantially narrowed following the completion of the WASA price review by the Regulated Industries Commission. The planned capital investment programme for WASA to achieve this over the next two years is $1.05 billion. Over the next two years, the GoTT will continue to work on providing sustainable water and wastewater services for the population by implementing three integrated pillars: the continued transformation of WASA; the optimisation of network performance; and the expansion of water supply.

POLITICAL AND ECONOMIC CHALLENGES

The country is considered politically and economically stable. The main issues relate to slowness of the policy and legislative process for important sustainability legislation and slowness in decision making in project decisions.

On May 8, 2024, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Trinidad and Tobago and indicated:
'For the first time in a decade, Trinidad and Tobago is undergoing a gradual and sustained economic recovery. Real Gross Domestic Product (GDP) is estimated to have further expanded by 2.1 percent in 2023, reflecting a strong performance of the non-energy sector. Inflation has declined sharply, due to decelerating global food and imported goods prices. Banks' credit to the private sector continues to expand and the financial sector appears sound and stable. The current account is estimated to remain in a surplus in 2023, and international reserve coverage is adequate at 8.3 months of prospective total imports.'

In terms of economic challenges, while there is no control or limits on the repatriation of capital, dividends and interest (see The Exchange Control Act Chap 79:50), there is a short fall in foreign exchange in circulation in the official channels and therefore difficulty to exchange TTD holdings. **A few foreign companies have had to leave Trinidad and Tobago because of difficulties in converting income to foreign currency or obtaining for foreign currency for imports. The IMF has recommended a more market driven approach where the exchange rate is more flexible but instead, the Central Bank has been trying to manage the rate and control demand.**

OTHER REGULATORY AND LEGAL CHALLENGES

Digitisation of government services such as the companies' registry, trade procedures, permits and licences, tax filing and planning and development permissions have contributed to improving the ease of doing business. Additionally, a port community system is being implemented to link various clearance systems operated by Customs and Ministry of Trade and Industry. French company SOGET, was awarded the contract on 20th June 2023 for implementation, maintenance and support for the port community system.

Despite the digitisation, significant improvement is needed in some areas impacting investors and more specifically, the transparency and procedures for issuing work permits and residency applications approvals. This could be an opportunity for Government consulting from some countries such as Singapore that have a reputation for attracting foreign investment.

Additionally, Trinidad and Tobago's slowness in getting some high-profile international agreements to which it is a signatory into national law has impacted its investment profile and reputation. Most notably: the non-compliance with the OECD Global Forum on Transparency and Information Exchange for Tax Purposes and being considered a non-cooperative jurisdiction by the EU Tax council are affecting European companies although the EU recognises that it has little to do with being a tax haven but more to do with lack of supporting legislation. The OECD and EU are working closely with the Government on these areas.

Trinidad and Tobago was issued a red card for its shortcomings in implementing the international agreement to combat illegal, unreported, unregulated fishing. As a result, fish and seafood from this country cannot be exported to the EU. At the same time, the EU is working very closely with the Government in providing the technical assistance to address these matters but the process through Parliament has been slow.

EU-TRINIDAD & TOBAGO ECONOMIC RELATIONS

Trade and Development Agreement with the EU

There exists an economic partnership agreement (EPA) between the EU and fifteen (15) countries which comprise the CARIFORUM states:

- The CARIFORUM-EU EPA is a comprehensive trade and partnership agreement that was negotiated between the CARIFORUM countries and the EU with the objective of contributing to partnerships that would support sustainable development and regional integration among other objectives.
- The Agreement was signed in 2008 between the EU and CARIFORUM members countries.

- It was enacted into local legislation in Trinidad and Tobago in July 2013 and assented to and is awaiting proclamation by the President.
- In 2008, EU countries immediately removed tariffs on goods originating from CARIFORUM countries entering their markets while CARIFORUM countries including Trinidad and Tobago were given a period from 2009 to 2033 (25 years) to gradually reduce tariffs.

Trinidad and Tobago is among the countries that have not implemented the reducing tariffs due to its shortfalls in foreign exchange since 2015. However, Trinidad and Tobago has a series of fiscal incentives including reduced tariffs for industries of priorities. In some cases, raw materials and equipment are subject to low, zero or exempt from tariff. Notwithstanding the fiscal incentives, EUROCHAMTT continues to advocate for full implementation of the EPA justified based on a signed agreement and impact on business and investment.

EUROPEAN BUSINESS PRESENCE

European companies are present in:

- **Oil and Gas** (e.g. REPSOL (Spain), Perenco (French)
- **Related service sectors** such marine and specialised services industries serving oil and gas. For example, Dutch geophysical surveying company FUGRO, offshore marine service French marine services company Bourbon Offshore, French energy projects services, Technip FMC
- **Renewable Energy:** French hydrogen company, HDF.
- **Shipping:** there are a significant amount of **European shipping companies with agents** present CMA-CGM (French), Oldendorff Carriers (German), Maersk Trinidad Ltd. (Dutch), Hapag-Lloyd (Dutch).
- **Business Process Outsourcing:** Recently, promotion of the **BPO industry** has attracted French company Teleperformance.
- **Sargassum:** The recent developments related to Sargassum seaweed and Global Gateway support, have attracted small biotech and biogas companies to the region, specifically Grenada, and they are seeking opportunities beyond that island. For example: **Sargas Limited**, a Sweden company has set up in Grenada to produce biogas. Another company, **Origin by Ocean**, a Finnish, biotech company based in the Dominican Republic transforming sargassum for feed, cosmetics, packaging material and fertilisers among other products is keen on opportunities throughout the region DESMI, a Danish pump technology company that has developed special systems to collect sargassum and the pumps are being used in Mexico presently. They are looking for other opportunities in the region.
- European companies are also present on a project basis (tenders won). For example, the port community system, implemented by French company SOGET, is likely to set up a company to provide long term maintenance of the system. Dutch Van Oord and Spanish subsidiary Dravo SA in dredging operate from Panama on long term projects in Trinidad and Tobago. There also French company Bouygues in construction, Austrian company Bigton and VAMED in hospitals.

EUROCHAMTT is currently undertaking an EU Mapping exercise focused across the Southern Caribbean. This exercise will identify the areas where EU companies are present, levels of investment and the opportunities and challenges for investment. It will also support the strengthening of the network in the region.

Global Gateway activity in the Caribbean region is leading to new investment in the Southern Caribbean. For example, as a result of partnership promotion and activity focused on sargassum, a few new European companies have been identified: Sargas Limited, a Sweden company has set up in Grenada and is producing biogas: SargasLimited – Sargassum Solutions!; Origin by Ocean, a Finnish, biotech company based in the Dominican Republic: Washing the Oceans | Origin by Ocean), transforming sargassum for feed, cosmetics, packaging material and fertilisers among other products, DESMI (make life flow), a Danish pump technology company: https://www.desmi.com/ appears to be operating from Mexico.

Global Gateway partnership is also being promoted in the **pharmaceutical and medical industry** in Guyana and there are plans for further support in digital transition, **water and wastewater management** and transitioning to **renewable energy**.

OPPORTUNITIES AND CHALLENGES

ESG Trends

There is no legislation currently to support sustainability and ESG reporting yet in Trinidad and Tobago. However, both are driven based on the Paris Agreement and other UN – COP Agreements, CBAM, international trade and access to markets.

Trinidad and Tobago's intended nationally determined contribution (iNDC) is based on its Carbon Reduction Strategy developed for its power generation, transportation and industrial sectors. There are already clean energy projects for power generation, fiscal incentives to encourage transition to hybrid and electric vehicles and most recently, a green manufacturing initiative.

Among multinational present including all the European companies, they are already contributing to internal sustainability and ESG Reporting.

Locally, there are a few very large organisations and groups working on implementing Sustainability and ESG within their groups.

EUROCHAMTT has developed a Sustainability programme to create the environment and support to encourage companies to invest in sustainability. It comprises:

- Annual - general one day sustainability workshop
- A free sustainability self-assessment tool
- An Awards opportunity (recognition is a sustainable trophy, PR and certificate).

EUROCHAMTT wishes to expand that support with partners to include:

- Support developing an overall sustainability policy and governance strategy to move forward.
- Support with ESG accounting framework.
- Support with energy audits and recommendations on potential areas for reduction.
- Support for waste audit.
- Support to implement one of the specific sector programmes such as Green Key, Blue Flag, BCorp
- Referrals to Sustainability academic training and certification.
- More sustainability communications and storytelling and sharing.
- Sustainability B2B sessions just to meet potential technology suppliers and technical experts and equity or other specialised financiers.

SUPPLY CHAIN REDISTRIBUTION/RESILIENCE

- Global Gateway support for the development of partnerships for the pharmaceutical manufacturing sector in Guyana and Barbados is a key response to supply chain challenges follow COVID.
- Additionally, ecommerce and fintech payment solutions are supporting ecommerce and new market access opportunities which are changing the directions of trade and addressing supply change challenges.
- The Ministry of Trade and Industry with the support of the UN is developing Trinidad and Tobago's Draft e-Trade Readiness Assessment as part of a National E-Commerce Strategy.
- The Port of Port of Spain in Trinidad and Tobago is one of nine official ports of entry into this country, and it has the potential to be developed as a hub for transshipment to other parts of the region. The IDB has been supporting a public private partnership arrangement to transform this port and attract new investment to improve the harbour and efficiency.

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ASEAN Region

CAMBODIA

FUTURE (ECONOMIC) OUTLOOK

Cambodia's economy has grown steadily, with an average GDP growth rate of 4.6% from 2018 to 2024. Future economic outlooks also remain positive, with a projected growth of around 5-6% in 2024 (up from 5.3% in 2023). Key drivers of this economic growth include the continued recovery of the tourism sector, robust performance of the manufacturing sector (especially garments, bicycles, and electronic parts), and new infrastructure projects. Ongoing developments of its infrastructure, logistics hubs, and transport networks will also help facilitate trade and boost overall economic activity.

However, Cambodia's economic growth is expected to face challenges from high levels of private debt, global economic slowdowns, elevated energy prices, and high dependence on export markets, particularly at risk with tariff uncertainties. In response, the government's fiscal policies are designed to support recovery efforts through socio-economic intervention packages. Public external debt is projected to remain manageable at around 34.5% of GDP in 2024.

Furthermore, as part of its vision to become a middle-income country by 2030 and a high-income country by 2050, the Prime Minister has recently unveiled ambitious plans to diversify the economy, enhance market accessibility, attract further international investments, and promote digital transformation.

BUSINESS/ INVESTMENT ENVIRONMENT

Cambodia has become an attractive destination for investors over the past 20 years due to its strong economic growth, political stability, strategic location, free trade agreements, competitive labour market, and favourable government policies.

An important reference point for Cambodia's economy is the Pentagonal Strategy Phase 1, launched in September 2023, which focuses on five key pillars: enhancing human capital, increasing economic diversification, improving infrastructure, promoting digital and technological transformation, and strengthening governance. Additionally, the strategy emphasises Cambodia's readiness for digital transformation and improved governance to support sustainable and inclusive growth.

Cambodia exported $4.41 billion worth of goods to the European Union (EU) last year, marking a 20% increase from $3.66 million recorded in 2023, according to a report from the Ministry of Commerce of Cambodia, primarily in agricultural commodities, garments, electronics, and bicycles. Moving forward, key areas for EU investment in Cambodia might include agro-processing, tourism, and renewable energy. Public-private partnerships (PPPs) in infrastructure and healthcare projects, such as hospital construction and advanced medical equipment manufacturing, also present investment possibilities for European businesses.

Furthermore, Cambodia's government is making more effort to open its doors for investment, most notably with its revised 2021 Law on Investment and its accompanying Prakas (proclamation) issued in 2023. The updated Law on Investment identifies key sectors and offers very generous benefits to interested investors including tax cuts, duty-free imports, full company ownership, and unrestricted repatriation of profits. Key sectors cover a wide range of industries from agro-processing and tourism to education and green energy.

POLITICAL AND ECONOMIC CHALLENGES

Regulatory inconsistencies and corruption concerns remain significant barriers to business and foreign investment in Cambodia, complicating efforts to attract long-term capital and diversify the economy. The customs sector, in particular, suffers from lengthy and inconsistent procedures, resulting in delays and increased operational costs for businesses. Furthermore, high energy costs, bureaucratic red tape, and infrastructure deficiencies also limit the potential for private renewable energy development.

In the agriculture sector, challenges such as land fragmentation and insufficient access to technology and financing hinder growth. To address these issues, there is a pressing need for increased investments in agri-processing from EU and foreign investors.

The garments, footwear, and travel goods (GFT) sector, a vital contributor to Cambodia's exports, also faces ongoing challenges related to human rights, and environmental standards. In this case, compliance with the EU's Corporate Sustain ability Due Diligence Directive (CSDDD) is becoming increasingly critical and is being supported by public associations and development partners who are supporting the private sector through awareness-raising and capacity-building programs.

Additionally, skills and labour shortages are prevalent in key sectors like engineering, IT, and advanced manufacturing, exacerbated by the brain drain of skilled workers seeking better opportunities abroad. To combat these shortages, the government's Skills Development Fund (SDF) is implementing initiatives to offer discounted and co-financed training in priority sectors. The French Development Agency (AFD) is also recognised as a major contributor to the SDF's budget.

Cambodia is also working to reduce its heavy reliance on the U.S. dollar, which still accounts for about 85% of its economy, as part of a broader strategy to promote the national currency, the riel. This "de-dollarisation" effort, spearheaded by the National Bank of Cambodia (NBC), aims to increase the use of the Cambodian Riel in transactions and foster greater monetary sovereignty. Key initiatives include encouraging businesses to price goods and services in riel and paying salaries in the local currency.

While the government sees this shift as crucial for improving monetary policy control and strengthening national identity, the transition may face challenges, particularly in sectors like tourism and investment that are heavily dollarised. For future investments, greater reliance on the riel could bring stability by reducing exposure to fluctuations in the U.S. dollar, but it could also raise concerns about currency risk among foreign investors.

Lastly, Cambodia still faces significant challenges in formalising its economy, with a vast portion of its businesses operating informally. These unregistered businesses, most of which are micro, small, and medium-sized enterprises (MSMEs), account for a large part of the economy and employ a majority of the workforce. While government efforts are underway, Cambodia's transition to a formal economy remains slow, partly due to ingrained practices in the informal sector and limited incentives for small businesses to register.

OTHER REGULATORY AND LEGAL CHALLENGES

The second Cambodia-Europe Public-Private Sector Dialogue built upon previous momentum to address persistent trade and regulatory obstacles faced by European businesses in Cambodia. The dialogue served as an opportunity to update the Royal Government on progress made since earlier consultations and to seek clarity on ongoing concerns in key sectors.

Within the transport and logistics sector, cumbersome customs clearance procedures remain a major barrier to trade facilitation. EuroCham highlighted progress made through a pilot project with DHL Express and called for the government's next steps toward broader simplification for all operators. Similarly, uncertainty around rental pricing and investment conditions at Techo International Airport (TIA) continues to discourage logistics infrastructure development. While reductions in rental costs have been achieved for some members, EuroCham urged further clarification on the plans for establishing a logistics center at the airport. Broader logistics challenges were also addressed, including transportation costs, cross-border complexities, and estimated delivery time inconsistencies—calling for a more predictable and cost-effective logistics environment.

Discussions on Cambodia's green economy focused on the regulatory and operational obstacles to adopting renewable energy and sustainable practices. Despite permissions in place, private solar rooftop installation remains difficult to navigate and poses a significant deterrent for international manufacturers considering sourcing from Cambodia. EuroCham called for a review of compensation charges and more transparency in energy data to restore investor confidence. On the topic of textile recycling, the absence of Centralised Recycling Units—previously mentioned in Cambodia's NDC 2.0—was flagged as a missed opportunity. Stakeholders emphasised the need to legally enable factories to sell textile waste to officially recognised units, tax-free, to encourage formalisation of the sector and align with sustainability expectations of international brands.

Environmental regulations were also raised, particularly the restrictions placed on foreign consultancies through Prakas 08. The requirement for foreign firms to partner with locally registered EIA consultancies contradicts Cambodia's commitments under WTO agreements. EuroCham advocated for amending this regulation to align with international obligations and foster a more open investment environment.

In the automotive sector, the ongoing challenge posed by grey imports was discussed. A vague legal definition of "new vehicles" continues to allow loopholes that undermine authorised distributors. Although dialogue was initiated with the Ministry of Commerce in 2023, no progress has been reported.

EuroCham requested an official update and greater regulatory clarity.

Taxation concerns centred on the establishment of the Special Tax Audit Unit (STAU) and its jurisdiction. While enterprises with a Gold Certificate are clearly under its scope, criteria for other companies remain undefined. EuroCham sought clarification on the process and criteria used by the General Department of Taxation in determining eligibility, in order to promote fairness and transparency in the auditing process.

Finally, on infrastructure, EuroCham raised the concern that proposals from two major European investors for public infrastructure development were declined due to existing arrangements with other parties. This has contributed to a perception of opacity in the investment process for large-scale infrastructure projects. The Chamber encouraged the government to reflect on how opportunities can be made more accessible and transparent for potential European investors, especially as Cambodia's logistics needs continue to grow.

INTEGRATION WITH EU POLICIES

Among the new EU regulatory frameworks, the Corporate Sustainability Due Diligence Directive (CSDDD) is expected to have the most direct and significant impact on Cambodia's economy. The directive will require European companies to identify, prevent, and remedy human rights and environmental violations throughout their global value chains, which includes Cambodian suppliers. This presents a substantial challenge for many local exporters, particularly in the garment, footwear, and manufacturing sectors, which are deeply integrated into EU supply chains but often lack the resources and systems to comply with the directive's stringent due diligence and documentation requirements. Without targeted support, many Cambodian suppliers risk being excluded from sourcing networks, undermining hard-won gains in export growth and job creation.

While the EU Deforestation Regulation (EUDR) and the Carbon Border Adjustment Mechanism (CBAM) pose less immediate risk—given that the products currently covered under these frameworks (such as timber, soy, beef, cement, and aluminum) represent only a small portion of Cambodia's exports—the situation may evolve. The EUDR, in particular, could become more consequential if its product scope expands to cover a broader range of agricultural goods such as cashew, mango, or rubber.

INVESTMENT AND TRADE

The country has secured several Free Trade Agreements (FTAs) under ASEAN, including the Regional Comprehensive Economic Partnership (RCEP). The country also has 3 bilateral FTAs, namely the Cambodia-China FTA, the Cambodia-Korea FTA, and the Cambodia-United Arab Emirates Comprehensive Economic Partnership Agreement (CEPA).

While discussions for FTAs between EU and other countries within ASEAN (Thailand, Philippines…) are still on-going, Cambodian exporters still enjoy duty-free access to EU markets under the EBA scheme.

Cambodia's trade relationship with the European Union has been a cornerstone of its export-driven economy, particularly through the Everything But Arms (EBA) scheme, which grants duty-free and quota-free access to the EU market for all products except arms and ammunition. This preferential access has significantly influenced Cambodia's trade dynamics with the EU.

In 2023, the total trade in goods between Cambodia and the EU amounted to approximately €5.8 billion. Cambodia exported goods worth €4.8 billion to the EU, while imports from the EU were valued at €1.0 billion, resulting in a trade surplus of €3.8 billion in favor of Cambodia. This trade volume represented about 0.2% of the EU's total trade, positioning Cambodia as the EU's 65th largest trading partner.

Cambodia's exports to the EU are predominantly composed of garments and footwear, which together represent over 80% of the total. Textiles and textile articles alone account for 67.6% and footwear for 13.4%.

Other export categories include agricultural products such as rice and vegetables (5.8%), and industrial products like bicycles and machinery. Bicycles and other transport equipment represented 6.6%, while machinery and appliances accounted for 7.4%.

On the import side, the EU supplies Cambodia with a range of industrial and consumer goods, including machinery, transport equipment, chemicals, pharmaceuticals, and food products. These imports support Cambodia's manufacturing sector, healthcare system, and growing middle-class consumption.

Although the EU is a key trade partner with Cambodia, EU investments in the Kingdom still lags regional peers at less than 5% of total investment altogether.

EUROPEAN BUSINESS PRESENCE

In the absence of reliable public data, it is difficult to pinpoint the exact number of European businesses operating in Cambodia. However, the European Chamber of Commerce (EuroCham) Cambodia has over 430 local and foreign members with commercial interests in the Cambodian and wider European markets.

Many well-known European multinational corporations have established operations in Cambodia, leveraging its strategic location, young workforce, and supportive business environment. While their sectors are diverse, EuroCham Cambodia established 12 business sector committees with a high business presence, including agribusiness, automotive, digital & technology, healthcare, green business, human resources, real estate & construction, tax, tourism & hospitality, garments & manufacturing, and transport & logistics.

OPPORTUNITIES AND CHALLENGES

ESG Trends

The country's responsible business framework includes labor legislation, the establishment of a minimum wage in the textile sector, the Better Factories Cambodia program, the Anti-Corruption Law, the National Social Security Fund, and the 2021 Investment Law promoting green and climate-related investments. An Environmental and Natural Resource Code was adopted in 2023. International frameworks influencing the environment include UN and OECD guidelines, as well as human rights and environmental due diligence laws from the UK, France, Germany, Japan, and various EU regulations like the EU Deforestation Regulation, Corporate Sustainability Due Diligence Directive, and Carbon Border Adjustment Mechanism.

In practice, responsible business challenges in Cambodia vary by sector. In garments, key issues are labor rights, unsafe conditions, and supply chain transparency, with opportunities in worker training, technology adoption, and improved manufacturing practices. In agriculture, challenges include land insecurity, deforestation, pesticide use, and informal labor. Opportunities include organic farming, agri-tech innovation, and climate-smart agriculture. In tourism, issues include environmental degradation, informal labor, and lack of skilled workers, while opportunities exist in sustainable tourism and community partnerships. In construction, problems stem from the absence of a construction code, lack of skilled labor, and unsafe conditions. Opportunities include sustainable building practices, green construction training, and formalising employment.

Examples of responsible business initiatives include garment companies adopting gender equity policies, sustainability training, factory health services, and environmental monitoring systems. In agriculture, some companies source sustainably from rural communities, promote organic inputs, and support conservation-based farming. Tourism companies implement waste recycling, track resource consumption, and promote inclusive hiring. Construction firms invest in worker safety, site facilities, carbon reduction efforts, and better waste management.

Supply Chain Redistribution/Resilience

With regards to global events, recent unrest in both Myanmar and Bangladesh has disrupted garment manufacturing, prompting a shift of orders to Cambodia in 2024. In Myanmar, ongoing political instability and safety concerns have caused major international brands to reduce operations, while in Bangladesh, wage protests and curfews are affecting production schedules and order fulfilment. These challenges have pushed global brands to diversify their sourcing, with Cambodia emerging as a key beneficiary due to its political stability and growing garment industry. This shift is likely to strengthen Cambodia's position within global supply chains, though it may also strain its capacity to meet rising demands. Since the pandemic, European investment in Cambodia has seen notable shifts, particularly in sectors like agriculture, manufacturing, and energy. In 2024, The Cambodian government has participated in many investment roadshows and "Knock on Door" missions across the EU, aiming to attract more European companies by promoting key sectors such as agro-processing, healthcare, and renewable energy. These activities are not only attracting new European investments to Cambodia but also encouraging European investors to redistribute their supply chains and business operations across Southeast Asia and the wider Asian region.

Cambodia is pivoting towards agro-processing, and countries like Germany have recognised its potential, becoming significant importers of Cambodian rice, pepper, and rubber. Certified organic products are also gaining traction due to Cambodia's low historical use of chemicals in farming.

On the other hand, traditional exports like bicycles have declined by 30% year-on-year in 2024, and Cambodia is quickly adapting to the rising demand for e-bikes in the EU. Recently, exports for e-bikes have soared from 1,035 units in 2023 to over 13,000 units by August 2024.

With regards to supply chain resilience, Cambodia is making significant strides in digitising its customs procedures, notably through the implementation of digital systems like the Automated System for Customs Data (ASYCUDA). This modernisation allows businesses to streamline customs declarations and clearance processes, reducing paperwork and minimising the need for physical interactions. Additionally, the National Single Window (NSW) system was introduced to further streamline and digitise customs processes, enabling businesses to submit all necessary trade-related documents electronically through a single-entry point. This system is managed by multiple government agencies involved in customs and trade regulation, significantly reducing the time and complexity of import and export procedures.

Lastly, upcoming infrastructure developments like the Funan Techo Canal, which will reduce Cambodia's reliance on Vietnamese ports, and the Techo Takhmao International Airport, set to streamline trade logistics, will enhance Cambodia's appeal as a key logistics hub in the Southeast Asian region. The Japan-funded expansion of Sihanoukville port will also further boost Cambodia's capacity to handle cargo, positioning the country for long-term growth in international trade and investment. These trends signal a shift in the European business community's focus on Cambodia, with emerging opportunities in diverse industries.

Trade performance in 2025 and the coming years will highly depend on how the Trump tariff situation unfolds.

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Report Reference

- For more information about EuroCham Cambodia's on-going advocacy work, visit EuroCham's Live Advocacy Compass website.

INDONESIA

FUTURE (ECONOMIC) OUTLOOK

Indonesia's economy has been growing steadily as the nation works to overcome the difficulties caused by the COVID-19 pandemic. The inflation rate stood at 1.95%, in April 2025. Real GDP growth reached 5.03% in 2024, slightly higher than the 5.0% recorded in 2023, driven by election-related spending, investments, and infrastructure projects. In 2024, significant investments were made in Indonesia's industries, with domestic direct investment rising by 20.8% year-on-year to Rp 1,714.2 trillion (approximately $105 billion USD). Foreign direct investment (FDI) reached $55.3 billion USD in the same year. According to the latest UNCTAD data, Indonesia remains among the top 20 global FDI destinations.

In October 2023, Indonesia released its Final Draft National Long Term Development Plan 2025-2045 (RPJPN), aiming to achieve the goal of Indonesia Emas 2045 (Golden Indonesia 2045). This plan is part of the country's target to escape the middle-income trap and drive comprehensive national transformation. To achieve this, Indonesia is currently focused on acquiring direct investment in productive sectors and activities, which have the greatest multiplier on the economy. Priority industries include green investment, research and development, digital infrastructure, and logistics. The lofty goal of Golden Indonesia 2045 has necessitated a transformation of its financial climate to fund its many projects.

BUSINESS/ INVESTMENT ENVIRONMENT

According to the World Bank, the ease of doing business in Indonesia is ranked 73rd. Indonesia’s business environment is complex and mired with red tape. To accomplish Indonesia Emas 2045, there is a need to simplify government regulations to attract more investment and foreign business to the country. Another persistent challenge is corruption. In the 2024 Transparency International Corruption Perceptions Index, Indonesia scored 37 out of 100, ranking 99th out of 180 countries. While there has been a slight improvement from previous years, public and investor perception of the government’s ability to effectively combat corruption continues to be a concern, contributing to an uncertain and occasionally unfavourable business climate.

POLITICAL AND ECONOMIC CHALLENGES

European companies in Indonesia face persistent political challenges, notably regulatory uncertainty and bureaucratic inefficiencies. Despite reforms like the Omnibus Law on Job Creation, overlapping central and regional rules continue to complicate business operations.

Economic challenges are driven by high logistics costs, localisation pressures, and trade barriers. Indonesia’s logistics costs remain high at 14.29% of GDP as of 2023. Mandatory local content rules have expanded, raising operational costs for foreign investors, especially in ICT, pharmaceuticals, and medical devices. Additionally, tensions over the EU Deforestation Regulation (EUDR) and Carbon Border Adjustment Mechanism (CBAM) have strained trade relations, with Indonesia filing a WTO dispute in April 2024.

EU-INDONESIA ECONOMIC RELATIONS

Investment and Trade

The EU was Indonesia’s fifth-largest trading partner in 2023. Indonesia’s exports to the EU accounted for 7.4% of its global export of goods, while imports from the EU contributed to 5% of its imports from the rest of the world. Bilateral trade in goods between the EU and Indonesia amounted to €29.7 billion in 2023, with EU exports worth €11.3 billion and EU imports worth €18.3 billion. The Indonesia-EU Comprehensive Economic Partnership Agreement (I-EU CEPA), once implemented, will unlock the bilateral trade potential by creating new opportunities for businesses and consumers in both markets. The negotiations have been ongoing since 2016, with 19 rounds of negotiations completed as of early 2025. The conclusion of the IEU-CEPA is targeted for the first half of 2025.

Although there is interest from both sides to conclude the CEPA negotiations, there are issues not related to the negotiations that serve as hindrances to the outcome of the negotiation rounds. These included the EU Green Deal measures (such as the Carbon Border Adjustment Mechanism (CBAM) and the EU Deforestation Regulation (EUDR)) and the EU's reaction related to Indonesia's Raw Nickel Export Ban, which Indonesians deem as counterproductive.

EUROPEAN BUSINESS PRESENCE

Foreign Direct Investment (FDI) from the EU in 2024 amounted to US$2.79 billion in 2024, totalling USD18.7 billion between 2019 and the third quarter of 2024. Investment from European companies in Indonesia is distributed in various sectors; with the electricity, gas & water supply industries contributing 23% of FDI realisation from the EU, followed by logistics & communication and then the chemical & pharmaceutical industry.

The main factors influencing market entry for European businesses in Indonesia include proximity to markets or customers, growth of the domestic market, skilled workforce availability, as well as the regulatory environment.

OPPORTUNITIES AND CHALLENGES

ESG Trends

Commitments in Net Zero Emissions

Indonesia has recently shown serious action in achieving its net zero emission targets by 2060 and commits to a clean and renewable energy transition. With Indonesia's pledge to progressively phase out coal-fired power generation, the country offers great prospects for renewable energy-based investments with huge potential in geothermal, hydroelectric power, solar power, and minerals for nuclear power. Government support for renewable energy is also seen in Presidential Regulation No. 112 of 2022, which removes price caps for renewable energy and sets out competitive principles for procurement of technologies such as Solar PV.

The government also committed its energy transition agenda to the Electric Vehicle ecosystem. Investment and commitment in EVs and EV plants by automakers are provided fiscal incentives such as exemption on import duties and luxury-goods sales tax. EV battery swap and charging stations are accommodated under regulations to encourage certainty for investors.

Moreover, fiscal instruments overall have been put in place to further decarbonise. Accelerating carbon pricing measures, mandating sustainable practices, and promoting green bonds and loans are among the efforts to create a greener financial system.

Supply Chain Redistribution/Resilience

Regulatory Uncertainty and Non-Tariff Barriers

Although the government has made efforts to liberate foreign investment through the Omnibus Law on Job Creation in 2020, navigating Indonesia's regulatory landscape for businesses is still quite a challenge. Noting Indonesia's dynamic political and economic environment, the shift in policies and reform in business regimes results in overlaps in laws and regulations, leading to a lack of clarity in government objectives and justification.

While Indonesia maintains low average tariffs on imports of certain goods, non-tariff measures in place pose significant costs, equivalent to an average of 20% tariff. Challenges that impact foreign businesses, including European companies, include import restrictions, pre-shipment inspection, compliance with local content requirements and national standards, as well as mandatory halal certification. These measures result in higher costs in doing business and trade, hence prolonging the natural flow of goods and discouraging market competitiveness and integration into global value chains.

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LAOS

FUTURE (ECONOMIC) OUTLOOK

With a GDP growth forecast of 3.5% to 4.0% for 2025, the country's economic outlook is clouded by its debt situation. The significant foreign currency debt makes the economy susceptible to external shocks, leading to currency depreciation and rising inflation.

While the stabilisation measures implemented by the Bank of Laos (BoL) have provided short-term relief, doubts about their long-term effectiveness linger. The government has ramped up domestic borrowing by issuing bonds in KIP, USD, and THB to cover financing needs and manage debt repayment.

A primary fiscal surplus is anticipated to persist in the medium term, supported by a cautious fiscal policy aimed at increasing domestic revenue from 17% to 20% of GDP while controlling public spending. However, budget cuts, especially in the social sector, are being made to lower the debt-to-GDP ratio.

Debt restructuring and negotiations with creditors are ongoing; nevertheless, these efforts need to be paired with structural reforms, enhanced revenue collection, and greater financial transparency to stabilise Laos financial situation.

BUSINESS/ INVESTMENT ENVIRONMENT

Government Priorities

The priorities outlined in the 9th Five-Year National Socio-Economic Development Plan (NSEDP) present various growth opportunities for European companies in sectors like agriculture, industry, tourism, and energy.

Focus Areas

Agriculture and Agro-Processing

The plan emphasises promoting clean, modern, and sustainable agriculture, particularly with opportunities for exporting to international markets, including Europe. Investments in agricultural machinery and infrastructure, such as bio-fertiliser factories and food processing plants, are prioritised to meet global standards.

Industrial Development

The document underscores the need to expand industries like food and beverage processing, textile and garment manufacturing, and agro-forestry. New sectors such as metal processing, non-ferrous metals, and electronics are also identified as growth areas. Special Economic Zones (SEZs) and industrial estates offer opportunities for establishing export-oriented production bases.

Tourism

There is a strong focus on eco-tourism and cultural tourism, with investment opportunities in tourism infrastructure linked to agriculture, rural development, and conservation efforts.

Energy

The development of solar energy, hydropower projects, and waste-to-energy technologies provides European companies with chances to invest in sustainable energy production. The government's emphasis on industrialisation, modernisation, and green growth, along with an improving investment climate, creates a favorable environment for European investors—especially in sectors that align with environmental sustainability and technological innovation.

Sectoral Opportunities & Challenges

Infrastructure Limitations

While the agriculture sector shows potential, challenges include low productivity and outdated technology, poor connectivity due to inadequate road conditions, and frequent natural disasters that disrupt agricultural stability.

Land Governance Issues

Unclear land tenure status poses risks for investment in agriculture, compounded by the high upfront costs of demining new areas.

Investment in Technology

Industries, especially SMEs, face challenges in accessing modern technology and upgrading the technical skills needed to integrate into regional and global value chains.

investor control over capital in foreign currency

It is essential that foreign exchange regulations do not deter companies from investing in Laos or incentivise them to seek offshore alternatives rather than bringing foreign currency into the country. Foreign investment, alongside tourism, represents a vital source of foreign exchange.

Establishing a more flexible and transparent foreign exchange framework would help foster investor confidence in transferring hard currencies into Laos.

Human Capital Challenges

Limited investment in human capital leads to low skill levels. Many skilled and unskilled workers are drawn to neighboring countries where wages are significantly higher than those in Lao PDR.

Ensure fair competitiveness

This entails addressing the uneven enforcement of tax laws and other regulations, which can create a sense of unfairness among compliant companies when their suppliers are not held to the same standards. In this context, it is strongly recommended that efforts be intensified to integrate more businesses into the formal tax system, including VAT registration, regular payment of personal income tax for employees, and profit tax calculation in accordance with the law.

Financial Action Task Force (FATF) grey list

Laos was placed on the Financial Action Task Force (FATF) grey list earlier this year, presenting a significant challenge for both the government and the private sector. This designation brings with it financial restrictions, diminished foreign investment, and increased barriers to cross-border transactions.

European companies can capitalise on these opportunities by investing in priority sectors while navigating financial and infrastructure challenges.

POLITICAL AND ECONOMIC CHALLENGES

Political Influences on Business Operations

The country operates under a centralised single-party system, which has both positive and negative effects. On one hand, it can propel the reform agenda in a favorable direction if the timing and momentum align; on the other hand, political ideology can sometimes take precedence over economic logic. Prospective operators should be mindful of several challenges, including a lack of transparency, weak governance and insufficient accountability. Economically, the current landscape is marked by inflation, currency depreciation, and uncertainty in foreign exchange management, alongside issues related to the availability and capacity of the workforce.

Strategies for European Companies Navigating These Dynamics

Transparency and good governance are crucial for European companies as they navigate the shifting regulatory and economic landscape. The Public Finance Management program provides support to clarify tax-related tools and regulations, creating a functional and reliable framework for investors in Laos. It is essential that these rules are implemented effectively. Furthermore, once laws, regulations, and rules are established, they must be transparent and enforced properly to ensure that all rights and obligations are respected according to the law. This initiative is bolstered by the Citizen Engagement for Good Governance (CEGGA) program.

INTEGRATION WITH EU POLICIES

The Global Gateway represents the EU's commitment to establishing quality connections that link people, economies, and cultures worldwide. It consolidates resources and expertise from EU institutions, Member States, and financial entities. Through the Global Gateway, the EU aims to mobilise €300 billion to enhance strategic autonomy and resilience in partner countries, fostering a comprehensive approach where all stakeholders—including the private sector and civil society—collaborate with governments.

The “Trade, Investment and Connectivity in Agriculture and Forestry” (TICAF), co-financed by France, Germany, and the European Investment Bank, supports the development of value chains for coffee, tea, and forest-based products traded by Laos with the EU. It encourages value addition in Laos and aids compliance with EU regulations such as the EU Deforestation Regulation (EUDR).

The connectivity component will facilitate the rehabilitation of a segment of National Road 2, linking Laos to Vietnam and Thailand. Additionally, a fourth component will promote private-sector investment in agriculture and forestry through the EFSD+ guarantee.

Complementing TICAF is the Skills for Tourism, Agriculture, and Forestry (STAF) initiative, which aims to enhance skilled labor to support green industry development.

Previously funded EU programs like ARISE+ and SYMST concluded in 2023, focusing on improving the business environment, boosting export capabilities, and assisting Laos in meeting international trade standards. These initiatives have laid a solid foundation for future trade and competitiveness efforts.

Under the EU-funded ARISE+ Lao PDR project, a pool of Quality Champions has been developed who are now equipped to implement their own quality improvement projects. SMEs have enhanced their knowledge of export management and the benefits of the Everything But Arms (EBA) scheme while gaining awareness of EU and regional quality requirements. They have also benefited from an online Quality Platform that provides accurate and up-to-date information on these requirements. Export roadmaps for the coffee and wood processing sectors have been created, allowing companies to gain exposure to international markets while acquiring practical business skills related to coffee production and wood sourcing that emphasise quality, legality, and sustainability.

Six Business Guides (in both Lao and English) on exporting duty-free to the EU under the EBA scheme have been produced. The guides cover:

- General Business Guide: Exporting to the EU under the EBA scheme.
- Exporting Raw Agricultural Products under the EBA scheme.
- Exporting Processed Food Products under the EBA scheme.
- Exporting Textiles and Garments under the EBA scheme.
- Exporting Footwear under the EBA scheme.
- Exporting Processed Wood Products under the EBA scheme.

Building on these efforts, the EU is currently developing a new trade and investment project worth €10 million that builds on previous programs like ARISE+ Laos. The goal is to enhance trade integration with a focus on supporting Lao's private sector in export readiness and compliance with EU standards. This program is scheduled for 2025 and aims to contribute to the World Bank Trust Fund (Lao Trade and Competitiveness Programme Phase II), which focuses on improving Laos' competitiveness through private sector-led growth—particularly in trade facilitation, business climate reforms, and sector-specific export readiness.

EU-LAOS ECONOMIC RELATIONS

Investment and Trade

FTAs and Other Agreements Between the EU and Laos (Status; Implementation)

Laos has been a member of the WTO since 2013 and, as a least developed country, benefits from the EU's "Everything But Arms" scheme. This initiative provides unilateral duty-free and quota-free access for all exports to the EU, with the exception of arms and ammunition.

Statistics on European Investment and Trade Activities

In 2023, total trade between the EU and Laos reached €550 million. The EU was Laos's fourth-largest trade partner that year, following Thailand (39.8%), China (36.8%), and Vietnam (8.6%), accounting for 3% of Laos's total trade. Additionally, the EU ranked as Laos's 111th largest trade partner in 2023.

During that year, the EU imported goods worth €403 million from Laos, with textiles, footwear, and agricultural products being the primary imports. Conversely, the EU exported goods valued at €147 million to Laos, primarily consisting of machinery and appliances.

TRENDS IN TERMS OF EUROPEAN COMPANIES IN THAILAND

European Business Presence

The presence of European businesses in Laos has seen notable developments since the COVID-19 pandemic. The European Chamber of Commerce in Laos serves as the primary representative for 120 companies operating in diverse sectors, including consulting, agroforestry, legal and tax services, consumer goods, logistics, as well as tourism and hospitality.

As companies have adapted to post-pandemic challenges, ECCIL has experienced significant growth over the past few years, increasing its membership from 83 in 2021, which strengthens its leadership among foreign chambers operating in Laos today.

OPPORTUNITIES AND CHALLENGES

ESG Trends

The European Chamber of Commerce and Industry in Laos is actively committed to advancing the European Green Deal by advocating for sustainable economic growth and promoting responsible business practices in the country:

- EUDR dissemination with Lao Government officials to enhance awareness and understanding.
- Discussion with EU Commissioner Urpilainen: Sustainable Investment in Focus.
- European Business Organisation (EBO) Sustainability Summit.
- Re-igniting the Plastic-Free Laos & Promoting a Single-Use Plastic-Free initiatives with Swisscontact and Econox.
- Responsible Business Awards initiative.

Through these initiatives, ECCIL is fostering a culture of corporate responsibility that aligns with both local needs and global sustainability goals, emphasising the integration of ESG values into daily operations as they adapt to local regulations and market conditions. Particularly, the Responsible Business Conduct Awards reflect a growing recognition of the need for responsible business practices. Launched in collaboration with various chambers of commerce and embassies, these awards aim to celebrate companies that excel in CSR, particularly with a focus on environmental excellence. This initiative encourages businesses to adopt sustainable practices that not only comply with local regulations but also contribute positively to their communities.

As these trends continue to evolve, they will play a crucial role in shaping the future of business operations in Laos.

Supply Chain Redistribution/Resilience

The supply chain landscape in Laos has undergone significant changes following the COVID-19 pandemic. A recent high-level forum on ASEAN Supply Chain Connectivity emphasised the need for enhanced regional cooperation to address evolving global challenges. Key discussions highlighted the impact of geopolitical shifts, digital advancements, and sustainability on supply chains. Lao Minister of Industry and Commerce Malaythong Kommasith underscored the importance of stronger digital infrastructure and policy coordination to improve competitiveness in emerging sectors, such as electric vehicles and semiconductors.

The pandemic exposed vulnerabilities in supply chains, particularly in rural areas where disruptions severely impacted livelihoods. Reliable ICT and transport systems have become critical for maintaining supply chain resilience, as highlighted by initiatives aimed at improving connectivity and reducing rural-urban disparities.

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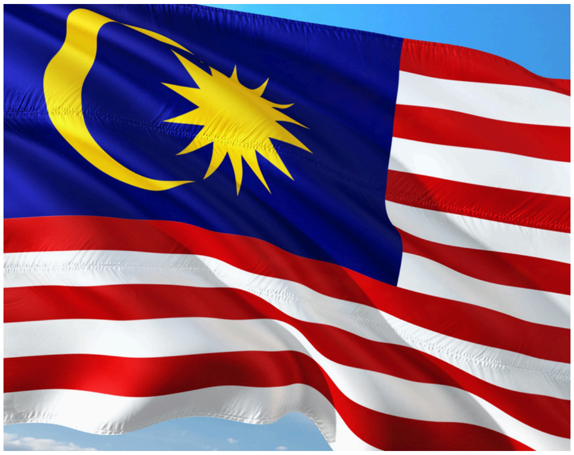
MALAYSIA



FUTURE (ECONOMIC) OUTLOOK

Following political and economic uncertainty, the Malaysian economy picked up between April and September 2023 but declined in the last quarter of the year.

In 2024, Malaysia's economy is projected to grow at a rate of around 4-5%, with the first quarter already showing promising signs of recovery with a Gross Domestic Product (GDP) growth of 4.3% (Q42023: 2.9%). This positive outlook is fuelled by robust domestic consumption, a rebound in tourism, ongoing infrastructure projects, and sustained export performance, particularly in electronics and electrical products. Post-pandemic recovery, strategic regional positioning, and proactive government initiatives underscores Malaysia's economic resilience and growth prospects for 2024.

The outlook for the rest of the year is dependent on the implementation of domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments.

BUSINESS/ INVESTMENT ENVIRONMENT

Malaysia's business and investment environment is marked by robust growth opportunities, driven by government priorities in infrastructure development, digital transformation, and sustainability. Malaysia serves as a pivotal hub for international trade and commerce, offering seamless access to dynamic markets.

The Malaysian government is shifting focus from traditional primary sectors like oil and gas to high-value industries such as technology, green energy, and advanced manufacturing. This strategic move is highlighted by the National Energy Transition Roadmap (NETR), and the Hydrogen Economy and Technology Roadmap (HETR), and the New Industrial Master Plan 2030 (NIMP2030), prioritising investments in high-tech manufacturing and renewable energy projects.

Investment opportunities are abundant, with strong demand for electronics and electrical products, growing prospects in the semiconductor supply chain, and significant potential in green technology and energy infrastructure.

Better investment activities will be supported by progress in multi-year projects across both private and public sectors, alongside catalytic initiatives announced in national master plans, as well as the higher realisation of approved investments.

POLITICAL AND ECONOMIC CHALLENGES

Regulatory uncertainty and frequent policy changes create an unpredictable environment that complicates long-term planning and compliances for businesses considering entering the Malaysian market. Meanwhile, bureaucratic red tape can delay operations and increase costs, while occasional political instability necessitates adaptability to potential policy shifts. However, Prime Minister Anwar's Madani government seems to be stabilising, which bodes well for future political stability. Additionally, preferential policies for Bumiputera (indigenous Malaysians and Malays) significantly shape the business landscape. These policies, designed to boost Bumiputera economic participation, often influence licensing, procurement, and corporate equity requirements.

Economically, the transition from oil and gas reliance to a diversified economy presents market fluctuations, impacting related industries. Exchange rate volatility affects profitability and financial planning, necessitating effective currency risk management. While the declining ringgit is in line with other regional currencies, the short-term decline could enhance export competitiveness. Skills shortages in high-tech sectors can hinder productivity, emphasising the need for investment in training and development. Infrastructure gaps, particularly in rural areas, can impede logistics and supply chain efficiency, and rising operational costs, including wages and real estate, may impact competitiveness and profitability, requiring strategic cost management. On the expenditure side, the government plans to retarget subsidies in phases to reduce government spending and ensure subsidies reach the underprivileged. Electricity subsidies will be based on consumption levels, while diesel subsidies are to be rationalised, targeting specific users such as freight operators.

Other Regulatory and Legal Challenges

While Malaysia boasts an ostensibly open and liberalised market, challenges arise due to its lack of transparency and the presence of Bumiputera provisions, hindering foreign partner's access to Malaysian markets. Malaysia is not a party to the World Trade Organisation (WTO) Agreement on Government Procurement, thus dismantling a level playing field for foreign companies who are at a disadvantage in bidding for government contracts.

Generally, international tenders are only invited where domestic goods and services are not available. Preferences typically go to the ethnic Bumiputera (Malays and indigenous communities), who represent approximately 70% of the population. The parliament however passed the Fiscal Responsibility Act as the government looks to better manage public funds, reduce debt, and boost accountability.

However, the regulatory landscape is evolving with stricter environmental standards and enhanced data protection and cybersecurity frameworks.

INTEGRATION WITH EU POLICIES

Both Malaysia and the EU engage in dialogues and consultations to align policies on issues such as human rights, environmental protection, and labour standards. Despite past animosity in the commodities sector, the Malaysian government is taking strides to elevate its sustainability standards through the Malaysian Sustainable Palm Oil (MSPO) certification. Concurrently, the WTO ruling on Measures concerning Palm Oil and Oil Palm Crop Based Biofuels necessitates adjustments to the EU Delegated Act.

The ruling is anticipated to foster a more conducive environment for cooperation between Malaysia and the EU, potentially paving way for mutual collaboration and positive developments in the future.

INVESTMENT AND TRADE

The EU is the 2nd source of foreign direct investment (FDI) and the 4th largest trading partner of Malaysia. On trade policy, Free Trade Agreement (FTA) negotiations between EU and Malaysia were launched in 2010 but reached an impasse after seven rounds.

As of May 2024, multiple scoping exercises were done on both the EU and Malaysian side on a technical level. At the political level, Prime Minister Anwar Ibrahim and Commerce Minister Zafrul have both expressed their enthusiasm on the prospect of reviving trade talks with the EU.

Malaysia has concluded a number of FTAs under ASEAN frameworks, as well as regional FTAs such as the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP).

Despite the tumultuous global economy, Malaysia showcased unprecedented growth in 2023, securing a staggering RM329.5 billion in approved investments – a 23% increase from the RM 267.7 billion approved investments in the previous year. Almost 70% of the amount are in the digital economy, proving that Malaysia has the potential to power artificial intelligence (AI) and bring the ecosystem into the country.

EUROPEAN BUSINESS PRESENCE

Despite the absence of a FTA, European businesses maintain a substantial footprint in Malaysia, with over 1,600 companies operating across diverse sectors ranging from manufacturing to services and technology.

Many well-known European multinational corporations have established operations in Malaysia, leveraging its strategic location, skilled workforce, and supportive business environment. European companies play a crucial role in sectors such as automotive, electronics, pharmaceuticals, and renewable energy, contributing to Malaysia's economic growth and development. Additionally, European expertise and investment in areas such as research and development, innovation, and sustainable practices have helped drive progress and foster collaboration between Malaysia and Europe.

With ongoing efforts to enhance trade relations and promote investment, European businesses continue to play a vital role in Malaysia's dynamic business landscape. Anticipation of resumed FTA negotiations signals potential for further growth and enhanced collaboration between European businesses and Malaysia, bolstering economic ties and expanding opportunities for bilateral trade and investment.

ESG Trends

Malaysian companies are gradually integrating ESG considerations into their operations, driven by factors such as investor demands, regulatory requirements, and societal expectations.

Key trends include a focus on environmental sustainability, with initiatives to reduce carbon emissions, promote renewable energy, and enhance resource efficiency. Socially, companies are prioritising diversity, equity, and inclusion (DEI) initiatives, as well as community engagement and stakeholder relations. Governance practices are also evolving, with an emphasis on transparency, ethical conduct, and board diversity.

The EU's Carbon Border Adjustment Mechanism (CBAM) and the EU Deforestation Regulation (EUDR) are poised to significantly influence Malaysia's ESG compliance landscape. However, there remains a slight disconnect between the corporate and public sectors in Malaysia, as the corporate sector tends to be more advanced in ESG practices compared to the public sector. Bridging this gap presents an opportunity for collaboration and knowledge- sharing between Malaysian and EU industries to drive further progress in ESG integration and sustainability efforts.

Supply Chain Redistribution/Resilience

With disruptions highlighting vulnerabilities in global supply chains, there is a growing emphasis on resilience and diversification. Malaysia, positioned strategically amidst the US-China trade tensions, emerges as a potential intermediary for supply chain redistribution. As companies seek to mitigate risks and diversify production bases and markets, Malaysia offers a conducive environment with established infrastructure, skilled labour, and favourable trade agreements. Leveraging its geographic advantage and existing trade relationships, Malaysia stand s poised to attract investments and serve as a hub for regional supply chain operations, facilitating smoother trade flows and enhancing resilience for European businesses amidst ongoing global uncertainties.

As part of the Global Gateway strategy, the development of the Port of Lumut (LUMIC project) in collaboration with the Port of Antwerp-Bruges International exemplifies the strategic partnership aimed at enhancing supply chain resilience and fostering economic cooperation between Malaysia and the European Union.

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MYANMAR

FUTURE (ECONOMIC) OUTLOOK

The future economic outlook in Myanmar remains volatile, primarily driven by several factors, including the depreciation of Myanmar Kyat, stringent financial regulations, regulatory hurdles, and conflict in the border areas of the country. This volatility is also reflected in the near-term growth projection highlighted in the World Bank Myanmar Economic Monitor June 2023 report, which indicated a further weakening of growth prospects. According to the report, GDP was expected to grow by just 1% in the financial year ending March 2024, while inflation is expected to remain high, at around 20% in March 2024, which could escalate further due to ongoing developments, including potential exacerbation of depreciation and regulatory challenges at the current moment.

EuroCham Myanmar also conducted the 13th edition of its quarterly Business Confidence Survey in February 2024, in which a majority of European businesses across several sectors expect further deterioration in market conditions if these current challenges and uncertainties in the overall business environment persist. Despite these apprehensions, over three-quarters of the surveyed businesses demonstrated resilience, affirming their steadfast commitment to maintaining their presence in Myanmar over the next six months.

BUSINESS/INVESTMENT ENVIRONMENT

Challenges exist within the business environment of Myanmar, reflecting a multifaceted landscape characterised by a combination of structural, political, and socio-economic factors. This context is largely attributable to the ongoing financial constraints, the complexities surrounding import license approvals, the recent activation of the People's Military Service Law, inadequate electricity supply in operational areas, affecting the disruptions in the supply chain, stock availability, and operational efficiency of the businesses across sectors in Myanmar.

However, the resilience exhibited by the European businesses reflects a strategic approach to navigating the complexities of the Myanmar market. Businesses actively adapt their strategies and explore innovative solutions to mitigate risks and capitalise on emerging opportunities in the long term, with a steadfast commitment to responsible business practices as the critical consideration for sustaining operations in Myanmar.

POLITICAL AND ECONOMIC CHALLENGES

The ongoing shifts in political and socio-economic landscapes exert significant influence on the business community, making adaptability to these dynamics paramount for effectively navigating the challenging environment.

- **Regulatory Challenges,** particularly pertaining to the ongoing import licence approval difficulties and the recent announcement of the enforcement of the People's Military Service Law, emerge among the business community, which triggers disruptions in operational continuity and uncertainty among the population.
- **Banking issues** are also persistent as one of the pressing issues due to the discrepancies between exchange rates and various aspects of financial limitations for businesses.
- **Safety and security concerns** for staff and operations are driven by instability in several parts of the country, compounded by the potential implications surrounding the activation of the People's Military Service Law.
- **Talent bottleneck** has also become increasingly challenging, exacerbated by the massive departure of skilled individuals from the country.
- **Reputation Risks,** explicable in the growing pressures from stakeholders towards Myanmar and potential social compliance issues, are perceived as the

primary determining factor in upholding the business activities in Myanmar to safeguard their image.

- **Risks of Sanctions or the potential removal of Everything But Arms (EBA) trade preferences** are also considered to be the main trigger in operating within Myanmar, seeking continued access to the EU market under preferential terms.

INTEGRATION WITH EU POLICIES

Myanmar benefits from the most favourable regime available under the EU's Generalised Scheme of Preferences (GSP), namely the Everything But Arms (EBA) scheme. The EBA grants unilateral duty-free, quota-free access to the EU for all exports except arms and ammunition. Most Myanmar exports to the EU derive from the garment sector; roughly 85% of total exports are textile and footwear products. The high rate of preference utilisation for these products (i.e., about 98%) signals the importance of the EBA in encouraging garment exports from Myanmar to the EU.

In line with the EU Corporate Sustainability Due Diligence Directive (CSDDD) and the adopted Corporate Sustainability Reporting Directive (CSRD), EuroCham Myanmar also hosts an ongoing series on heightened due diligence with the Myanmar Centre for Responsible Business (MCRB), highlighting Heightened Human Rights Due Diligence from various angles and guiding international businesses in Myanmar to apply Heightened Due Diligence in the local context. In addition, EuroCham Myanmar also participated in the side event for the OECD Forum on Garments, "Business and Human Rights: Due Diligence in Challenging Contexts", and the side event for concerned stakeholders during the Due Diligence Forum in Paris in February 2024.

INVESTMENT AND TRADE

The EU ranked as Myanmar's third biggest trade partner in exports (after China and Thailand), accounting for 19.5% of the country's total trade. Myanmar is the EU's 52nd import partner and 68th largest trading partner for import and export (accounting for 0.1% of the EU's total trade). The EU's 'Everything But Arms' scheme provides unilateral duty-free and quota-free access for all exports to the EU, excluding arms and ammunition. The key EU imports from Myanmar are dominated by textiles, manufactured goods, footwear, and agricultural products, and the key EU exports to Myanmar are dominated by machinery, transport equipment, and chemicals.

The 2020 pandemic and the political crisis since 1 February 2021 have led to an appreciable decline in the total export value of garments, footwear and handbags to US$6.5Bn in 2021, the lowest export value observed since 2018. Following the global re-opening of borders, 2022 saw a rebound, and despite substantial remaining operational challenges and risks, garment exports to key markets picked up; in 2022, the value of Myanmar garment exports to the EU was around US$4.3Bn, and US$5.05Bn of footwear and accessories, such as leather goods, handbags and travel goods are included.

The four-year, EUR 3 million project, Multi-stakeholder Alliance for Decent Employment in Myanmar ('MADE in Myanmar'), was formally launched in March 2023 with Sequa gGmbH and EuroCham Myanmar as the implementing partners. This ongoing project is primarily funded by the European Union with the objective of strengthening responsible business practices in the textile, clothing and footwear sectors, achieving critical industry improvements and protecting the livelihoods of hundreds of thousands of families.

EUROPEAN BUSINESS PRESENCE

EuroCham Myanmar currently represents 164 European businesses from the Agrobusiness, Automotive, Construction, Consumer goods, Energy, Garment, Health, Legal and tax, Logistics, Wine and spirits, and Services sectors, including NGOs and embassies. European companies from the Garment, Logistics, Consumer goods, Health and Agrobusiness sectors currently represent a larger representation of the EuroCham Myanmar business community. Since the political crisis unfolded in 2021, the membership has doubled, underscoring the crucial role of reliable information and support and the collective advocacy efforts in fostering a conducive business environment with responsible business conduct. Only around 15% of European companies left Myanmar completely.

Although a significant majority of European businesses have expressed resilience in maintaining their presence in the Myanmar market, various factors for companies' decisions to either remain or exit continue to exert their influence. Safety & Security risks, Reputational risks, Risks of sanctions or EBA removal, and further deterioration of the financial situation are considered to be the major determinants for European businesses to continue operating in Myanmar, among other factors.

ESG Trends

Given the challenging context, the Environmental, Social, and Governance (ESG) landscape in Myanmar is evolving amid ongoing political and socio-economic developments. With the growing recognition of the importance of sustainable and responsible business practices, it is crucial for businesses operating in Myanmar to be involved in initiatives aimed at fostering long-term value creation, mitigating risks, and positive social impact.

The activities of EuroCham Myanmar not only contribute to the development of sustainable and responsible business practices in Myanmar while providing jobs and livelihood opportunities for the Myanmar population. Moreover, EuroCham Myanmar supports the due diligence efforts of its members by providing timely and reliable information, as well as guidance on how to navigate a high-risk market.

Supply Chain Redistribution/Resilience

Political instability and regulatory uncertainties have profoundly impacted Myanmar's supply chain landscape, leading to significant implications for international trade, particularly across its land borders. Several European businesses in Myanmar have undertaken comprehensive risk assessments within their supply chains and adjusted strategies to effectively navigate the uncertainties in the flow of goods, especially amidst disruptions in transportation networks.

The 13th Business Confidence Survey of EuroCham Myanmar in February 2024 indicated that the Logistics Issues have surged to affect 41% of businesses, with nearly half of the businesses experiencing increased costs due to detours via sea and land routes. The escalation of conflicts and subsequent border closures have also compounded the complexities surrounding the logistics landscape, particularly in terms of transitioning import/ export licences from land-based transport to sea or air routes.

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PHILIPPINES

ECONOMIC OVERVIEW OUTLOOK

The Philippine Statistics Authority (PSA) reported that the Philippines' full-year gross domestic product (GDP) growth rate reached 5.7% for 2024. This growth was primarily driven by strong performances in key sectors, namely wholesale and retail trade; repair of motor vehicles and motorcycles; financial and insurance activities; and construction. Building on this momentum, the Philippine economy expanded by 5.4% in the first quarter of 2025.

The country successfully maintained its inflation target for 2024, posting an average of 3.2%, significantly lower than the 6.0% annual average recorded in 2023. To ensure price stability over the medium term, the Development Budget Coordination Committee (DBCC) has retained the inflation target range of 2% to 4% through 2028. Notably, headline inflation slowed to 1.4% in April 2025 from 1.8% in March, largely due to declining food prices and lower transport costs.

In terms of employment, the labor market continued to show resilience. The unemployment rate in 2024 dropped to 3.8%, marking the lowest level since 2005. However, as of March 2025, the unemployment rate slightly increased to 3.9%. According to the PSA, the slight uptick was attributed mainly to individuals not actively seeking work due to schooling and household responsibilities. Overall, these indicators reflect a steadily growing Philippine economy supported by robust sectoral performance, moderated inflation, and an improving labor market.

BUSINESS AND INVESTMENT ENVIRONMENT

To support its long-term economic vision, the Philippines has set an ambitious GDP growth target of 6.0% to 8.0% for 2025. In pursuit of this goal, the DBCC reaffirmed the administration's commitment to implementing the Philippine Development Plan (PDP) 2023–2028. Key reform areas include accelerating infrastructure investments, enhancing the ease of doing business, and improving national competitiveness. These priorities are reflected in the proposed PHP 6.352 trillion National Budget for fiscal year (FY) 2025, marking a 10.1% increase from the previous year's PHP 5.768 trillion allocation.

Among the government's top expenditure priorities for 2025 are infrastructure development, food security, the digital transformation of government, enterprise development, human capital development, climate-smart and disaster-resilient development, and the Comprehensive Devolution Strategy. These initiatives are designed to drive inclusive growth, boost investment, and improve public service delivery across the country.

Complementing its economic policy directions, the Marcos administration has identified several priority legislative measures to reinforce the country's development agenda. Among the measures already enacted under the Legislative-Executive Development Advisory Council (LEDAC) priorities for the 19th and 20th Congress are: the Corporate Recovery and Tax Incentives for Enterprises to Maximise Opportunities for Reinvigorating the Economy (CREATE MORE) Act, which enhances the tax incentives system to attract more investment; the Anti-Agricultural Economic Sabotage Act, aimed at curbing large-scale agricultural smuggling; the Anti-Financial Accounts Scamming Act, which strengthens consumer protection against digital fraud; the Enterprise-Based Education and Training Framework Act, designed to align workforce development with industry needs; the ARAL Program Act, which promotes inclusive learning recovery; the VAT on Digital Services, enabling the Bureau of Internal Revenue to collect value-added tax from digital platforms; and amendments to the Rice Tariffication Law, which bolsters food security by increasing support for rice farmers through the Rice Competitiveness Enhancement Fund.

Meanwhile, several key measures remain pending in Congress as of May 2025. These include the Capital Markets Efficiency Promotion Act, which seeks to reduce tax burdens and make the capital market more competitive; amendments to the Right-of-Way Act to streamline infrastructure delivery; and the proposed Excise Tax on Single-Use Plastics to strengthen environmental protection. Other important proposals include the Rationalisation of the Mining Fiscal Regime, which introduces a profit-based royalty system; amendments to the Electric Power Industry Reform Act (EPIRA) to lower electricity costs and promote renewable energy; and the creation of a Department of Water Resources, intended to improve regulatory oversight and ensure sustainable water access.

Further pending proposals support digital transformation and governance, such as the Open Access in Data Transmission Act and the E-Government/E-Governance Act, both of which aim to improve digital connectivity and modernise public services. In terms of healthcare, amendments to the Universal Health Care Act are being pursued to increase efficiency and better protect migrant workers. On the environmental and sustainability front, the Waste-to-Energy Bill and the Blue Economy Act seek to advance responsible resource use and climate resilience.

Altogether, these policy priorities and legislative initiatives demonstrate a comprehensive strategy aimed at fostering sustainable development, enhancing public welfare, and ensuring the Philippines remains competitive in a rapidly evolving global landscape.

POLITICAL AND ECONOMIC CHALLENGES

Geopolitical challenges

The global business environment in the region is currently shaped by a confluence of complex geopolitical factors and shifting trade dynamics. Understanding these elements is crucial for assessing the landscape for international businesses, including the European community operating within the Philippines and ASEAN. Key areas of concern and change include:

The West Philippine Sea

A significant regional concern impacting trade routes and geopolitical stability is the state of the West Philippine Sea (WPS). The ongoing territorial disputes between the Philippines, China, and other ASEAN neighbors remain a point of considerable tension. Despite the 2016 ruling favoring the Philippines, disputes persist, requiring the Philippines to continuously assert its rights while balancing diplomatic efforts with transparency in the area. Ultimately, the unresolved status of the WPS carries significant implications for the European business community in the region, primarily through its effects on established trade routes and overall geopolitical stability.

Global De-risking and Supply Chain Dynamics

Compounding the regional geopolitical concerns are significant shifts in global trade dynamics, largely driven by strategies of de-risking, particularly the United States (US)-China decoupling trend. These global de-risking efforts are actively reshaping trade patterns across the region and could significantly impact growth prospects in Asia. In this environment, effective supply chain management has become even more critical due to the rising prominence of near-shoring or friend-shoring initiatives by global industry players, which directly affects market value chains.

EU Realignment and Engagement with ASEAN

In response to this evolving global landscape, the European Union (EU) is actively realigning its external engagement. Association of Southeast Asian Nations (ASEAN), in particular, appears poised to benefit from this increased engagement through bolstered bilateral agreements, with the potential for an eventual region-to-region Free Trade Agreement (FTA). Demonstrating this strategic pivot to Indo-Pacific, negotiations for an EU-Philippines FTA are progressing, signaling the EU’s intent to enhance economic ties with global markets outside of traditional partnerships like the US. This initiative presents tangible opportunities for enhanced trade and investments.

The Philippines' Position in Evolving Supply Chains

Within this context of global supply chain transformation and increased EU engagement, the Philippines is particularly well-positioned to benefit from evolving strategies such as near-shoring, offshoring, and triangulation. The country's favorable workforce demographics and strategic location offer distinct advantages for companies restructuring their operations. However, realising this potential fully requires sustained policies that actively promote the Philippines as a reliable hub for resilient supply chains.

Impact of US Global Tariffs

Further complicating the international trade environment and impacting global market stability has been the recent imposition of sweeping tariffs by the United States. These measures include a base 10% tariff on virtually all imports, alongside higher 'reciprocal' rates applied to goods from specific countries, triggering widespread concern and disruption in global markets. While many countries in the ASEAN region opted against immediate retaliatory tariffs, hoping instead for renegotiation opportunities with the Trump administration, countries like China and Japan have responded by escalating trade tensions through coordinated measures. The EU has strongly condemned the US tariffs and issued warnings of potential retaliatory actions, outlining an agenda for a response valued at approximately EUR 95 billion targeting the US.

These new US tariffs have resulted in significant disruptions across several key sectors globally. The automotive sector has been particularly hard hit, with European carmakers, especially German manufacturers who rely heavily on the U.S. as a major export destination, facing severe consequences due to a 25% U.S. tariff imposed on imported automobiles and key auto parts since April and May 2025. Similarly, European producers in the steel and aluminum sectors have been impacted by a 25% U.S. tariff, disrupting exports to the US and overturning previous agreements that had lifted most restrictions. Tariffs on the electronics and semiconductor industries have also affected European players operating within the Asia-Pacific region, causing halts in global value chains for chip manufacturing. While certain items like smartphones and computers have currently been exempted from these tariffs, the EU has considered implementing export controls on a list of goods frequently purchased by the US, including aircraft and other electronics. Despite these tensions, both the US and the EU temporarily paused further retaliatory measures following a temporary halt initiated by the US administration.

Implications for the European-Philippine Business Community

Collectively, multifaceted global developments – from regional geopolitical tensions and broad supply chain restructuring to specific tariff impositions and the EU's strategic realignment – have a complex and significant impact on the European-Philippines business community. In the long term, the Philippines is potentially well-positioned to benefit from shifting trade networks as the EU reconsiders its engagement with Asia. However, the European-Philippine business community is currently experiencing indirect effects due to its deep integration into global supply chains, particularly evident in the electronics and semiconductor sectors. Therefore, developing strategies that prioritise stability, boost investor confidence in the region, and effectively mitigate geopolitical risks is crucial moving forward.

Economic Challenges

Ease of doing business

On 5 May 2025, the Philippines' Anti-Red Tape Authority (ARTA) kicked off its first celebration of the "Ease of Doing Business (EODB) Month." This comes after ARTA's implementation of various government programs aimed to comply with President Marcos' directive to streamline and digitalise all government services related to combating red tape and corruption.

Infrastructure

The Philippines continues to invest heavily in infrastructure, while various projects remain pending or cancelled due to legal constraints. The government has approved a total of 207 projects worth USD 178 billion as of April of this year. Project impacts relate to physical connectivity, water resources, agriculture, digital connectivity, health, power and energy, housing, and education. However, confidence in the area has taken a hit as several high-profile infrastructure projects have been cancelled or have proven to be substandard in completion. Several infrastructure collapses demonstrated a crisis in the quality of such projects, while a legal dispute between local government units led to the stalling of an intra-city subway system.

Digital connectivity

The Philippines continues to advance towards a digitally inclusive future, with various government initiatives prioritising connectivity across the region. Several projects include the Department of Information and Communications Technology (DICT)'s initiatives on BroadBand ng Masa Programme, which includes the National Broadband Plan (NBP) and the Free Wi-Fi For All Programmes. Moreover, the National Fiber Backbone is currently underway using fibre optic cables from the National Grid Corporation of the Philippines. Such projects benefit 11.6 million people and span a total of 1,245 kilometers in length. Bills such as those of Konektadong Pinoy or the Open Access in Data Transmission Act also promise to bolster competition and lower broadband costs in the country by removing barriers for internet service providers to enter the Philippine market.

AI, robotics, and labor

The effect of artificial intelligence (AI) in the labor market is quite extensive, given the context of the Philippines. In a study conducted by the Department of Labor and Employment (DOLE) Institute for Labor Studies, it is identified that pending legislation on AI is at an impasse as employee attrition due to AI innovation remains a top concern. On the other hand, the government is also establishing an AI think tank that seeks to implement new innovation grant guidelines, policy initiatives, and develop a platform to facilitate mass government adoption to improve key services. Such initiatives complement the existing Education Center for AI Research (E-CAIR) under the Department of Education (DepEd), and various industry initiatives led by the private sector.

Power

The Philippines is currently exploring various opportunities when it comes to the country's power sector. The Manila Electric Company (Meralco) has recently signed a strategic cooperation agreement with France's state-owned Électricité de France SA (EDF) to explore the deployment of nuclear energy in the Philippines. This agreement is important given the country's experiences with power failure integrity, as well as the increasing electricity demands of the country's growing population. According to Manansala, a chief data scientist at the Institute for Climate and Sustainable Cities (ICSC), the Luzon and Visayas grids are projected to run out of adequate power reserves this year, while the Mindanao grid is expected to keep normal reserves. The debate on foreign ownership of renewables also factors into the entry of foreign investors, as the government still grapples with concerns about the displacement of local industries.

Tax regulation

The Philippines still maintains several important tax regulations that significantly affect European businesses operating in the country. While recent reforms such as the CREATE MORE Act have made strides in improving the fiscal landscape, foreign investors continue to raise concerns about persistent taxation complexities, including inconsistent implementation of tax rules and the lack of clarity in certain Bureau of Internal Revenue (BIR) issuances. Businesses have also cited challenges in dealing with the BIR, including prolonged audit processes, difficulties in securing tax refunds, and inconsistencies in the interpretation of tax obligations across different BIR regional offices. These issues contribute to regulatory uncertainty, increase the cost of doing business, and may dampen investor confidence, particularly for small and medium-sized enterprises from Europe that lack the capacity to navigate these administrative burdens.

Foreign ownership restrictions

Under the Philippine Constitution, certain economic restrictions on foreign ownership are in place, limiting foreign equity participation in specific sectors. However, outside of these constitutionally and statutorily restricted areas, as outlined in the Foreign Investment Negative List, foreign investors are permitted to own up to 100% equity in Philippine domestic enterprises. These liberalised sectors include business process outsourcing (BPO) and call centers, most manufacturing industries, and select public services that have recently been opened to greater foreign participation through the amendments to the Public Service Act.

INTEGRATION WITH EU POLICIES

Sustainable Development

FTA negotiations resume with a green transition focus. As both the Philippines and the EU resume free-trade talks, both actors discuss access to key materials like nickel, copper, and chromite, which are important for Europe's push for renewable-energy technologies.

EU Deforestation Regulation delayed to 2025. Negotiators agreed in December 2024 to postpone the EU's ban on imports linked to deforestation activities, allowing exporters in Southeast Asia, particularly the Philippines, more time to comply with the new law. In February 2025, Brussels awarded a EUR 16.5 million grant to support judicial-system reforms, which is a companion grant to the PHP 3.67 billion green economy partnership, which aims to foster sustainable business models.

EU AI Act

The EU's first comprehensive legislation on the development of artificial intelligence coincides with the development of two key flagship legislative initiatives, which are the framework for the Digital Services Act and the Digital Markets Act. Such developments could affect how data and digital services that leverage AI technologies are regulated. In assessing the timeline provided by the EU, the European Commission will enforce rules around the general purpose of AI models, while other AI systems will fall under the enforcement at the national level. Developments within ASEAN and the

Philippines are still being monitored, as each country has yet to implement a comprehensive regulation that is aligned with the EU AI Act.

EU's General Data Protection Regulation (GDPR)

European and Philippine companies have to take note of global data protection regulations to be able to participate in the cross-border transfer of data. Privacy and security professionals consistently emphasised the need for the growing importance of compliance, especially if EU citizens are involved or if companies are operating in multiple jurisdictions. The Philippines needs to urgently reach an 'adequacy decision' that states that Philippine data privacy laws meet the needed standards for global data transfers.

Intellectual Property Rights

The Regulations on Well-Known Marks, which create the Register of Well-Known Marks in the Philippines, came into full force on 28 April 2025. This is significant for the European-Philippine business community as they now have the ability to protect their business interests through a more comprehensive IPR protection.

INVESTMENT AND TRADE

EU Generalised Scheme of Preferences Plus (GSP+)

The Philippines benefits from the EU's GSP+, which grants full removal of tariffs on two-thirds of all product categories. The country's utilisation rate of the EU GSP+ hit an all-time high of 80% in 2024 for the nearly 7,000 product lines that are included in this scheme being shipped by the country to the 27-member bloc.

A delegation from the EU undertook its fifth monitoring mission in Manila to check the Philippines' compliance with GSP+ commitments, last 6-12 March 2025. The discussions centered on topics including the rule of law, human rights, labor relations, good governance, and environmental protection. The information gathered will be used to help the EU prepare a report on the GSP+ scheme's implementation.

Following the EU's monitoring activities, a two-day stock-taking meeting was held in Makati City. This event was led by the Department of Trade and Industry (DTI) and included senior officials from various government departments, including Foreign Affairs, Justice, Labor and Employment, Environment and Natural Resources, and the Presidential Human Rights Committee Secretariat.

The meeting served as a platform to discuss the findings of the EU mission and to reaffirm the Philippines' commitment to its GSP+ obligations.

In line with ECCP's consistent ties with the EU GSP+ scheme after backing its extension to another 4 years last 2023, the Chamber met with its 5th monitoring mission last 6 March 2025. Representatives from the mission included Mr. Jörg Wojahn, Head of Unit for Trade and Sustainable Development at the European Commission. Mr. Wojahn engaged actively with ECCP representatives, inquiring about the private sector's efforts to align with the 27 international conventions under the GSP+ framework. Discussions also highlighted the evolving context of human rights implementation, noting a marked improvement in the current administration's approach compared to previous years.

Statistical Overview of EU Investment and Trade Activities in the Philippines

The EU and the Philippines have maintained robust trade relations, with total trade in goods amounting to EUR 16.1 billion in 2023. The EU stands as the Philippines' fourth-largest trading partner, accounting for 8.1% of the country's total trade.

The Philippine Economic Zone Authority (PEZA) has reported a total of 202 PEZA-registered projects with equity from European Union member states. These projects have collectively contributed approximately PHP 300 billion in cumulative investments to the Philippine economy. In addition, they have generated around USD 12 billion in exports and created over 50,000 direct jobs, many of which are located in key special economic zones across the country. This strong EU participation in PEZA-registered projects reflects growing investor confidence in the Philippines as a competitive and strategic location for export manufacturing, shared services, and high-value industries.

High-level political and economic engagements between the European Union and the Philippines have intensified in recent years, signaling a renewed commitment to deepening bilateral relations. Among these key interactions were the participation of the Philippine DTI officials in the PH-EU Interparliamentary Meeting held in Brussels in October 2022, where both sides explored avenues to enhance trade, investment, and policy alignment. This was followed by the official visit of President Ferdinand Marcos Jr. to Brussels in December 2022 for the ASEAN-EU Commemorative

Summit, during which he engaged with top EU leaders and reaffirmed the Philippines' interest in advancing FTA negotiations. Further demonstrating the EU's reciprocal interest, members of the European Parliament conducted a visit to Manila in February 2023, and recently in March 2025, engaging with Philippine lawmakers, civil society, and business leaders to assess areas of cooperation and shared policy priorities. These engagements underscore the importance of sustained dialogue and high-level diplomacy in fostering a stronger, rules-based economic partnership.

In March 2025, the Philippines' total external trade in goods reached USD 17.31 billion, marking a 9.6% increase compared to the same month in the previous year. Imports accounted for 61.9% of this total, while exports made up 38.1%. The growth in trade volume suggests a dynamic economic environment, potentially driven by increased production capacities and favorable trade policies. A significant contributor to this growth was the importation of electronic products, which were valued at USD 2.52 billion in March 2025. This represents a 24.8% increase compared to March 2024 and a 17.5% increase from the previous month. The surge in electronic imports indicates a robust demand for technological goods, possibly reflecting the country's ongoing digital transformation and industrial expansion.

The Bangko Sentral ng Pilipinas (BSP) recently reported that net foreign direct investment (FDI) inflows dropped to USD 529 million in February 2025, a significant 61.9% decline from USD 1.4 billion in the same month of 2024. Cumulatively, FDI net inflows for January to February 2025 stood at USD 1.3 billion, down 45.2% from USD 2.3 billion recorded during the same period last year.
Regionally, “net contributor” economies such as Thailand, South Korea, and Taiwan saw net FDI fall to -1.6% of GDP in 2024, a 30-basis point drop from their long-term average. Meanwhile, “net recipient” economies—including India, Vietnam, Indonesia, the Philippines, and Malaysia—also experienced a decline, with average net FDI decreasing to 0.7% of GDP, compared to a historical norm of 1.5%.

This global FDI slowdown has largely been attributed to stagnation in trade-to-GDP ratios. To reverse this trend, it has been recommended that the Philippines bolster its research and innovation ecosystems, improve intellectual property protection, enhance labor skills, and upgrade export infrastructure. In particular, the country can capitalize on low reciprocal tariffs in sectors like electronics, but must also address gaps in logistics, customs efficiency, and workforce development to take full advantage of evolving global supply chains.

EU-Philippines Free Trade Agreement (FTA)

A key milestone in 2024 was the official announcement of the resumption of the EU-Philippines Free Trade Agreement (FTA) negotiations on 18 March of the same year. This marked a renewed commitment to strengthening bilateral economic ties. The first round of negotiations took place from 14 to 18 October 2024 in Brussels, led by EU FTA Chief Negotiator Dora Correia and Philippine Department of Trade and Industry Undersecretary Allan B. Gepty. The round served as a platform for both sides to clarify positions through text-based discussions across 19 negotiating groups, laying the groundwork for areas of convergence and identifying potential divergences. Both parties demonstrated genuine and constructive engagement, building on an earlier stocktaking exercise that facilitated mutual understanding.

The second round, held in Manila from 10 to 14 February 2025, advanced these discussions further. Constructive and forward-looking exchanges continued, with many groups beginning to agree on text in areas of alignment. Notably, substantial progress was achieved on chapters covering Transparency, Micro, Small, and Medium-Sized Enterprises (MSMEs), and Sustainable Food Systems (SFS). The round also covered a wide range of topics, including Digital Trade, Services, Customs and Trade Facilitation, Intellectual Property Rights, Competition, Government Procurement, and Trade and Sustainable Development. To sustain momentum, both parties agreed to hold inter-sessional meetings in preparation for the third round in Brussels, scheduled for June 2025.

In support of the negotiations, the ECCP played a key role in convening high-level dialogues between EU negotiators and European businesses in the Philippines. On 12 February 2025, ECCP hosted a pivotal meeting with Ms. Correia to discuss updates and stakeholder expectations, following an earlier engagement in June 2024. The ECCP also organised a series of focused consultations on specific FTA chapters. These included a session on digital trade with Ms. Monica Cunningham, EU Chapter Negotiator, and the ECCP ICT Committee, covering issues such as data localisation, cross-border data flows, customs duties on electronic transmissions, and source code disclosure. A meeting on automotive sector concerns with DG TRADE officials Thomas Kuchtik and Cecilia Rovelli, focusing on investment barriers and market access; and a dialogue on customs and trade facilitation with the EU Delegation and the FTA Negotiating Team, emphasising the need to streamline trade procedures and enhance rules of origin frameworks.

European Business Sentiment

The 2024 ECCP Business Sentiment Survey reveals a strong and optimistic outlook among European businesses in the Philippines, indicating a clear trend of continued or increased presence rather than a decline since the pandemic. Specifically, 85% of respondents expect their trade and investment in the country to grow over the next four years, and 81% plan to expand their operations locally within that period. This positive sentiment is fueled by several key drivers, including perceived growth opportunities, a stable political and governmental environment, infrastructure improvements, and an increasing focus on sustainability. These factors reflect growing confidence in the Philippines' solid economic fundamentals and its alignment with evolving global standards.

To maintain competitiveness in the Philippine market, European businesses are adopting strategic approaches. A significant 82% of respondents highlight the importance of collaborating with local partners and customers, emphasising the critical role of strong local relationships. Furthermore, 63% view digitalisation as a prerequisite for staying competitive, underscoring the growing reliance on technology and innovation. Additionally, 42% consider investment in research and development essential for enhancing innovation, sustainability, and long-term competitiveness.

However, alongside the generally positive outlook, the survey also points to several persistent challenges that could hinder further growth.

However, alongside the generally positive outlook, the survey also points to several persistent challenges that could hinder further growth. Notably, 73% of respondents cite a lack of regulatory clarity and consistency as a major barrier to investment and operations. Similarly, 60% report that complex taxation regimes and cumbersome customs procedures result in shipment delays and increased costs. Geopolitical risks and uncertainties are also a concern, with 48% of respondents highlighting them as a significant deterrent to trade and investment.

In addition to these barriers, respondents identify broader structural bottlenecks to economic growth, such as political instability, inconsistent policy implementation, and governance issues. Infrastructure gaps—particularly in transportation and energy supply—were also flagged, with respondents advocating for stronger public-private partnerships (PPPs) to accelerate modernisation. Administrative inefficiencies, lengthy approval processes, and regulatory complexities remain problematic, while labor market concerns, including skill mismatches between education and industry needs, add to the challenges. Moreover, inflationary pressures, rising energy and logistics costs, and the increasing impact of climate-related disasters were cited as key risks. Respondents stressed the need for a transition to sustainable practices, increased support for renewable energy, and incentives for environmentally responsible businesses.

Although there has been some improvement in the ease of doing business in the Philippines, evidenced by 53% of respondents acknowledging progress, substantial challenges remain. A striking 75% still report persistent barriers to investment and business activities. Among companies involved in trade, only 6% consider customs procedures to be fast and efficient, highlighting a stark contrast between perception and reality. This underscores the urgent need for deeper, more effective reforms to create a truly enabling business environment.

ESG Trends

In recent years, the Philippines has made significant strides in institutionalising sustainable finance, underscoring its commitment to environmentally and socially responsible economic development. In 2021, the government introduced the Philippines Sustainable Finance Framework, a policy document that guides the issuance of green, social, and sustainability bonds aimed at financing projects that deliver environmental and social benefits. Aligned with international standards such as the Green Bond Principles (GBP), Social Bond Principles (SBP), and Sustainability Bond Guidelines (SBG) of the International Capital Market Association (ICMA), the framework serves as a foundation for the country's sustainable finance initiatives. It outlines eligible green, social, and sustainability projects, with the evaluation and selection of these projects conducted annually or as needed by the Interagency Technical Working Group on Sustainable Finance (TWG-SF), operating under the Development Budget Coordination Committee. The TWG-SF comprises senior officials from the Department of Finance (DOF), Bureau of the Treasury (BTr), National Economic and Development Authority (NEDA), and Department of Budget and Management (DBM), and may consult with experts and academic institutions to ensure well-informed decisions.

To operationalise this framework within the financial system, the Bangko Sentral ng Pilipinas (BSP) issued

Circular No. 1187, which mandates the adoption of the Philippine Sustainable Finance Taxonomy Guidelines (SFTG) by banking institutions. This circular amends Section 153 of the Manual of Regulations for Banks, requiring banks to integrate the SFTG in credit evaluation, investment decision-making, and the development of sustainable financial products and services. Moreover, banks issuing sustainable bonds must comply with standards set by the Securities and Exchange Commission (SEC).

In parallel, the SEC, in collaboration with the BSP and the Insurance Commission (IC), issued Memorandum Circular No. 5, Series of 2024, formally adopting the SFTG as a unified framework for identifying and classifying sustainable economic activities. The guidelines aim to accelerate capital flows into initiatives that reduce greenhouse gas emissions and enhance climate resilience, while promoting transparency and minimising the risk of greenwashing. The SFTG applies to enterprises of all sizes, including micro, small, and medium enterprises (MSMEs), guiding both investors and stakeholders in making informed decisions that support a just and sustainable economic transition.

In addition to these efforts, the SEC has prioritised aligning Environmental, Social, and Governance (ESG) standards with international frameworks such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-related Financial Disclosures (TCFD). This alignment is intended to improve the consistency and comparability of sustainability reports issued by Philippine companies. The SEC has also developed digital platforms, such as the Electronic Filing and Submission Tool (eFAST), to streamline the submission and analysis of sustainability data. Furthermore, the commission encourages high-impact industries to adopt TCFD recommendations, supports policies like the Extended Producer Responsibility (EPR) to promote recycling and waste reduction, and plans to expand ESG reporting to more entities while improving disclosure quality.

To institutionalise these efforts, the Philippines is set to roll out mandatory sustainability reporting for publicly listed companies (PLCs) starting in 2026, using a phased approach to ensure smooth operational integration.

The European Union and the Philippines continue to strengthen their partnership in building a more sustainable future through the PHP 3.67-billion EU-Philippine Green Economy Programme (GEPP), launched in 2023 during the visit of European Commission President Ursula von der Leyen to Manila. Running until 2028, the program supports the country's transition to an inclusive and circular green economy.

As part of this effort, the Philippines and the EU launched two grant facilities under the GEPP on 22 April 2025, further advancing the country's sustainable development agenda. The two grants—the "Community Grants" and the "Circular Economy Education and Behavioral Change Grants"—will support programs in 10 partner local government units (LGUs) across the Philippines. These initiatives are designed to reduce waste, promote social inclusion, and enhance environmental awareness through education and behavioral change. It will be implemented by the Department of Environment and Natural Resources (DENR) in cooperation with the Department of Trade and Industry (DTI) and the Department of the Interior and Local Government (DILG).

Meanwhile, the Department of Finance (DOF) continues to play a central role in accelerating the country's sustainable finance agenda. In 2025, it expanded the mandate of the Interagency Technical Working Group on Sustainable Finance, also known as the Green Force, to take on a more proactive and targeted role in shaping sustainable finance policies. This strategic shift underscores the government's broader commitment to embedding sustainability into financial governance and national development planning.

Supply Chain Redistribution and Resilience

In 2024, electronic products remained the Philippines' top export, generating earnings of USD 39.09 billion, which accounted for 53.4% of the country's total exports. This was followed by manufactured goods at USD 4.68 billion (6.4%) and other mineral products at USD 3.01 billion (4.1%). To support export growth and strengthen economic competitiveness, the DTI has been actively engaged in bilateral, regional, and multilateral trade negotiations, focusing on shaping trade rules and strengthening supply chain resilience. These efforts are complemented by the DTI's exploration of new economic cooperation opportunities, aiming to secure and modernise industry supply chains across critical sectors.

Aligned with these goals, the DTI has reaffirmed the government's commitment to enhancing logistics and supply chain efficiency in the country, a key strategy to reduce the cost of goods. Several strategic recommendations have been highlighted, including the modernisation and capacity expansion of the Manila, Batangas, and Subic ports, the extension of logistics networks outside Metro Manila, the development of a reliable cold chain logistics system, and the strengthening of collaboration among logistics stakeholders.

On the trade facilitation front, the Philippines was recognised as one of the “lead reformers” in the Asia-Pacific region, according to a report by the Organisation for Economic Cooperation and Development (OECD). The country ranked 15th out of 33 Asia-Pacific economies, achieving a score of 14.97 across 11 trade facilitation indicators. These reforms are essential for reducing trade costs, enhancing competitiveness, and sustaining economic growth. In support of this, the country continues to modernise its customs operations through digitalisation and alignment with international trade standards. Demonstrating this commitment, the Philippines played an active role in the 38th Meeting of the ASEAN Customs Procedures and Trade Facilitation Working Group (CPTFWG) in March 2025. During the meeting, the Philippines led discussions on the ASEAN Time Release Study, the implementation of the ASEAN Cargo Processing Model, and new digital customs initiatives.

The BOC has been at the forefront of these modernisation efforts. By December 2024, the BOC had achieved a digitalisation rate of 96.99%, successfully automating 161 out of 166 customs processes. This significant milestone has led to reduced inefficiencies and minimised opportunities for corruption. A series of Customs Memorandum Orders (CMOs) introduced in 2024 further streamlined customs procedures. Among these were CMO 06-2024, which implemented the Electronic Payment Portal System (ePay) to allow stakeholders to pay customs duties, taxes, and fees online, thereby improving efficiency and reducing physical transactions; CMO 08-2024, which established procedures for implementing the ATA Carnet System under the Istanbul Convention, facilitating the temporary admission of goods without duties; and CMO 09-2024, which introduced the Electronic Tracking of Containerised Cargo (E-TRACC) System to improve the monitoring and management of domestic cargo movements.

Further enhancing pre-border controls, Administrative Order No. 23, s. 2024 mandated the adoption of a digital and integrated system for pre-border technical verification and cross-border electronic invoicing of all imported commodities. This initiative aims to expedite inspections, strengthen national security, and protect consumer welfare by ensuring that imports comply with safety and quality standards.

To promote a more inclusive and collaborative approach to customs reform, the Customs Industry Consultative and Advisory Council (CICAC) was established in February 2024. CICAC serves as a regular platform for dialogue between government agencies and industry stakeholders, addressing emerging challenges and improving regulatory compliance. By the end of 2024, the central CICAC had expanded to include 59 member organisations, while district-level CICACs had grown to 122 active members, reflecting strong support for ongoing trade and customs modernisation efforts.

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SINGAPORE

ECONOMIC OUTLOOK

Singapore's economy is facing growing pressure amid escalating US-China trade tensions, with the Ministry of Trade and Industry (MTI) lowering its 2025 growth forecast to 0–2%, down from 1–3%. This adjustment follows a 4.4% expansion in 2024 and comes as the US imposes sweeping tariffs—including a 10% flat duty on all imports and a 145% rate on Chinese goods—prompting retaliation from China. Economists are warning of a potential technical recession, with the economy already contracting 0.8% in Q1 2025.

In response, senior leaders including PM Lawrence Wong and SM Lee Hsien Loong have expressed deep concern over the tariffs. Unlike in past crises, SM Lee noted, Singapore now faces a fragmented global trading system, as the US moves from multilateralism to bilateral "arm-wrestling." This shift threatens smaller economies like Singapore that rely on open and rules-based trade. Despite a temporary pause on some tariffs, both leaders warned that the long-term outlook remains uncertain.

Rather than adopting retaliatory measures, Singapore continues to uphold a non-retaliatory, pro-trade stance, focusing instead on maintaining stability, engaging diplomatically, and diversifying trade partnerships. As a small, open economy deeply integrated into global trade, Singapore recognises that counter-tariffs could escalate tensions and ultimately do more harm than good.

To cushion the domestic impact, the government has launched a new task force, introduced extensive support measures, and maintained fiscal prudence. Leaders stress unity, resilience, and proactive governance as the path forward.

Singapore is interested in working more closely with the EU under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) framework. Together, CPTPP and the EU account for 30% of global output. The EU is Singapore's second-largest services trading partner and fourth for goods, while Singapore is the EU's largest trading partner in ASEAN. Bilateral trade exceeded €130 billion in 2022, underpinned by a robust free trade agreement.

Over 14,000 European companies operate in Singapore, many serving as regional hubs and logistics centers. Though foreign firms represent just 20% of businesses, they provide nearly a third of all jobs—including a large share of high-paying positions—and support local SMEs.

Six in ten residents earning over $12,500 monthly work in these firms. Singapore's talent strategies includes local workforce development programmes and schemes like the Overseas Networks and Expertise Pass.

Domestic Drivers

On the domestic front, the continued recovery in air travel and tourism is expected to support growth in Singapore's tourism- and aviation-related sectors. These include aerospace, air transport, accommodation, retail trade, and food & beverage services. The resurgence in these sectors is crucial for maintaining economic momentum.

However, it is important to note that the pace of growth in most of these sectors is expected to moderate compared to 2023. While the initial post-pandemic surge provided a significant boost, the growth rates are now stabilising as the sectors reach new equilibrium.

While challenges remain, Singapore's economy is well-positioned for steady growth in 2024. Policymakers and businesses will need to stay agile to navigate the evolving economic landscape and capitalise on emerging opportunities.

Potential Risks

The global geopolitical tensions could disrupt global supply chains and trade, affecting Singapore's economy.

The lagged effects of monetary tightening could trigger vulnerabilities in banking and financial systems, stressing regional economies with external financing needs.

Unusual cost shocks, like adverse weather events, could disrupt the global disinflation process, leading to prolonged tight financial conditions and weakening economic recovery.

Despite these risks, Singapore's economic resilience, strategic policy measures, and commitment to fostering an attractive investment climate position the nation for sustained growth amidst evolving global dynamics.

BUSINESS/ INVESTMENT ENVIRONMENT

The Singapore government is actively fostering growth opportunities for European companies across various sectors, focusing on the digital economy, sustainability, and innovation. This strategic initiative aims to strengthen Singapore's position as a global business hub while aligning with national development goals.

Digital Economy

In the realm of the digital economy, the government has been vigorously pursuing digital trade agreements with key partners, including the EU. The negotiations for a Digital Trade Agreement (DTA) between Singapore and the EU have been concluded and are expected to provide legal certainty for digital trade and enhance protections for digital transactions. This agreement aims to unlock significant opportunities in e-payments, paperless trading, data innovation, and digital identities. European companies are well-positioned to leverage Singapore as a testbed for pioneering digital solutions, potentially setting a precedent for future EU-ASEAN digital agreements. Key areas such as blockchain, artificial intelligence, and cybersecurity offer particularly promising prospects for European firms operating in Singapore.

Green Economy

Sustainability and the green economy are also high on the government's agenda, with comprehensive plans for a green transition spanning all sectors. Singapore's commitment to ramping up efforts in clean energy and sustainable infrastructure presents numerous opportunities for European companies. The nation's initiatives, such as the Jobs Transformation Maps (JTMs), aim to upskill and reskill the workforce for emerging green jobs. This focus on sustainability allows European businesses to bring their expertise in renewable energy, green finance, and sustainable urban solutions to the fore, contributing to Singapore's ambitious environmental goals.

Innovation

Innovation and emerging technologies are another critical focus area. The government is providing robust support for companies to innovate, particularly in fields like advanced manufacturing and Industry 4.0 solutions. Technologies such as robotics and automation are being promoted to drive productivity, with new growth areas like generative AI and 6G networks opening up fresh avenues for collaboration. European companies with strengths in these domains can find ample opportunities for partnerships, testbedding, and market access in Singapore.

Moreover, Singapore is positioning itself as a strategic launchpad for European companies looking to expand into Southeast Asia and beyond. With around 80% of European businesses planning to increase trade and investment in ASEAN over the next two years, the region is viewed as a key growth area. The Singapore government is facilitating new market entry models, including joint ventures and consortiums, to support internationalisation efforts. European firms can leverage these initiatives to explore opportunities in sectors such as consumer goods, digital services, sustainable infrastructure, and logistics, capitalising on ASEAN's growing middle class and urbanisation trends.

POLITICAL CHALLENGES

Singapore is widely regarded as one of the most politically stable and business-friendly environments in the world.

However, there are a few political and economic challenges that European companies should be aware of when operating in Singapore: Dominance of the ruling People's Action Party (PAP): The PAP has been in power since Singapore's independence in 1965 and currently holds 83 out of 93 elected seats in Parliament. While this ensures policy continuity, it also means limited opposition voices in policymaking.

ECONOMIC CHALLENGES

Singapore's economic performance in 2023 showed a notable but modest growth of 1.2%, down from the 3.6% growth experienced in 2022. This slowdown can be attributed to a range of factors, including ongoing global economic challenges and specific domestic issues.

Rising costs are a significant concern. High labor and infrastructure costs, along with the recent increase in the Goods and Services Tax (GST) from 7% to 9%, could impact the profitability of European companies operating in Singapore.

Another key factor is Singapore's dependence on global trade. As a small, open economy heavily reliant on global trade, Singapore is vulnerable to economic slowdowns in major markets like the US, Europe, and China. European companies with significant exports to or operations in these markets may be affected.

Strategies for European Companies

Strategies for European companies to thrive in Singapore include diversifying markets and supply chains to reduce over reliance on any single region or country. Leveraging Singapore's extensive free trade agreements and double taxation avoidance agreements can provide access to regional and global markets.

Exploring partnerships with local companies is another valuable approach, helping businesses better navigate the local landscape and tap into government support schemes.

Additionally, investing in digitalisation, innovation, and workforce upskilling can significantly enhance competitiveness and productivity.

Staying updated on policy changes and actively engaging with the European Chamber of Commerce or other Business groups is crucial. These association provide feedback on issues impacting European businesses and ensure that their interests are considered in policy development.

INTEGRATION WITH EU POLICIES

The European Union (EU) is increasingly aligning its trade and commerce policies with other key objectives like economic security, climate action, and the European Green Deal. This alignment brings both benefits and challenges. For instance, the EU Singapore Free Trade Agreement (EUSFTA) includes provisions to facilitate trade in environmental goods and services, supporting the transition to a greener economy.

Similarly, the upcoming EU-Singapore Digital Trade Agreement aims to remove barriers for digital trade while preserving the ability to address challenges like data privacy. These agreements exemplify how the EU is promoting sustainability and climate action through trade policies.

On the economic security front, the EU is pursuing "open strategic autonomy"; thereby strengthening supply chain resilience and reducing excessive dependencies through trade tools like the International Procurement Instrument. Furthermore, the EU and Singapore have reaffirmed their commitment to global climate action and collaboration in areas like the circular economy, green finance, and low-carbon technologies, aligning with the European Green Deal.

However, this approach also presents challenges. Aligning trade with security, sustainability, and climate goals may conflict with the traditional objectives of economic efficiency and open markets, requiring careful management of trade-offs. The EU's ambitions on issues like state aid, e-commerce, and climate change are clashing with other WTO members, complicating multilateral cooperation. Moreover, balancing the diverse interests of EU member states, trading partners, and other stakeholders in areas like raw material imports and climate standards poses a significant challenge.

In the case of Singapore, the EUSFTA and the upcoming Digital Trade Agreement demonstrate the EU's efforts to align trade with its Green Deal objectives while preserving policy space to address digital challenges.

EU-SINGAPORE ECONOMIC RELATIONS

The EU and Singapore have concluded two major agreements to boost investment and trade ties: the EU-Singapore Free Trade Agreement (EUSFTA) and the EU-Singapore Investment Protection Agreement (EUSIPA).

EUSFTA entered into force on 21 November 2019 after ratification by both the EU and Singapore. It is one of the first 'new generation' bilateral FTAs, covering trade in goods, services, investment, government procurement, intellectual property rights, and sustainable development. EUSIPA Aims to protect EU investors and their investments in Singapore. It has been signed but is still pending ratification by all EU member states before entering into force.

Implementation Highlights

The EUSFTA eliminates customs duties on both sides. Over 84% of EU imports from Singapore entered duty-free immediately upon entry into force, with the remaining tariffs being phased out over 3-5 years.

The agreement also removes technical barriers to trade in key sectors like electronics, motor vehicles, pharmaceuticals, renewable energy equipment, and food products by promoting international standards and mutual recognition of conformity assessments.

The agreement also provides improved market access and legal certainties for EU services suppliers and investors in sectors like transport, telecoms, and environmental services in Singapore.

The total trade in goods between the European Union (EU) and Singapore amounted to €52.5 billion in 2022, an increase by 21.9% on a year-on-year basis. Singapore ranked globally as the EU's 22nd largest merchandise trade partner and second largest in ASEAN, after Vietnam, accounting for 0.9% of the EU's total trade in goods with the rest of the world.

EU exports of goods to Singapore reached €31.7 billion in 2022. Singapore ranked globally as the EU's 17th largest export destination and main partner in ASEAN, ahead of Malaysia (€14.7 billion) and Thailand (€14.8 billion).

EU imports of goods from Singapore reached €20.8 billion in 2022. Singapore ranked worldwide as the EU's 31st largest supplier of goods and fifth largest in ASEAN, after Vietnam (€51.6 billion), Malaysia (€35.6 billion), Thailand (€27.3 billion) and Indonesia (€24.1 billion).

Key Industries and Sectors

- **Electronics**: A major EU export to Singapore, benefiting from the elimination of technical barriers.
- **Pharmaceuticals and Medical Devices**: Facilitated by the adoption of international standards and transparent pricing/reimbursement procedures.
- **Renewable Energy**: Removal of barriers for equipment used in renewable energy
- **Generation**.
- **Automotive**: Acceptance of EU vehicle standards and elimination of duplicative testing requirements.
- **Food and Agriculture**: Facilitated trade in food products while maintaining safety standards.
- **Services:** Improved market access for EU companies in transport, telecoms, environmental services, and more.

Overall, the EUSFTA and EUSIPA significantly enhance the economic relationship between the EU and Singapore, providing numerous opportunities and benefits for businesses on both sides.

EUROPEAN BUSINESS PRESENCE IN SINGAPORE

European companies have maintained a strong presence in Singapore, and their numbers have continued to grow despite the challenges posed by the COVID-19 pandemic. Here are some key trends and statistics regarding the European business presence in Singapore:

- In 2021, the European Union (EU) was Singapore's 3rd largest foreign investor, with investment stock valued at €255.6 billion.
- EU-Singapore trade in goods reached €42.9 billion in 2021, with EU exports at €27.3 billion and imports at €15.6 billion.

Growth or Contraction

The European business community in Singapore has experienced overall growth despite the pandemic's challenges. Key factors contributing to this growth include:

1. Singapore's business-friendly environment, political stability, robust legal system, and strong intellectual property protections.
2. A skilled talent pool, both local and expatriate, supporting business operations.
3. An extensive network of free trade agreements and double taxation avoidance treaties, facilitating access to regional and global markets.
4. Government incentives and support schemes targeting strategic sectors such as digital technology, sustainability, and innovation.
5. The EU's deepening economic ties with ASEAN, with Singapore serving as a strategic entry point for European companies.

Despite current geopolitical tensions and shifting tariffs, Singapore remains an attractive regional business hub. The government's proactive measures have helped support the continued growth of the European business community here.

However, some European companies, particularly in sectors heavily impacted by the pandemic like aviation and hospitality, may have downsized or exited the market temporarily.

THE ESG LANDSCAPE

The Singapore Green Plan 2030 is a comprehensive national sustainability agenda with ambitious targets in renewable energy, green buildings, electric vehicles, and food security. This initiative offers European companies opportunities to contribute innovative solutions and align their operations with Singapore's sustainability goals.

Complementing this plan, the Singapore-Asia Taxonomy for Sustainable Finance, launched in 2023, provides a common classification system for green and transition economic activities. This taxonomy helps European companies identify eligible sustainable projects and access green financing opportunities in Singapore and the broader region.

Starting in 2026, Singapore will mandate climate-related financial disclosures for certain companies, aligning with the EU's Corporate Sustainability Reporting Directive (CSRD). This regulatory change enables European companies to leverage their existing ESG reporting frameworks and practices effectively.

Furthermore, Singapore aims to quadruple its solar energy deployment by 2030. European companies in the renewable energy sector can significantly contribute their expertise and technologies to support this ambitious transition.

CORPORATE RESPONSIBILITY AND CHALLENGES

European companies face challenges navigating the evolving ESG regulatory landscape across ASEAN countries. Ensuring compliance with diverse national standards and disclosure requirements is often difficult. The proposed EU Corporate Sustainability Due Diligence Directive (CSDDD) will require European companies to conduct comprehensive ESG due diligence across their supply chains in ASEAN. Implementing these processes, especially for complex regional supply chains, can be resource-intensive.

While green financing opportunities are growing, accessing capital for transition activities supporting the low-carbon journey remains challenging for many European companies in carbon-intensive sectors in ASEAN.

Despite these challenges, European businesses can position themselves as leaders in the ESG space by proactively embracing sustainability initiatives and contributing to Singapore's and the region's sustainable development goals.

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Report Reference

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- SINGAPORE-TRADE-BOOKLET_2023_230920_WEB.pdf

THAILAND

FUTURE (ECONOMIC) OUTLOOK

Thailand is anticipated to experience steady but modest growth. However, potential economic challenges and changes in market dynamics and slow progress with regulatory changes may play a crucial role in shaping Thailand's economic trajectory, which is an upper middle-income economy and aims to be a high-income economy by 2037.

US Executive Branch tariffs are reduced to 10% (from 34%). A 'Team Thailand' has been formed to deal with responses. S E Asian leaders have stated that they do not plan retaliatory tariffs but would (i) negotiate (ii) look for other markets (iii) strengthen investment attractiveness (iv) aim to exploit existing treaties to maximise benefits – eg RCEP (v) accelerate the conclusion of the EU-TH FTA even to conclude it within 2025.

On point (v) speculation ensures as to what might be left out or deferred.

Economic growth continues as a target of under 3% for 2024, and while the government has projected a GDP increase of 3% by the end of 2025, many economists have expressed skepticism about this target—even before the recent announcement of new tariffs by several countries.

An informal estimate of only 1.6% has been projected.

Although the country has largely emerged from the disruptions of COVID-19—supported by increased infrastructure investment and limited business environment reforms—consumer confidence remains subdued.

Tourism continues to recover gradually in 2025, but the number of international arrivals has yet to return to the record levels seen in 2019 and the government has expressed concern about international arrivals level for 2025.

Amid structural headwinds, the Paetongtarn government has introduced several economic policies aimed at stimulating growth. Two flagship initiatives are the proposed development of an entertainment complex (with a controversial casino plan), which is still under parliamentary consideration and intended to enhance infrastructure for long-term tourism growth. The controversial Digital Wallet, which was introduced as a stimulus measure and is partially implemented has seen many economists criticise the Digital Wallet as merely a handout, with its sporadic implementation failing to generate significant economic impact.

Additionally, Thailand's strategic location in Southeast Asia and its role as a key hub in regional supply chains are increasingly important as businesses look to diversify away from China due to ongoing trade tensions and US tariffs uncertainty. This shift in global supply chains could support continued economic activity and attract foreign investment, provided the logistics sector becomes more competitive. Improvements in ease of doing business, regulatory processes, and transparency would foster a more favourable investment climate but may not achieve desired results. Thailand's commitment to achieving Net Zero by 2065 (carbon neutral by 2050) drive changes in environmental standards and corporate social responsibility, impacting various sectors.

There have been some improvements in Thailand's perceived competitiveness trends, particularly in management practices, according to the World Competitiveness Centre of IMD. However, labour market and shortage of skills are unaddressed.

From 1 May, Thailand introduced a digital arrival card ('TDAC'). While some improvements are needed to a clunky and off-putting process for entering address data need overhaul, the overall bothersomeness of the process is not oppressive.

Thailand has also formally applied for OECD accession, which will require significant reforms and preparedness.

Ongoing negotiations for an FTA with the EU and the country's process of joining BRICS and (new) EEU could elevate Thailand's competitiveness to a new level, particularly by enhancing trade, investment, and geopolitical influence in the long run.

BUSINESS/INVESTMENT ENVIRONMENT

Thailand presents promising growth opportunities for European companies, particularly in sectors aligned with the government's strategic priorities. Key areas include modernising traditional approaches and adding value in production, stimulating the economy through digitalisation under the concept of market-driven innovation to increase income to ensure Thailand's competitive in the long run. But these are plans and three is no movement on the long-complained of restrictions in the services sector.

The Board of Investment (BOI) continues to offer various incentives, such as corporate income tax exemptions and import duty reductions, as well as eased foreign equity restrictions in certain cases. These measures aim to modernise the economy and attract foreign investment, though their implementation has been gradual. This supportive environment should position Thailand as an appealing destination for European businesses seeking to expand in Southeast Asia.

Despite these advantages, European investors may encounter challenges such as navigating complex regulatory processes and language barriers. While Thai officials are generally open and engage regularly with European chambers of commerce, understanding and adapting to local business practices and compliance requirements are essential for successful market entry and operations.

POLITICAL AND ECONOMIC CHALLENGES

Thailand, having recently transitioned back to civilian democracy after years of political turmoil, faces ongoing political volatility that can impact business operations. Despite the return to democratic governance, the political landscape remains unstable, with frequent changes in leadership, fluctuating policies, and intra-government conflicts among different governing parties, particularly on key economic policies. The coalition government has no representation from a very popular party with significant support. These conflicts often lead to policy incoherence, making it difficult for businesses to predict the long-term direction of economic reforms. This instability, combined with challenges in democratic institutions and the rule of law, creates an unpredictable environment for European businesses operating.

In 2024, Thailand's Constitutional Court issued a series of rulings that significantly impacted the political landscape. The court ordered the disbandment of the political party that won the most seats in the 2023 election, with several leaders banned from politics for ten years. Additionally, the court dismissed the former Prime Minister Srettha Thavisin, leading to the election of Paetongtarn Shinawatra as the new prime minister by the lower house of Parliament and the formation of a new cabinet. These rulings raised concerns about the encroachment of the judicial branch into the political sphere.

Tensions have also arisen between the administration and the Bank of Thailand (BOT) over economic policy directions. The government has expressed dissatisfaction with the BOT's stance on interest rates, particularly in relation to measures intended to stimulate economic growth. Paetongtarn's administration has threatened to interfere with the BOT's independence, criticising its cautious approach and calling for more aggressive fiscal and monetary policies. This conflict has raised concerns about the potential erosion of the central bank's autonomy.

The European Parliament passed a resolution in March 2025 condemning Thailand's deportation of Uyghur refugees to China. The resolution urged the European Commission to pressure Thailand to uphold international human rights standards. Importantly, it called for leveraging the ongoing EU-Thailand FTA negotiations as a tool to press Thailand to reform its human rights practices. EU executive response is to continue to monitor changes to the Fisheries Act which is to reflect winding back of some progress from 2015 in relation to IUU fishing.

The services sector continues to be protected, with less than 10% of overall exports to the EU being in services. Unlocking services exports will, according to experts, require upskilling the nation. Access to skills can be a challenge. A World Bank report (Feb 2024) noted that the gap in foundational skills contributes to a reduction in 20% of GDP.

European companies should focus on several strategies to mitigate these risks and capitalise on Thailand's potential. It is essential to monitor and adapt to the implementation of Thailand's policy and legislative measures to ensure they foster a level playing field and support the rule of law. Long-term competitiveness and resilience in the Thai market depend on more than just short-term trade promotions or simply stimulus approach. European businesses should advocate for and support reforms that enhance the ease of doing business, combat corruption (Thailand's current place in Transparency International's Corruption Perception Index – CPI ranking, has improved by one place to 107/180 for 2024 but the raw score is worse), improve logistics, and promote innovation and skills development. By engaging with local stakeholders and contributing to policy dialogue, European companies can help shape a more stable and predictable business environment while positioning themselves for sustainable success in Thailand.

OTHER REGULATORY AND LEGAL CHALLENGES

Foreign businesses operating in Thailand encounter several regulatory and legal challenges that can impact their ability to establish and manage operations effectively. One significant issue is the inconsistent enforcement of regulations. While Thailand has a comprehensive legal framework, the application of these laws can vary widely, leading to uncertainty and potential difficulties in compliance. This inconsistency can affect various aspects of business operations, from licensing and permits to day-to-day regulatory adherence.

Another challenge is the stringent foreign ownership laws. Despite some recent efforts to relax these restrictions, foreign investors still face limitations on the percentage of ownership they can hold in certain industries. These constraints can impact strategic control and decision-making, requiring careful navigation and local partnerships to ensure compliance and optimise business operations.

Additionally, the regulatory environment in Thailand is characterised by a high degree of complexity. The country's legal and regulatory framework is often criticised for having too many regulations, with efforts to streamline or remove outdated and unnecessary laws having met with limited success. This can create a burdensome and confusing landscape for foreign businesses, who must navigate a maze of rules and requirements that differ markedly from European standards.

oWhile there is some regulatory reform it is small scale and not a 'fast track' model.

Compliance with local laws presents another layer of difficulty. The legal and regulatory requirements in Thailand can be significantly different from those in Europe, necessitating a deep understanding of local business practices, labour laws, tax regulations, and intellectual property protections. This divergence can pose challenges in ensuring that business practices align with Thai regulations while maintaining compliance with international standards.

There are some positive developments in more welcoming and somewhat relaxes visa rules, but not for work permits.

INTEGRATION WITH EU POLICIES

As the FTA negotiation made significant progress to mutual satisfaction and moving forward onto the sixth round, as two economies aimed to reduce trade barriers and improve market access. This alignment should enhance trade volumes and foster investment by streamlining regulatory processes and harmonising standards.

While Thailand and the EU are both committed to strengthening economic cooperation, significant regulatory differences between the two can pose challenges. These include increased compliance costs and the complexity of navigating unfamiliar legal frameworks. Addressing these barriers is essential to ensure smoother integration and mutual benefit. By aligning with EU policies would offer considerable advantages. For Thai businesses, it can lead to improved access to the European market, reduced trade frictions, and greater regulatory predictability. Such cooperation can also stimulate economic growth, attract European investment, and support technological advancement. However, alignment requires adapting to the EU's often stringent regulatory standards, which may create uncertainty and additional compliance demands. Likewise, as not all EU regulations are suitable for direct adoption in Thailand. As the goal is not to replicate the EU's regulatory framework in full, but to foster trade and investment by promoting compatibility where feasible and ensuring that compliance remains practical and cost-effective.

The EU's strong sustainability drive still sees open issues about cost and the fear that it might put SMEs out of business or make trade with the EU unaffordable. Resolution needs a long-term plan.

Both Thailand and the EU are dedicated to promoting sustainable trade practices, with the European Green Deal and Thailand's own sustainability initiatives providing a framework for cooperation in green technologies and sustainable practices. While the EU aims to achieve Net Zero by 2050, Thailand has set its target for 2065 with carbon neutrality by 2050. This difference in timelines presents both opportunities for collaboration in green technology and challenges in aligning sustainability efforts. Effective cooperation in these areas can drive innovation and enhance environmental performance, benefiting both regions while addressing their unique sustainability goals.

Thailand has taken meaningful steps with a draft Climate Change law and plans for energy sector reform.

EU-THAILAND ECONOMIC RELATIONS

Investment and Trade

The EU and Thailand have a robust economic relationship, with a PCA (Partnership & Co-Operation Agreement) with the EU being Thailand's fourth-largest trade partner, accounting for 7.5% of its total trade. Thailand, in turn, is the EU's 26th largest trading partner globally. This trade relationship spans a wide range of goods and services, reflecting significant economic interactions between the two regions. Services exports from Thailand to the EU are weak.

European investment in Thailand is also substantial, with Thailand being one of the most important investment destinations for Europeans within ASEAN. The EU has invested €19.8 billion in Thailand, making it the second-largest investor in the country after Japan. This investment supports various sectors, including manufacturing, finance, and technology, highlighting the diverse interests of European businesses in Thailand's growing economy.

In March 2023, the EU and Thailand began relaunching negotiations for an FTA and by mid-2024, three rounds were completed. The negotiation process includes several rounds: the first in Brussels in September 2023, the second in Bangkok in January 2024, the third in Brussels in June 2024 and the fourth in Bangkok in November 2024 and fifth in Brussels in 2025. Thailand aims to finalise the agreement by 2025, with the EU requiring an additional year for ratification.

TRENDS IN TERMS OF EUROPEAN COMPANIES IN THAILAND

European Business Presence

The presence of European businesses in Thailand experienced a contraction during the pandemic, driven by global economic uncertainty, travel restrictions, and disrupted supply chains. Many European companies scaled back operations or delayed their market entry plans in response to these challenges. This period of contraction reflected the broader impact of the pandemic on international business activities, with firms reevaluating their strategies and investments in light of the disrupted global economy.

As Thailand has worked to stabilise its economy and manage the public health crisis, confidence among European investors has improved. The country's policies to free and fair trade, innovation, upskilling, and environmental sustainability will, if implemented, reinforce its appeal as an investment destination. These factors, combined with Thailand's focus on adhering to a rule-based world trade order and best practices, have contributed to a more competitive and resilient economic environment.

Looking ahead, ongoing negotiations and the potential for new trade agreements between the EU and Thailand are expected to create more favourable trading conditions. European firms are increasingly active in sectors such as renewable energy, digital technology, and automotive manufacturing, leveraging local partnerships and strategic investments to navigate the evolving market. Despite persistent challenges, including regulatory complexities and compliance issues, the overall outlook for European businesses in Thailand is becoming more positive, with growing opportunities for expansion and collaboration in key industries.

OPPORTUNITIES AND CHALLENGES

ESG, Climate Change and Sustainability Trends

Thailand presents growing opportunities for European companies to implement ESG principles, building on initiatives such as the Bio-Circular-Green (BCG) Economy Model (a Thailand construct which may be subsumed into wider SDG objectives) and new policy frameworks that support climate-related reporting and ESG impact measurements.

But Thailand lags some other S E Asian economies (eg Singapore) with committed standardised measurement and reporting. A notable recent step is the introduction of Thailand's first carbon tax in 2025, targeting oil and petroleum products. While the initial tax rate is modest, it reflects Thailand's gradual alignment with global carbon pricing practices and its preparation for international standards such as the EU's CBAM. Rising consumer and investor demand for sustainability, alongside government incentives, is further encouraging businesses to align with emerging ESG standards. However, Thailand is still very much in the early stages of widespread, consistently measurable, and reportable ESG adoption. In comparison to EU matured status that fully embedded these requirements.

Despite these opportunities, European companies face challenges. Navigating Thailand's complex and evolving regulatory environment can be difficult, particularly as the social and governance dimensions of ESG remain less clearly defined compared to the environmental aspect. Gaps in infrastructure, culture differences, and its inconsistencies in ESG/ climate measurement also pose obstacles. Moreover, the high initial costs of adopting ESG practices, especially under new requirements such as CBAM can be a barrier. Nevertheless, Thailand's ongoing efforts to establish a domestic carbon pricing system, alongside moves toward greater standardisation of ESG reporting, are promising developments. In the long term, aligning with Thailand's evolving ESG landscape offers a strategic opportunity for European businesses seeking sustainable growth and greater market resilience.

Supply Chain Redistribution/Resilience

Thailand's supply chain landscape has been significantly reshaped by post-COVID developments, with the pandemic exposing vulnerabilities in global supply chains. Cost of moving goods globally have dropped (as have airfares) since immediate post pandemic. The disruptions highlighted the need for greater resilience and flexibility, prompting both local and international businesses to reassess their supply chain strategies. Thailand has responded by focusing on diversifying its supply chain networks and improving infrastructure to better handle future disruptions, but a more cost effective and efficient logistics sector is needed.

For European businesses, these changes present both challenges and opportunities. The need for supply chain diversification has increased, as companies seek to mitigate risks associated with over-reliance on specific markets or regions. Thailand, with its strategic location in Southeast Asia and ongoing investments in logistics and technology, offers a viable option for European firms looking to diversify their supply chains or consider reshoring within the region. The country's efforts to streamline regulatory processes and enhance local sourcing capabilities further support this potential shift.

Despite these opportunities, European companies must navigate several challenges when adapting to Thailand's evolving supply chain landscape. Regulatory complexities and logistical inefficiencies remain significant hurdles, along with the high initial costs of implementing new supply chain strategies. Successful adaptation will require European businesses to form strategic local partnerships and leverage Thailand's growing digital infrastructure, ensuring that they can effectively integrate into the region's supply chains and capitalise on emerging opportunities.

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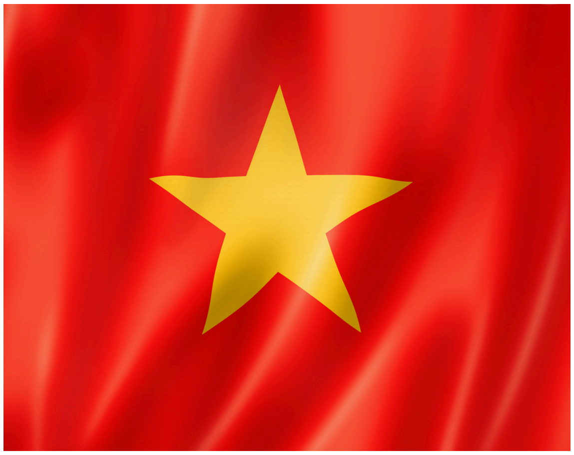
VIETNAM



ECONOMIC OUTLOOK

Vietnam's economic outlook is strong, supported by solid macroeconomic fundamentals, a favourable demographic dividend, and deeper integration into global value chains. Medium-term GDP growth is expected at 6-7% annually.

Global supply chain restructuring offers Vietnam opportunities to boost FDI and expand its manufacturing base, particularly through the "China+1" strategy. However, competition from other emerging economies demand targeted policies to maintain its edge.

Digital technology integration is poised to enhance productivity and foster new business models, especially in e-commerce, fintech, and logistics, where innovations are reshaping market dynamics.

Vietnam's growing middle class, with rising disposable incomes, is set to drive demand for higher-quality goods and services.

Commitment to multilateral trade agreements like the EU-Vietnam Free Trade Agreement (EVFTA) is expected to create a more open and competitive business environment. Reduced tariffs and better market access could significantly boost bilateral trade and investment flows.

BUSINESS/ INVESTMENT ENVIRONMENT

The Vietnamese government has identified key growth areas for European companies, particularly in digital transformation, sustainable development, and

The Vietnamese government has identified key growth areas for European companies, particularly in digital transformation, sustainable development, and industrial modernisation, aligning with EU interests, and making Vietnam, an attractive market for European investment.

High-tech industries like electronics, biotechnology, and advanced manufacturing are also prioritised, offering ideal opportunities for European firms known for innovative technologies and strong R&D capabilities.

Manufacturing

- **Opportunities:** Vietnam's booming manufacturing sector, especially in electronics and automotive, presents significant opportunities. The focus on industrial modernisation aligns with European expertise in advanced manufacturing and Industry 4.0.
- **Challenges:** A more skilled workforce is needed to meet the demands of advanced manufacturing.

Renewable Energy and Green Technologies

- **Opportunities:** Vietnam's renewable energy goals create opportunities in wind, solar, and hydroelectric power. European firms can leverage expertise in sustainable energy and smart grids. The Just Energy Transition Partnership (JETP) aims to speed up Vietnam's shift to a low-carbon economy.
- **Challenges:** Regulatory uncertainties, infrastructure investments, and securing financing for large-scale projects are key challenges.

Digital Transformation and High-Tech Industries

- **Opportunities:** Vietnam's digital transformation push offers opportunities in ICT, software development, and digital infrastructure.
- **Challenges:** The rapidly evolving digital landscape poses challenges in data security, intellectual property protection, and international standards adoption.

Agriculture and Food Processing

- **Opportunities:** Vietnam's digital transformation push offers opportunities in ICT, software development, and digital infrastructure.
- **Challenges:** The rapidly evolving digital landscape poses challenges in data security, intellectual property protection, and international standards adoption.

POLITICAL AND ECONOMIC CHALLENGES

Vietnam's recent political developments characterised by the dismissal of numerous high-level Central Committee and Politburo members as part of the government's ongoing anti-corruption campaign— known as the "blasing furnace"—have introduced an unusual degree of uncertainty. While this campaign aims to strengthen governance and address corruption, it has also led to increased caution among officials, particularly in bureaucratic decision-making.

As a result, some officials are hesitant to approve major projects, which has caused delays and bottlenecks in the approval process for key investment initiatives, impacting both domestic and international investors.

OTHER REGULATORY AND LEGAL CHALLENGES

Despite Vietnam's strong economic potential, European businesses face significant challenges that affect their operations and growth. The Q2 2024 EuroCham Business Confidence Index (BCI) survey, conducted among EuroCham members, highlights these issues. While confidence in Vietnam's long-term prospects remain strong, several regulatory and administrative barriers persist.

Key Challenges Identified in the BCI

- **Ambiguous Regulations:** Many regulations are unclear and subject to varying interpretations, leading to unpredictability as different authorities may enforce rules inconsistently.
- **Administrative Bottlenecks:** Lengthy processes for obtaining licences, permits, and approvals continue to hinder European companies, causing business disruptions.
- **Work Permits and Visas:** Despite Decree No. 70 in 2023, aimed at streamlining procedures, only 3.3% of respondents reported improvements. Businesses still struggle with attracting and retaining international talent due to complex and delayed permit processes.
- **Personal Data Protection Decree (PDPD):** The newly implemented PDPD has created uncertainty, with 25% of respondents unclear on its requirements. Only a third feel confident in their compliance, underscoring the need for clearer guidance.
- **Inconsistent Government Approvals:** Businesses encounter delays and increased administrative burdens due to inconsistent or duplicate approvals required at various government levels, particularly in complex projects.

INTEGRATION WITH EU POLICIES

Vietnam's alignment with EU trade policies, highlighted by the EVFTA, offers substantial opportunities for economic cooperation. The EVFTA has opened new market access, reducing tariffs and streamlining customs procedures, leading to a surge in bilateral trade.

This benefit has supported both sides, though European exports to Vietnam have grown less when compared to Vietnamese exports to Europe. However, this alignment brings challenges. The implementation of EU Green Deal regulations, while fostering sustainable growth, requires significant investments in green technologies, renewable energy, and capacity building. Vietnam has sought technical and financial assistance from the EU to support its transition to a greener economy.

While some ASEAN nations express concerns about EU's environmental regulations, Vietnam's pragmatic approach reflects a strategic understanding that is embracing sustainability standards can boost its global competitiveness and attract environmentally conscious investors.

EU-VIETNAM ECONOMIC RELATIONS

Investment and Trade EU-Vietnam Free Trade Agreement (EVFTA)

The EVFTA, effective since August 1, 2020, strengthens economic ties by eliminating most tariffs, reducing non-tariff barriers, and improving market access. It also covers intellectual property, labour standards, and sustainable development, making Vietnam more competitive globally and offering European businesses better access to Southeast Asia's markets.

As the EVFTA marks its fourth anniversary, its impact is significant but mixed. EuroCham's Business Confidence Index shows 27% of firms report moderate to significant benefits—up from 18% in 2023—while 25% see the negligible impact. Key gains include reduced tariffs and better market access.

Vietnam's exports to the EU grew from 35 billion euros in 2019 to over 48 billion euros in 2023, particularly in electronics, textiles, and agriculture. However, EU exports to Vietnam rose modestly from 11 billion to 11.4 billion euros, highlighting a trade imbalance. Despite this, the EVFTA has positioned Vietnam as a top destination for European investment, attracting 28 billion euros across 2,450 projects, with 800 million euros in FDI in 2023.

Sectors like electronics, textiles, and agriculture have benefited most from reduced tariffs. European investment is also flowing into manufacturing, energy, and infrastructure, particularly in sustainable technologies.

Challenges persist, particularly with regulatory complexities and new legislative hurdles. Vietnam's anti-corruption campaign has also slowed bureaucratic processes.

EuroCham is advocating for the ratification of the EU-Vietnam Investment Protection Agreement (EVIPA), which still awaits approval from nine EU member states, delaying enhanced legal protections and dispute mechanisms.

JUST ENERGY TRANSITION PARTNERSHIP (JETP)

The Just Energy Transition Partnership (JETP) was established in December 2022 to help Vietnam transition from fossil fuels to sustainable energy. At COP28 in 2023, Vietnamese Prime Minister Phạm Minh Chinh launched the Resource Mobilisation Plan (RMP), a key step in the JETP's implementation.

The RMP is a living document that identifies priority investments and policy actions necessary for Vietnam to meet its climate targets, including net-zero emissions by 2050. It details how $15.8 billion in committed funds—$8.08 billion from the International Partners Group (IPG) and $7.75 billion from the Glasgow Financial Alliance for Net Zero (GFANZ)—will be deployed to boost renewable energy, reduce fossil fuel reliance, and ensure a just transition.

The European Union plays a vital role in the JETP, as part of the IPG and driving international cooperation to support Vietnam's green transition. The EU's involvement not only provides financial resources but also, technical expertise and policy guidance, helping Vietnam strengthened its regulatory framework and attract private investment.

TRENDS IN TERMS OF EUROPEAN COMPANIES IN VIETNAM

European Business Presence

The Q2 2024 EuroCham Business Climate Index reflects a mix of cautious optimism and ongoing challenges. While overall sentiment remains positive, with most respondents expressing a neutral to positive view, there is growing concern about short-term economic prospects. This is evident in a slight dip in the BCI index and increased worries about potential economic deterioration.

Despite these short-term concerns, long-term optimism persists, with nearly 70% of business leaders still viewing Vietnam as their top investment destination, underscoring strong confidence in the country's economic potential and appeal to foreign investors.

The BCI indicates a slight decline in short-term confidence, but the long-term outlook remains positive. The European business community continues to expand in Vietnam, with a steady inflow of new foreign ventures. However, this growth is tempered by challenges that could limit its full potential.

Market entry for European companies is shaped by a mix of positive drivers and significant obstacles:

- **Positive Drivers:** Vietnam's robust economic growth, expanding middle class, favourable investment climate, trade agreements like the EVFTA, strategic location, and sustainability focus attract European investment.
- **Challenges:** Ambiguous regulations, complex administrative processes, difficulties in obtaining permits and visas, and inconsistencies across government levels create uncertainty and could hinder investment decisions.

OPPORTUNITIES AND CHALLENGES

ESG Trends

Vietnam's ESG landscape is evolving quickly due to regulatory pressures and growing awareness of sustainable practices. European businesses are adapting to local regulations while maintaining high ESG standards.

Vietnam's government, through its National Strategy on Green Growth, is committed to emissions reduction, renewable energy, and sustainability. Prime Minister Pham Minh Chinh's COP26 pledges, including net zero emissions by 2050 and phasing out coal, position Vietnam as a regional leader in sustainability.

Power Development Plan 8 (PDP8), a key component of Vietnam's energy strategy, was significantly delayed, raising concerns about the country's ability to meet its climate goals. Originally intended to guide Vietnam's transition from coal to renewable energy, the plan faced multiple postponements due to regulatory and policy challenges. The delay has complicated efforts to balance rapid economic growth with environmental sustainability, particularly as Vietnam continues to rely heavily on coal.

Despite its renewable energy focus, the delayed implementation of PDP8 highlights ongoing obstacles in Vietnam's energy transition.

European businesses face challenges like a lack of standardised ESG reporting and data collection, and the need for capacity building in ESG practices. Despite Vietnam's renewable energy commitment, integration remains challenging due to grid limitations and technology needs. The July 2024 Direct Power Purchase Agreement (DPPA) decree, allowing renewable producers to sell directly to large buyers, offers promise for private investment and Vietnam's green transition.

Sustainability presents opportunities for European companies, whose expertise in renewable energy and sustainable agriculture aligns with Vietnam's goals. By navigating regulations and investing in capacity building, they can leverage their ESG strengths in this market.

Supply Chain Redistribution/Resilience

Post-COVID, Vietnam has solidified its role in global supply chains, particularly through the "China Plus One" strategy. The pandemic revealed vulnerabilities in concentrated supply chains, prompting diversification. Vietnam's advantages—cost-effective labour, strategic location, and improving infrastructure—have attracted significant FDI in electronics, textiles, and consumer goods.

The rapid shift of manufacturing to Vietnam reflects broader risk mitigation trends. Vietnam's effective pandemic response further enhanced its appeal as a stable manufacturing hub. However, this growth has strained infrastructure, causing logistical bottlenecks, especially in transport and ports. The tightening labour market, particularly in high-skilled sectors, could also limit high-tech manufacturing growth.

For European businesses, Vietnam offers a strong alternative to China for supply chain diversification. The EVFTA and EVIPA enhance market access and legal protections, making Vietnam more attractive for investment. However, evolving regulations, especially in labour and environmental standards, require careful compliance. Infrastructure limitations and ESG concerns are also critical considerations.

Vietnam's role in global supply chains is set to grow as companies deepen their "China Plus One" strategies. The country's expanding capacity in electronics, automotive parts, and consumer goods underscores its strategic importance. While reshoring to Europe remains a long-term option, Vietnam's immediate role as a diversified manufacturing hub is likely to intensify, driven by cost advantages and geopolitical factors.

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East Asia and the Pacific Region

AUSTRALIA

INTRODUCTION

The European Australian Business Council (EABC) is a peak business body whose mission is to promote the trade and investment relationship between Australia and Europe as a whole. Our members include major Australian and European companies, covering all the key sectors which make up the bilateral economic relationship, represented at the senior executive and board levels.

The Council advocates for greater engagement between policymakers, officials, and industry to enhance business and innovation ties and to optimise the two-way flows of trade, investment, innovation, technology, and expertise. In this regard, we have led private sector support for an ambitious EU-Australia Free Trade Agreement (FTA) as an essential modern framework for economic relations and as a launchpad for cooperation on a range of regulatory, economic, and strategic issues.

Future (Economic) Outlook

Australia's political stability, transparent regulatory system, stable financial system, sound governance frameworks, and open trade and investment policies underpin its economic resilience. The country experienced almost 30 years of uninterrupted economic growth prior to the COVID-19 pandemic, the longest period of sustained growth of any advanced economy. Economic growth has returned to longer term patterns, outpacing the average growth of advanced economies between 2019-2024 (growing by 11.1% versus 7.8%).

Australia was the world's 14th largest economy in 2024 with nominal gross domestic product (GDP) reaching $1.77 trillion (USD).

December Quarter 2024

Economic activity in Australia picked up in the final quarter of 2024, with GDP growing by 0.6% (and 1.3% through the year), outperforming market expectations and marking the strongest performance since December 2022. The December quarter national accounts also show that the economy has emerged from a 21-month per capita recession, with GDP per capita growing by 0.1%. For the first time since 2018, all components of the economy positively contributed to GDP growth, including private demand (+0.3 ppt), public demand (+0.2 ppt), net trade (+0.2 ppt) and changes in inventories (+0.1 ppt).

Nominal GDP rose by 1.6%, driven by a terms of trade increase (+1.7%) after three consecutive declines, driven by a 2.5% rise in export prices. This surge was largely fueled by stronger demand for mineral ores from steel producers following China's announcement of an economic stimulus package. Prices for liquid natural gas (LNG) and rural goods also rose, reflecting robust demand for Australian exports. However, this was partially offset by a 0.8% rise in import prices, influenced by the depreciation of the Australian dollar.

Forecast

While global and domestic economic pressures have weighed on growth over the past year, the Australian economy is expected to regain some momentum over the course of 2025 as private final demand gradually recovers. The Australian Treasury's latest forecasts show a projected growth rate of 1.75% in 2024-25 before rising to 2.25% in 2025-26. Major international policy shifts in 2025 and global growth uncertainty have seen various sources revise down Australia's growth expectations. In April the International Monetary Fund (IMF) downgraded Australia's forecast for 2025 from 2.1% in January to 1.6%, in line with a 0.5% trim to its global growth forecast.

Inflation has moderated substantially since its peak in 2022 in both headline and underlying terms, at an annual rate of 2.4% and 2.9% respectively (March quarter 2025). Underlying inflation is expected to ease in the coming months before stabilising at around 2.75% in late 2025, remaining within the Reserve Bank of Australia's (RBA) target range of 2-3%.

As government cost-of-living assistance measures expire, headline inflation is expected to temporarily rise above the target range in the second half of 2025, before returning to the 2-3% band in 2026. In February 2025, the RBA announced its first rate cut in four years, joining global counterparts in softening monetary policy in response to a decline in inflation. The 25-basis point cut to the crash rate brought down the level of official interest rates to 4.1%, with markets predicting a second rate cut in May and further reductions throughout the course of the year.

Australia's labour market has shown strong resilience, with the country recording faster job growth than any other major advanced economy since mid-2022. Employment is expected to keep rising, though at a slower rate. The unemployment rate has stayed at historically low levels (currently 4%) and is projected by the Australian Treasury to increase only slightly, reaching 4.5% by mid-2025 (considered within the band of full employment).

In 2024 Australia recorded a trade surplus (goods and services) of $30.2 billion (AUD), with total exports falling by $30.4 billion (4.5%) to $644.4 billion, and total imports rising by $28.0 billion (4.8%) to $614.1billion. Exports to four of Australia's top five exports markets fell (1- China, 2- Japan, 3- South Korea and 5- India), while rising to its fourth biggest market, the US. In its most recent forecast, the Australian Treasury advised that net exports are expected to subtract 0.25 ppt from real GDP growth in 2024–25 and make no contribution to growth in 2025–26. This reflects weak growth in non-rural commodity exports, despite recently announced policy support in China; a slowdown in services export growth, driven by a slower than expected post-pandemic rebound in Chinese tourism and students; and relatively strong import growth of 2.5% in 2024-25 and 3.5% in 2025-26. Forecasted export growth for 2024-25 has been revised down from 5% to 1%. Although export growth is expected to recover in 2025-26 to 3% (previously forecast at 3.7%), the terms of trade are expected to be negative for the upcoming financial years (-5.25%). Nominal GDP is expected to grow at 3.25% in 2024–25 and 3.5% 2025–26, a moderation from recent years largely reflecting lower export prices.

Looking forward, Australia's economy is faced with a complex set of risks. Heightened unpredictability surrounding global trade, geopolitical risks, the economic performance of key trading partners, market volatility, as well as domestic risks including weak productivity growth, are expected to weigh on economic growth and place upward pressure on inflation. However, despite the uncertain global economic outlook, Australia's economy is comparatively well-positioned to navigate external headwinds and maintain its long-term stability.

BUSINESS/INVESTMENT ENVIRONMENT

Foreign Investment

Australia's open and resilient economy supports a positive investment environment, attracting investment from multinationals, start-ups, institutions and research organisations from around the world. Foreign investment is generally welcomed and understood to be a key driver of Australia's economic prosperity, high-quality jobs, and increased productivity.

In 2024 foreign investment in Australia rose by $326.9 billion (AUD) to $4,970.6 billion, with an FDI inflow of $81.1 billion during the year. Australia's investment abroad rose by $492.4 billion to $4,317.4 billion, with an FDI outflow of $21.3 billion during the year. The EU reclaimed its place as Australia's second largest source of foreign investment in 2024, after the US and ahead of the UK. It remains the third largest destination for Australian capital, after the US and UK respectively. Key Australian sectors attracting foreign investment include commercial real estate; transport and infrastructure; services; mineral exploration and development; finance and insurance; manufacturing; clean energy, electricity, and gas; agriculture, forestry and fishing; and residential real estate. In the latest quarterly data (Q1 2024-25) the commercial real estate sector outstripped the historically dominant services and mineral exploration and development sectors as the biggest attractor of FDI.

Foreign Investment Policy Changes

In 2024 the Australian Government made changes to its foreign investment review framework, with the aim of improving transparency, streamlining processes for 'lower risk' investments, and increasing scrutiny of proposed investments in areas deemed crucial for national economic security. These sensitive areas include critical infrastructure, critical minerals, critical technology, and investments which involve access to sensitive data or are in close proximity to sensitive government facilities. In response to a worsening housing supply and affordability crisis, in February 2025 the Government announced a 2-year ban on foreign acquisitions of established dwellings (1 April 2025 – 31 March 2027). It does not apply to new developments and exemptions apply for foreign investments that increase the housing supply (such as redevelopments), as well as purchases of properties intended for accommodation to support seasonal workers in key industries (under the Pacific Australia Labour Mobility scheme).

Priority Sectors for Foreign Investment

In the 2024-2025 Federal Budget, the Australian Government announced its new $22.7 billion economic plan 'Future Made in Australia'. The plan is designed to maximise the economic and industrial benefits of the international move to net zero and to contribute towards securing Australia's place in a changing global economic and strategic landscape. Significant opportunities exist for foreign investors through the plan, which includes initiatives to build esport-scale clean energy industries, bolster sovereign manufacturing capabilities, diversify the economy, and fully capitalise on Australia's world-leading critical minerals and renewable energy resources. The plan aims to accelerate investment and innovation in priority sectors including renewable hydrogen, critical minerals processing, green metals (specifically iron, steel alumina and aluminium), low-carbon liquid fuels, clean energy manufacturing (including solar and batteries), critical technologies (such as quantum, AI, robotics, among others). Additional priority areas will be identified under two streams – net zero transformation and economic security and resilience. To date these have included value-add in resources, agriculture, forestry and fisheries; transport; medical science; defence capability; and other enabling capabilities.

With the aim of crowding in private and foreign investment, new incentive programmes (including funding and tax incentives) are coupled with streamlined processes, regulatory reforms, investments in the enabling environment (including into skills and training, R&D, infrastructure, clean energy and manufacturing), and initiatives to make it simpler and faster to invest in priority sectors (including a new 'front door' for investors with major proposals in line with the agenda).

Business Environment

Australia is currently ranked 14th out of 190 economies in the World Bank's ease of doing business index. When comparing economies with a population of over 20 million, it jumps to fifth place. Australia is ranked fourth for gaining credit, sixth for enforcing contracts, and seventh for starting a business. Australia has been a leader in economic freedom since the inception of the Heritage Foundation's Global Index in 1995. Australia currently ranks sixth out of 184 countries, and third in the Asia Pacific region (behind only Singapore, Switzerland, Ireland, Taiwan and Luxembourg). Notably, Australia rates in the highest bands for business freedom, financial freedom, trade freedom, and investment freedom.

Despite an improved outlook for 2025, business sentiment in Australia remains under strain, with ongoing challenges like rising insolvencies, mortgage stress, high labour costs, stagnant real wages, a persistent housing crisis, and weakened business investment. While key factors impacting business sentiment are broadly improving, including the outlook for the economy, demand, and growth opportunities, others are severely weighing on confidence. These include tightened industrial relations settings, slow and complex planning and regulatory systems, skills shortages, and lagging productivity on the domestic front, coupled with intensifying global economic uncertainty, dramatic international trade policy shifts, supply chain disruptions, and geopolitical and digitalisation risks. According to the Australian Industry Group, 71% of industry leaders expect to be affected by labour shortages in 2025, in both lower- and higher-skilled roles, with negative implications for productivity, growth and financial performance. While increased business costs and workforce challenges have been common for several years, a deterioration of demand conditions will make it harder for industry to manage these challenges.

POLITICAL AND ECONOMIC CHALLENGES

Australia held its Federal Election on 3 May 2025, which saw the incumbent Labor Government (centre-left) return to power with a landslide victory. While areas including trade and investment, foreign, and defence policy are traditionally characterised by a bipartisan consensus between the two major political parties, notable differences exist on economic management, industrial policy, and energy and environment policy. A second term of the Albanese Government will provide a degree of medium-term certainty on Australia's current industry programmes and priorities, as well as its more ambitious agenda on decarbonisation, clean energy, and environmental protection.

On the economy, the Australian Treasurer has highlighted a shift in focus from a first term focused on tackling inflation, to a second focused on boosting productivity growth. Over the past decade, Australia has experienced the lowest productivity growth in 60 years, estimated by the Australian Treasury at 1.2% a year, with Australia dropping to 16th in the OECD productivity rankings from sixth in 1970. McKinsey & Company estimates that Australia's productivity growth between 2016-2023 has in fact been worse, with an average growth rate of 0.2%, and productivity declining in industries including mining, utilities, manufacturing, construction, financial services, and the care economy.

Part of the picture is referred to as Australia's "resources curse", with its export sector becoming overly concentrated on commodities, driven by a period of booming global demand for resources. While this reliance has underpinned decades of economic prosperity, it has also had deleterious impacts for economic diversification, productivity growth, manufacturing capabilities, investment in R&D, and ultimately a deterioration of economic complexity. In the latest Harvard University Economic Complexity Index, Australia's ranking has fallen to 99th out of 145 countries studied, driven by a lack in diversification of exports. Despite ranking as the ninth richest economy per capita, economic complexity has declined compared to a decade prior and its ranking has fallen eight positions. Beyond the export sector, Australia's economy is more diversified, with services employing almost 90% of Australian workers and account for around 80% of GDP.

As a relatively open and trade-exposed economy, Australia is vulnerable to global price fluctuations and economic changes in major trading partners. In an increasingly volatile, contested, and uncertain global environment, measures to drive productivity, competitiveness and diversification of exports are ever more crucial. Similarly, diversification of economic partnerships will be critical to future economic security and resilience. These areas are of high priority for the Australian Government moving forward and present significant opportunities for European business and investors.

OTHER REGULATORY AND LEGAL CHALLENGES

The economic relationship between Australia and the EU is governed by a set of outdated and ultimately self-harming rules. While significant opportunity exists for European business and investors across the economy, the finalisation of an ambitious EU-Australia FTA is crucial to put them on a level playing field with Australia's existing FTA partners. There is significant scope to improve harmonization and alignment of regulatory settings to create a more consistent environment for businesses operating across borders and to reduce barriers to two-way trade and investment flows. While Australia and the EU are considered to have trusted and transparent regulatory systems, they are increasingly complex and onerous. While the policy outcome of regulatory settings is broadly aligned (for example in areas such as privacy, sustainability, labour standards) they diverge in approach in a large number of areas. The burden of compliance with these two regimes acts as a disincentive for larger businesses and a barrier for SMEs.

Other areas for improvement include simplification of permits and customers procedures (in addition to much needed liberalisation of quotas, tariffs, taxes, and duties), and the introduction of mutual recognition agreements for goods (technical regulations, standards, and conformity assessments) and professionals (qualifications, licenses and registration conditions). While Australia is open to, and enjoys, high levels of European investment, European investors operate at a disadvantage to Australia's FTA partners, with investments attracting the scrutiny of the Foreign Investment Review Board at a significantly lower monetary threshold. While it is unlikely that these investments will ultimately be rejected, this process increases the cost and administrative burden and causes delays. For SMEs these comprise significant hurdles, and for European multinationals it can act as a disincentive to reinvest in the market where their operations in other countries face a more streamlined process.

INTEGRATION WITH EU POLICIES

Frequently characterised as likeminded and trusted partners, the EU and Australia relationship is underpinned by a shared strong commitment to democratic values, the rule of law, human rights, and multilateral cooperation. These common values and priorities are reflected through extensive collaboration efforts on global challenges including climate change, peace and security, upholding the rules-based international order, strengthening and reforming multilateral institutions, and sustainable development.

The commitment to deeper collaboration was solidified with the signing of the EU-Australia Framework Agreement in 2017, which came into force in 2022. This agreement seeks to strengthen cooperation across critical policy areas such as foreign and security policy, economic and trade matters, sustainable development, climate change, human rights and democracy, education, culture, research and innovation, among other areas. In recent years, this cooperation has extended to the pursuit of robust international standards and rules in areas such as AI, ESG, international tax, critical technologies, clean energy (such as hydrogen), critical minerals, and space to name a few.

Notwithstanding these positive developments, there is scope for further 'integration' of domestic policies and standards, both bilaterally and in pursuit of ambitious international frameworks. The finalisation of an EU-Australia FTA, while improving alignment in a critical but narrow set of trade and investment related issues, would also serve as a platform for broader cooperation in a range of policy areas.

AUSTRALIA-EU ECONOMIC RELATIONSHIP

The EU-Australia economic relationship is robust and expanding, despite current constraints limiting its growth potential.

Trade in Goods and Services

For the 2023-24 period, the EU was Australia's fourth largest trading partner, after China, the US, and Japan. Two-way trade was valued at $108 billion (AUD), representing an 8.5% share of Australia's total two-way trade. Despite a slight dip year-on-year (-1%), the five-year growth trend is a positive 7.3%. Trade flows remain significantly in the EU's favour ($57.7 billion surplus).

The EU ranked as Australia's third largest source of imports, valued at $82.9 billion (13.7% of total imports and a positive 5-year growth trend of 7.9%). Comparatively, it was Australia's sixth largest export market, with exports valued at $25.1 billion (3.8% of total exports and a positive 5-year growth trend of 8.6%).

Investment

In 2024, the EU was Australia's third largest investment partner, after the US and the UK. Two-way investment was valued at $1.35 trillion (AUD), representing 14.5% of Australia's total two-way investment. Investment flows remain significantly in Australia's favour ($390.4 billion surplus), but Australian investment in the EU is growing strongly. EU investment in Australia is present across all sectors, particularly renewables, infrastructure, transport, and advanced manufacturing.

The EU was Australia's second largest source of foreign investment and third largest source of FDI. The EU's stock of investment in Australia rose to $869.3 billion, an 11.2% increase of stock since 2020, with a $14.8 billion inflow of FDI during the year. Comparatively, the EU was Australia's third largest destination for foreign investment and FDI. Australia's stock of investment in the EU rose to $478.9 billion, a 38.4% increase of stock since 2020, with a $7.2 billion outflow of FDI during the year.

EU-Australia FTA

As an independent and private sector-led organisation, the EABC has long championed the case for an FTA between Australia and the EU. We welcomed the launch of negotiations in June 2018 and have remained actively engaged in the process, advocating for an ambitious and mutually rewarding deal. Broadly the EU and Australia are aiming for a comprehensive agreement, which liberalises trade, investment and public procurement conditions; delivers a more predictable and seamless business environment; promotes high standards including on sustainable development; and unlocks (and stimulates) new opportunities in both directions, particularly for SMEs.

After overcoming significant hurdles including disruptions due to COVID-19 and political tensions following Australia's AUKUS announcement, negotiations reached the political level in 2023. While the lion's share of the deal is agreed in principle, a select few highly sensitive issues remain and ultimately saw negotiations stall in October 2023. Facing a deteriorating geopolitical environment, and with European elections in 2024 and Australian elections in 2025 out of the way, the door has once again opened. EU Trade Commissioner Maroš Šefčovič and Australian Trade Minister Don Farrell have

have committed to fast-tracking the relaunch of negotiations, reflecting an urgent strategic imperative to boost economic diversification, competitiveness, and resilience.

A new migration system

The Australian Government's new Migration Strategy, released late 2023, is set to redesign Australia's migration system. The Strategy focuses on 8 key actions which include targeting temporary skilled migration to address skills needs and promote worker mobility and reshaping permanent skilled migration to drive long-term prosperity. This will notably include new visas and new skills pathways, fast-tracked processing, and reduced complexity, making it more efficient to bring in skilled workers for temporary and permanent migration. This is an important development for EU companies which, need to bring in the specialists required to set up operations in Australia.

TRENDS IN TERMS OF EUROPEAN COMPANIES IN AUSTRALIA

From Shared History to Strategic Future for Business

Business linkages are extensive, with over 2000 EU companies active in Australia, and longstanding with many companies having maintained a presence since before Australia's Federation. Notable examples from the EABC's membership including Siemens with more than 150 years, BNP Paribas with more than 140 years, and Ericsson with more than 130 years in Australia. More recent market entrants are playing an increasingly large role in sectors including manufacturing, infrastructure, construction, transport, business and financial services, mining, and clean energy.

There is, however, significant untapped potential. Business opportunities can be found across almost all sectors, including defence, critical minerals, energy, advanced manufacturing, sustainable mining, space, medical research, agritech, smart cities, cybersecurity, digital economy, and many others. Further information can be found in the above sections on the strategic sectors in which the Australian Government is seeking to attract investment, many of which dovetail with areas in which European industry holds significant expertise and comparative advantage. Beyond finalising an EU-Australia FTA, strengthening cooperative frameworks in areas including R&D and innovation (including through Horizon Europe), defence and security, and clean energy and critical minerals, has the potential to unlock significant opportunities for European business.

OPPORTUNITIES AND CHALLENGES

ESG Trends

In 2025, Australia's ESG landscape is expected to be driven by the entry into force of mandatory climate-related financial disclosure regime (CRFD), commencing with the largest companies; an increased focus on modern slavery, AI, greenwashing, and nature and biodiversity-related financial risks (with new reporting requirements on the horizon); environmental protection and workplace reforms; and the development of Australia's sustainable finance infrastructure, Nature Repair Market, and circular economy framework. Corporates in the Australian market are preparing for a shift from voluntary disclosures to mandatory reporting readiness and compliance in 2025, with the first being the CRFD and several others in the pipeline. International developments are also being closely watched, including the EU's Omnibus Simplification Package, as businesses seek to uplift systems and processes to be able to flexibly adapt to a rapidly evolving regulatory landscape.

Supply Chain Redistribution/Resilience

For decades, Australia's economic prosperity has been driven by openness and support for an international rule-based system ensuring consistency and predictability for Australia's export-dependent businesses. However, increasing global trade tensions, abrupt policy shifts, geopolitical risks, and economic uncertainty are intensifying risks to future economic security, competitiveness, and resilience. A deteriorating geostrategic landscape, coupled with unpredictability related to key trading partners, has accelerated an agenda for boosting diversification, sovereign capabilities, and the development of adaptable and resilient supply chains. Facing shared challenges and strategic priorities, the EU and Australia are well placed to forge a stronger partnership in response to the current environment. Beyond diversifying their export markets to weather disruptions, this includes cooperation to develop secure supply chains in strategic areas (along the whole value chain) and R&D and innovation collaboration to boost sovereign technologies and capabilities.

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Report Reference

- Australian Bureau of Statistics (ABS)
- Australian Department of Foreign Affairs and Trade (DFAT)
- Australian Institute of Company Directors (AICD)
- Australian Productivity Commission
- Australian Industry Group
- Australian Trade and Investment Commission (Austrade)
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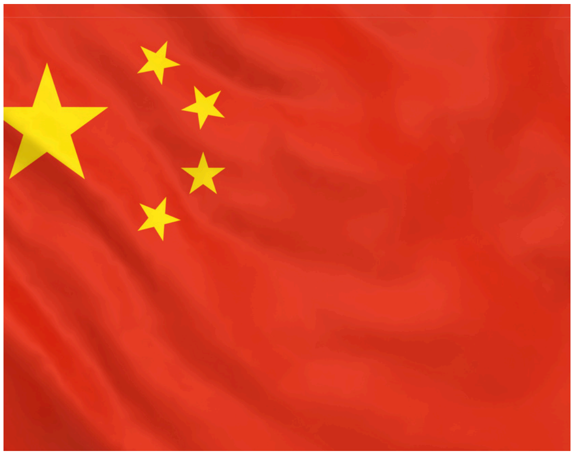
- World Bank.

CHINA



MORE ACTION NEEDED, NOT MORE ACTION PLANS

While doing business in China has always required a high degree of flexibility in order to adapt to the rapidly changing environment, companies previously viewed the complex challenges they encountered as the ‘growing pains’ of an emerging market. There was a common perception that the difficulties faced were worth bearing in exchange for access to a large and dynamic market, world-leading manufacturing clusters and comparatively cheap labour. With the risks of doing business mounting and the rewards seemingly decreasing, many investors are now confronted with the reality that their approach may require a substantial strategic rethink.

The central concern for European Chamber members is China’s economic slowdown. However, several other factors are dragging on business confidence, including perennial market access and regulatory barriers; a highly politicised business environment; lacklustre domestic consumption; overcapacity; the persistence of ambiguous rules and regulations; and the government’s continued focus on national security and developing a high degree of self-reliance.

A sentiment is emerging at company headquarters (HQs) and among shareholders that the returns on China investments are no longer commensurate with the risks faced. Profit margins in the country are equal to or below the global average for approximately two-thirds of European Chamber members, and pessimism about future profitability is at an all-time high. With many other markets now offering greater predictability and legal certainty along with at least the same returns on investment, continuing to invest at previous levels in China is simply becoming harder to justify.

There are indications that foreign-invested enterprises (FIEs) have already begun adjusting their investment strategies. Foreign direct investment (FDI) into China decreased by 29.1 per cent year-on-year during the first half of 2024. Furthermore, the volume of investments made by European Union (EU) and American firms is now roughly half that of a decade ago, with smaller multinational companies and small and medium-sized enterprises in particular opting to invest elsewhere.

In past years, this shortfall would have at least been partly offset by reinvestments – businesses using profits earned in China as opposed to capital injections from their HQs to fund projects. However, this metric is also trending downwards, as is the number of businesses that plan to expand their China operations.

In tandem, the nature of the FDI that the country is still able to attract is changing, as the focus shifts from cost and efficiency considerations, to building resilience and ensuring the continuity of company operations. New investments are increasingly defensive, geared towards creating China-specific value chains, separate IT and data storage systems, localising business functions, and enhancing compliance capacity, rather than beefing up China research and development or capturing market share. These kinds of investments will neither create new jobs nor drive innovation.

Similar defensive trends can be seen when it comes to diversification of supply chains. European Chamber members have begun both offshoring and onshoring, often at additional cost and loss of efficiency, as they seek to mitigate risks.

These changes are by no means a sign that European companies are running for the exit, but they do represent a strategic shift towards siloing China operations from the rest of the world. While this creation of autonomous, and sometimes divergent, systems may provide greater operational resilience, it will likely set the EU and China on course for a future of reduced engagement resulting in missed opportunities.

REFORM PLANS NEED TO BE BACKED BY MEANINGFUL IMPLEMENTATION

At the start of the new millennium, reform plans announced by the Chinese Government were seen by foreign companies as credible, following years of concrete improvements to the business environment in the periods immediately preceding and following the country's World Trade Organisation accession. Now, after more than a decade of largely unfulfilled pledges, doubts over China's commitment to reform are increasing.

At the start of the new millennium, reform plans announced by the Chinese Government were seen by foreign companies as credible, following years of concrete improvements to the business environment in the periods immediately preceding and following the country's World Trade Organisation accession. Now, after more than a decade of largely unfulfilled pledges, doubts over China's commitment to reform are increasing.

It is against this backdrop that the State Council's 13th August 2023 Opinions on Further Optimising the Foreign Investment Environment and Increasing the Attraction of Foreign Investment (Opinions) [1] was initially hailed as a potential turning point. While not a silver bullet for the headwinds China's economy is facing, the European Chamber believed that full implementation of the Opinions would help prevent a further deterioration in business confidence and provide a solid foundation to build on.

One year on from the document's publication, momentum has been lost.

To quantify this, the European Chamber asked the members of its 50 working groups, sub-working groups and fora, as well as its seven local chapters, to provide feedback on the progress they have seen on the measures so far.

This 'reality check' makes for sober reading. While the Opinions contain several big-ticket items that could really move the needle, limited implementation has taken place. With a few exceptions, the areas in which progress has been made have been those that will have little material impact on business, or which are too narrow in scope to meaningfully address the challenges faced by foreign companies.

The key takeaways of the Position Paper's analysis are summarised below, organised across six thematic areas:

- **Market access and procurement:** Actual progress made has so far largely been incremental and restricted to initiatives of limited sectoral and geographical scope, while foreign companies continue to face discrimination in China's procurement market.
- **Human resources (HR) and business travel:** Early breakthroughs were seen through the extension of China's preferential individual income tax policy for foreign nationals and via the waiving of visa requirements for citizens from several EU Member States. However, such developments represent low-hanging fruit and have yet to be followed by additional action that addresses the main HR-related concerns of European companies.
- **Digital and cyber:** Some initial momentum has been built in this area following the revision of China's regulations for cross-border data transfer. At the same time, there remains the need for upcoming rules to not be defined in an expansive manner,[1] as well as for industry-specific regulations to be better aligned with China's revised Provisions on Promoting and Regulating Cross-border Data Flows.[2]
- **Access to green energy:** Incremental progress has been made, but more needs to be done if FIEs are to meet their global corporate decarbonisation goals, which for many is needed to legitimise their continued presence in the China market.
- **Intellectual property rights (IPR):** Practical challenges continue to undermine the enforcement of IPR in China, while little progress has been made on sectoral-level challenges.
- **Investment promotion and facilitation:** Concerted efforts have been made to increase government-industry dialogues. However, in many instances, such dialogues have not produced results. There are several points in the Opinions related to the provision of support and incentives for investment in China, but their impact has been largely underwhelming, in part due to the related text lacking ambition and specificity.

THE 2024 THIRD PLENUM: LITTLE TO SUGGEST A COURSE CORRECTION IS IMMINENT

With limited progress made on the Opinions, the foreign business community had been looking to the Third Plenum of the Central Committee of the Chinese

Communist Party for signals that their concerns would be addressed, in particular, policies aimed at boosting domestic demand, a renewed focus on reform and opening up, and greater weight being given to market forces.

However, there was little indication provided at the session that a course correction will be forthcoming.

The Third Plenum Decision continues to promote investment in manufacturing as a key driver of China's economic development, albeit under the moniker 'new quality productive forces,' all while providing little concrete detail on how domestic consumption will be stimulated.

Second, while the document states that the market should play "the decisive role in resource allocation", it also calls for state-owned enterprises (SOEs) and state capital to "get stronger, do better and grow bigger." At the time of writing little indication has been provided on how the authorities will square this circle.

Third, the Decision places an increased emphasis on national security, with a whole chapter dedicated to the subject. While all state actors must do what is necessary to ensure economic security, the concern among FIEs is that China's prioritisation of security could lead to policies that go beyond legitimate concerns and create insurmountable business risks. In this regard, European companies are already struggling to understand their compliance obligations under a slew of recent security-related legislation.

THE COSTS OF FAILING TO ACT

The main cost of failing to take further action to address business concerns more comprehensively, is that the negative trends witnessed over the past few years can be expected to continue.

At the business level, this would equate to a further loss of investment for China, the continued siloing of supply chains and company operations, and the current fissure between HQs and their China operations expanding to become a chasm.

Beijing would also be opening the door wider for other regions to court investment at its expense. The graph below—which shows annual greenfield FDI flows into China, Indonesia, Malaysia, Vietnam, India and Mexico between 2003 and 2023—illustrates that this dynamic is already in play, and that it intensified from 2018 onwards.

At the **intergovernmental level,** failure to implement meaningful economic reforms will likely result in an increase in EU-China tensions. The EU has already begun taking a more assertive stance towards China on key areas of concern to European business in China. Moreover, it now has the legal muscle to exert real pressure, having introduced in recent years a set of tools aimed at protecting the integrity of its Single Market, and ensuring reciprocal market access and a level playing field for European companies operating in third markets.

Tensions could be dialled down if the Chinese authorities were to fully implement the measures detailed in the Opinions. While this would not be a panacea, it could turn the tide and begin the process of rebuilding investor confidence in the China market.

If China is to re-establish itself as the preferred destination for foreign investment, then significant additional steps will also be needed to improve the business environment. To this end, the Chamber's latest Position Paper puts forward 1,024 detailed and constructive recommendations to the Chinese authorities on how this can be achieved.

The European Chamber's Position Paper 2024/2025 is available to download free from the Chamber's website. https://www.europeanchamber.com.cn/en/publications-archive/1269/European_Business_in_China_Position_Paper_2024_2025

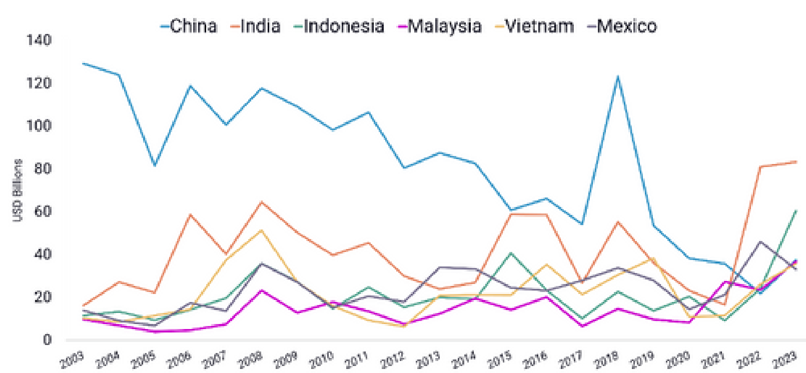


Figure 1: Value of announced greenfield FDI projects, 2003–2023
Source: UNCTAD World Investment Report

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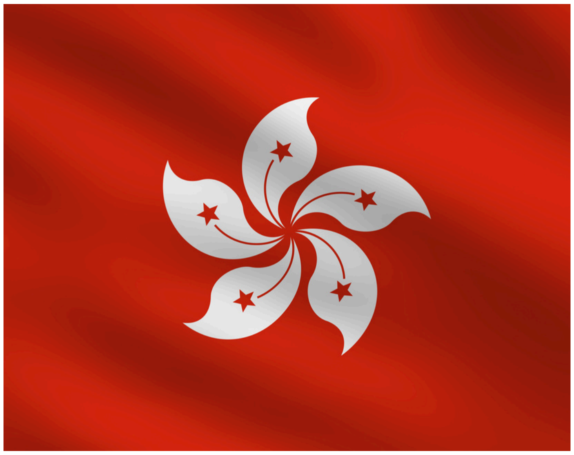
HONG KONG



OPPORTUNITIES AND CHALLENGES

ESG Regulatory Developments in Hong Kong

Hong Kong's robust ESG landscape, evolving since the introduction of ESG reporting in 2013, now aligns with global standards. Starting January 1, 2024, listed companies must publish Main Board Listing Rules-compliant ESG reports. European companies must adapt, engaging in consultations to influence standards aligning with their objectives.

Talent Pool Challenges

The ESG-focused regulatory shift poses challenges, especially the shortage of ESG talent. European companies may need to invest in expertise or form local partnerships to meet reporting requirements effectively. Collaborative initiatives could bridge this talent gap, ensuring smoother adaptation.

Impact on Business Strategies

ESG considerations are becoming integral to business strategies. European companies in Hong Kong should prioritise sustainability practices, recognising those investors and consumers increasingly value ESG-aligned businesses. A proactive approach to ESG not only ensures regulatory compliance but also enhances corporate reputation and competitiveness.

Navigating Hong Kong's Shifting Supply Chain Landscape and GBA Development

Transformative Landscape

Hong Kong, central in the global supply chain paradigm, faced disruptions during the COVID-19 pandemic, prompting a reassessment. Logistics adapts to ESG initiatives, digitalisation, and data analysis for resilient supply chains. The sector's alignment with ESG reflects a broader commitment to sustainability.

Optimistic Economic Outlook

The International Monetary Fund projects Hong Kong's 3.5% growth in 2023, driven by mainland openness and supply chain stabilisation.

However, challenges persist, demanding strategic management for sustained economic recovery. Global collaboration within the Greater Bay Area (GBA) and the Northern Metropolis Development Strategy augurs well for innovation and technology commercialisation, enhancing Hong Kong's competitiveness.

Economic Resilience and the Role of Technology

Hong Kong's economic resilience is intertwined with technological advancements. The embrace of digitalisation and data analysis in the logistics sector not only ensures business continuity but also contributes to a more sustainable and efficient supply chain. European companies should explore opportunities arising from technology-driven transformations in logistics and supply chain management.

Navigating the Complex Business Landscape in Hong Kong

Regulatory Examination and Economic Challenges

Increased scrutiny, regulatory challenges, and economic shifts demand adaptability from European companies in Hong Kong. As Beijing's influence grows, managing compliance, legal risks, and the evolving political environment is crucial. Companies must proactively navigate uncertainties and collaborate with local authorities for smoother operations.

Economic Challenges

Post-"zero-COVID" strategy, Hong Kong faces economic challenges. European companies must reassess operations considering regulatory scrutiny, compliance, and political uncertainties. Strategic resilience is essential for weathering economic downturns and seizing opportunities amid evolving market dynamics.

Collaboration for Economic Resurgence

Collaboration between European companies and local stakeholders can contribute to Hong Kong's economic resurgence. Joint initiatives, such as public-private partnerships focused on innovation and sustainable development, can create a conducive environment for growth. European companies should actively engage with local communities and authorities to foster mutually beneficial collaborations.

TRENDS IN TERMS OF EUROPEAN COMPANIES IN HONG KONG

European Business Presence

In the wake of stringent COVID-19 protocols and Beijing's increased oversight with the national security law, European businesses in Hong Kong faced challenges, prompting some to contemplate relocation. The number of European companies in Hong Kong decreased from around 2,500 to approximately 1,800.

Despite these challenges, there is optimism in the current business landscape. Hong Kong's business confidence indicator rose from 6 to 8 in Q4 2023, reflecting positive sentiments. Notably, 17% of respondents expected an improved business situation, up from 16% in the previous quarter, while 10% anticipated a worse situation, compared to 9% previously. This optimism is prominent in sectors like retail, transportation, storage & courier services, information & communication, and financing & insurance.

Investment and Trade

The EU's significant FDI stock of US$25.2 billion in 2021 reflects its strong presence. Trade data from 2022 highlights the mutual importance of Hong Kong and the EU in exports and imports. Continued collaboration between the EU and Hong Kong can foster economic growth, with strategic investments and trade partnerships.

European companies should explore opportunities for strategic partnerships with local businesses in Hong Kong. Collaborative ventures, joint investments, and knowledge sharing can enhance the economic synergy between European entities and the local business ecosystem. Such partnerships contribute to the diversification and resilience of both regional and international economies.

Hong Kong's Role in the 14th Five-Year Plan

Hong Kong's designation in the 14th Five-Year Plan offers opportunities. It serves as a financial center, innovation hub, and regional trading center. European companies aligning with this plan can benefit from strategic growth.

Hong Kong's efforts to facilitate European businesses through the Hong Kong Trade Development Council's European office in Brussels enhances support structures.

REGIONAL ANALYSIS

Integration with EU Policies

Hong Kong's alignment with EU green finance and sustainability policies enhances credibility and access to global markets. However, challenges include adaptation, sovereignty concerns, and data availability. Collaboration on tailored standards that address regional conditions can foster mutual benefits and position Hong Kong as a global leader in sustainable finance.

Strategic Cooperation for Global Impact

European companies should consider forming alliances with Hong Kong-based organisations that share common goals in green finance and sustainability. By fostering strategic cooperation, European entities can contribute to the development of global standards and practices. Joint initiatives can drive positive environmental and social impact while creating new business opportunities.

Future Outlook

Positioning as a Global Financial Center

Hong Kong aims to remain a global financial center, attracting talent and enterprises. Initiatives like OASES demonstrate efforts to recover from pandemic challenges and entice foreign companies. A balanced approach, considering both challenges and opportunities, is crucial for sustainable recovery and the attraction of new enterprises. Proactive engagement with global partners can further solidify Hong Kong's role in the international business landscape.

Innovation and Talent Attraction

To maintain its status as a global financial center, Hong Kong should emphasise innovation and talent attraction. European companies, particularly those in technology and finance, should explore collaboration opportunities with local talent and institutions. The city's success in fostering a vibrant innovation ecosystem will play a pivotal role in shaping its future as an international business hub.

Holistic Recovery Strategies

Hong Kong's recovery should involve holistic strategies encompassing economic, social, and environmental dimensions. European companies can contribute to this recovery by incorporating sustainable practices, supporting community initiatives, and actively participating in discussions on shaping Hong Kong's future. A collective effort towards holistic recovery will strengthen the city's resilience and attractiveness to international businesses.

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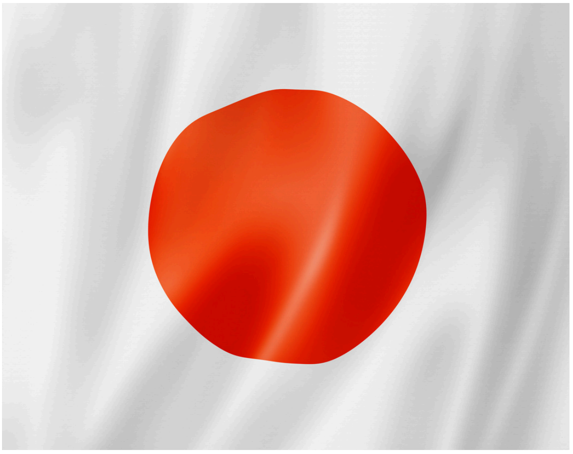
JAPAN



INTRODUCTION

The EU-Japan Economic Partnership Agreement entered into force on 1 February 2019. On 16 July 2024, at the fifth meeting of the Joint Committee established under the EU-Japan Economic Partnership Agreement (EPA), it has been reported that bilateral trade and investment relations continue to expand and deepen: (link: EU-Japan cooperation continues to strengthen under Economic Partnership Agreement - European Commission)

“The EU and Japan acknowledged progress achieved in implementing the EPA since the last Joint Committee meeting, including the entry into force of new provisions on the free flow of data, and the addition of 48 new Geographical Indications (GIs) to the agreement, which now covers a total of 423 GIs. Both sides discussed further market access improvement, and EVP Dombrovskis praised growing cooperation on offshore wind power, an area where EU businesses can meaningfully contribute to Japan’s achievement of its climate goals.”

The European Business Council in Japan is committed to helping Europe and Japan reach new levels of mutual trade and economic growth. Through our 23 sectoral and cross-cutting committees, we work to remove remaining non-tariff barriers.

OPPORTUNITIES AND CHALLENGES FOR EUROPEAN COMPANIES IN JAPAN IN 2025

Legal Services

The situation for foreign lawyers in Japan has recently improved as a result of changes introduced by the Ministry of Justice (MoJ). Previously, if a foreign lawyer registered in Japan was sent to work abroad for a period of time, he or she had to start the registration process from scratch upon returning to Japan. With the recent changes, only new information, basically the period between leaving Japan and returning to Japan, needs to be submitted for re-registration. On the other hand, initial registrations still take a long time, especially for lawyers from lesser-known jurisdictions. The EBC is trying to assist the Ministry of Justice by providing information on the registration of lawyers in these jurisdictions.

Telecom

Although EBC lobbying led to the removal of periodic field-testing requirements, base stations in Japan are still subject to double testing—despite already meeting European standards. The EBC is also requesting harmonisation for 6/7GHz microwave equipment as currently there are no microwave short haul products based on ETSI (European Telecommunications Standards Institute) standards in Japan.

Materials/Metals

With the increasing focus on sustainability within the metal sector, LCAs (Life Cycle Assessments) and EPDs (Environmental Product Declarations) are becoming more common. This is driven both by suppliers disclosing information as part of their transparency efforts and by buyers requesting such data to meet their environmental goals and requirements.

In the EU, standards such as EN 15804+A4 for construction-related materials, and platforms like Environdec for EPDs, are being used. In Japan, Ecoleaf serves a similar role.

As more data is incorporated into LCAs and EPDs, it is important to ensure harmonisation between the various systems to avoid unnecessary costs. The EBC urges the EU and Japanese authorities to harmonise or mutually recognise their LCA systems and EPDs, including both standards and registration platforms.

Human resources

Japan continues to struggle with labour shortages. This is particularly true for companies that employ blue-collar workers. The EBC argues that Japan needs to take a more holistic approach and look at all solutions to address this challenge.

To further complicate the situation the Immigration Services Agency is understaffed in relation to the increased workload, resulting in longer visa application times. This is having a real impact, particularly on the ability of European companies to grow and expand in the Japanese market.

Energy

Thanks to the EBC's advocacy efforts, regulatory changes have been implemented in Japan's offshore wind sector, enabling European wind companies to join the winning consortia in the most recent bidding round. Despite this progress, key challenges remain. European maritime operators are still not able to operate in an efficient manner in Japanese territorial waters.

Additionally, Japan now stands at a critical juncture: it must significantly scale up project sizes to establish itself as a viable and attractive market for wind energy players across the entire supply chain. There are some indications that overseas companies, among them European, will choose to focus on other markets.

Railways

The Japanese railway market is very domestic. Transparent assessment schemes are not used, and it is almost impossible to use overseas approvals. Despite the somewhat gloomy outlook, there is some hope on the horizon with announcements that JR East and JR West will look at jointly developing standards and test methods. This has long been a recommendation of the EBC.

Retail and wholesale

Most electrical equipment on the Japanese market must be marked with a PSE symbol: either a Maru PSE or a Hishigata PSE. For this to be possible, the products must undergo the appropriate testing and certification and also be reported to the Japanese authorities as a "Notification of Business" or "Import Business Report" with information such as type classification, katashiki and manufacturing information. While some of these requirements are mirrored in other jurisdictions, Japan stands out in a number of ways. Each individual product must be inspected in advance, either at the place of manufacture or at a warehouse, and a report of the inspection must be kept by importers for three years. In addition, duplicates of certificates cannot be kept in digital form, but must be kept in paper form by the importer.

Furthermore, tests and approvals from Europe can only be used in part or not at all, as Japanese standards are still not harmonised with international standards.

Simplification of the Denan Act and the associated PSE labelling, together with increased use of international standards, are key objectives.

Defence and Security

The EBC would like to see more and closer industrial cooperation in the defence industry. Recent developments between European and Japanese authorities are very promising. However, the same interaction is lacking between European and Japanese industry.

Food and Agriculture

Globally widely used additives in food cannot sometimes be used in Japan. In addition, many food products need to be re-tested for the Japanese market. The EBC believes that the EU and Japan shall work harder to harmonise or mutually recognise approval or test methods related to sanitary issues.

Liquor

After years of continuous advocacy, Japan is moving closer to protecting lot codes. Currently, there is no legislation in place that safeguards manufacturers' lot codes. As a result, some alcoholic beverages are found with tampered lot codes. In close cooperation with the EBC, the National Tax Agency—the authority in charge—will present a two-step approach.

Insurance

The introduction of a reporting system for simple insurance products is essential to streamline processes. Currently, all insurance products in Japan require approval in Japan.

POSITION REGARDING THE US GLOBAL TARIFFS AND IMPACT OF THESE TARIFFS ON LOCAL BUSINESSES AND EUROPEAN COMPANIES OPERATING IN JAPAN

As of May 2025, Japan is grappling with significant economic challenges stemming from U.S. tariffs imposed under President Donald Trump's administration. These tariffs include a 25% duty on Japanese automobiles and auto parts, and a 24% tariff on other goods, severely impacting Japan's export-driven economy. The automotive sector, which constitutes approximately 29% of Japan's exports to the U.S., is particularly affected. Toyota, for instance, has projected a 21% decline in operating profits for the fiscal year ending March 2026, attributing about ¥180 billion ($1.2 billion) of this decrease to the U.S. tariffs.

The broader economic repercussions are evident, with analysts estimating a potential 0.8% reduction in Japan's GDP due to these trade measures.

In response, Japan has not, contrary to the EU, introduced any counter measures, such as tariffs, similar to what Japan did in 2018. Instead, in April 2025, Japan's Minister of Economic Revitalisation, Ryosei Akazawa, engaged in high-level negotiations in Washington, D.C., aiming to secure relief from the U.S. tariffs imposed under President Donald Trump's administration. During a 50-minute meeting at the White House—exceeding the initially scheduled 30 minutes—President Trump personally joined the discussions, emphasising the importance of these talks. Trump presented a set of demands, including increased Japanese purchases of U.S. automobiles, a reduction in the bilateral trade deficit, and greater financial contributions toward the stationing of U.S. troops in Japan. Akazawa responded by highlighting Japan's annual payment of approximately ¥200 billion for U.S. military presence and reiterated Japan's commitment to fair trade practices.

Despite Japan's efforts, the U.S. maintained its stance on the tariffs, showing little willingness to reduce duties on key sectors such as automobiles, steel, and aluminium. The talks also touched upon potential Japanese investments in U.S. energy projects, including a multi-billion-dollar liquefied natural gas initiative in Alaska, as a gesture of goodwill and economic cooperation. However, no immediate exemptions were granted, and the tariffs continued to pose significant challenges to Japa's economy. The Japanese government remains engaged in ongoing negotiations, striving to mitigate the impact of these trade measures on its industries and economy.

Domestically, the Japanese government has established a consultation desk through the Ministry of Economy, Trade and Industry (METI) and the Japan External Trade Organisation (JETRO) to support affected companies, particularly small and medium-sized enterprises. Additionally, Japan is closely monitoring the situation's impact on its currency and broader economic stability, with Finance Minister Katsunobu Kato expressing concerns over potential disruptions to global trade and the yen's valuation. These developments underscore the complex challenges Japan faces in navigating the current international trade landscape.

As of now, there is no substantial public discourse in Japan suggesting that Chinese exports, impeded by U.S. tariffs, are being rerouted to Japan. Japanese government and industry analyses have not indicated a significant influx of Chinese goods into the Japanese market as a direct consequence of the U.S.-China trade tensions.

As for European companies operating in Japan, the current analysis suggests that the economic impact of U.S. tariffs will be limited. There is a possibility that Japanese buyers may seek alternative suppliers due to the perceived uncertainty of U.S. trade policy. However, it is still too early to draw definitive conclusions.

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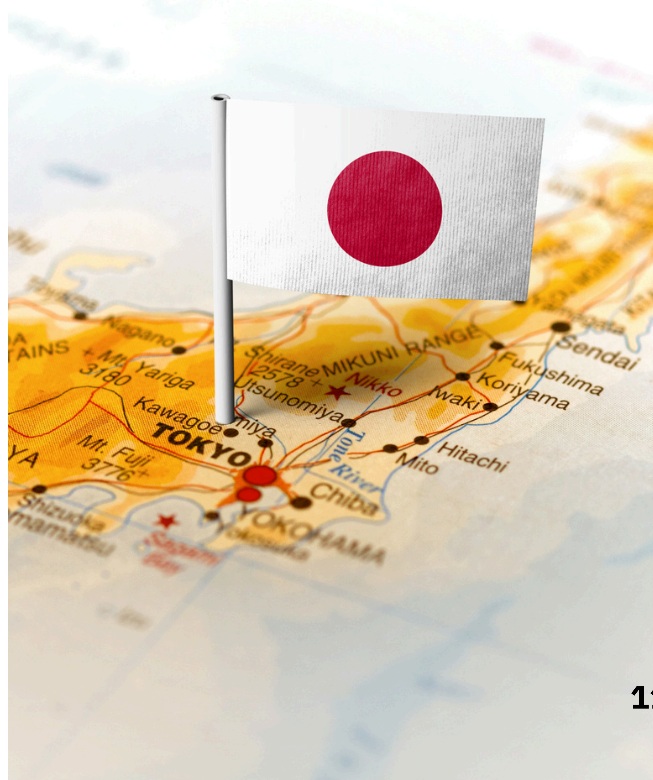
- More issues and context can be found on the European Business Council in Japan webpage:https://ebc-jp.com/digital-white-paper/



KOREA

OPPORTUNITIES AND CHALLENGES

Korea Economy Summary and Outlook

(Quoted from Korea Development Institute (KDI) – Monthly Economic Trends (April 07, 2025) Sourced:www.kdi.re.kr)

On December 3, 2024, President Yoon Suk-yeol declared martial law nationwide—the first such move since 1980. The National Assembly subsequently nullified the declaration, and on April 4, 2025, the Constitutional Court upheld Yoon's impeachment, officially removing him from office. In accordance with the Constitution, a presidential election must be held within 60 days, and the early election has been scheduled for June 3, 2025. As domestic political uncertainties begin to settle, the overall outlook for Korea's economic indicators is expected to improve.

The Korean economy is projected to grow by 2.2% in 2025, reflecting a modest recovery primarily driven by a rebound in exports, particularly in the semiconductor sector. While global IT demand is improving and boosting export performance, slower growth in non-IT industries may limit the overall pace of trade recovery. On the domestic front, private consumption is expected to grow at a moderate rate as real purchasing power improves and employment remains stable; however, persistently high interest rates and elevated household debt continue to weigh on consumer sentiment. Facility investment is anticipated to show a gradual rebound, but construction investment is likely to remain sluggish due to ongoing weakness in both residential and civil engineering activities. Inflation is expected to ease to around 2.2%, supported by subdued demand-side pressures and more stable global commodity prices. Despite these trends, downside risks persist, including heightened global economic uncertainty, geopolitical instability, and financial market volatility. Domestic political transitions may also introduce additional unpredictability to the business environment.

Other Challenges

Shifts under Trump's Second Term: Tariff Escalation and DEI Retrenchment

(Quoted from Korea Trade-Investment Promotion Agency (KOTRA) – Publication for K-Hidden Champion Globalisation Conference (April 02, 2025) Source: https://dream.kotra.or.kr/)

On April 2, 2025, the Trump administration announced a new trade policy imposing a universal 10% tariff along with country-specific reciprocal tariffs targeting major trading partners. As a result, South Korea is now subject to a 25% reciprocal tariff, significantly impacting key export sectors such as automobiles, semiconductors, and steel. Given that approximately 49% of Korea's automobile exports are directed to the U.S. market, addressing the automotive tariff issue has emerged as a top priority.

In response, the Korean government is actively pursuing a range of measures. It is currently engaged in trade negotiations with the United States, placing particular emphasis on reducing tariffs for the automotive industry. Additionally, the government is strengthening export and financial support programs to help mitigate the impact on domestic companies.

Meanwhile, the U.S. government's formal withdrawal of support for DEI (Diversity, Equity, and Inclusion) initiatives is expected to influence corporate policies in this area. Despite this shift, the ECCK remains committed to promoting inclusive and sustainable business practices. Through platforms such as the Sustainability Awards and the Family Friendly Future Forum, the ECCK will continue to support corporate DEI initiatives across Korea.

TRENDS IN TERMS OF EUROPEAN COMPANIES IN SOUTH KOREA

EU Business Hub Launches to Strengthen Korea-Europe SME Collaboration

(Quoted from the European Commission – Press Releases (March 10, 2025) Source: https://ec.europa.eu/)

The European Chamber of Commerce in Korea (ECCK) welcomes the successful conclusion of negotiations for the EU-Korea Digital Trade Agreement (DTA), finalized at the 12th Trade Committee on March 10, 2025 in Brussels.

This landmark agreement establishes high-standard rules for digital trade, enhancing legal certainty, trusted data flows, and removing unjustified barriers between the EU and Korea. As a long-standing advocate for EU-Korea trade relations, ECCK has actively supported the digital agenda since establishing its Digital Committee in 2019. Through policy dialogues and the 2024 EU-Korea Policy Dialogue Support Facility survey, ECCK helped gather valuable industry input during the negotiation process.

Looking ahead, ECCK is committed to supporting the DTA's implementation by facilitating dialogue between European businesses and Korean authorities, while also encouraging cooperation between industry and academia to build an AI-ready digital economy.

REGIONAL ANALYSIS

MSIT Finalizes 2025 Investment Priorities for the Science and Technology Innovation Fund

(Quoted from Ministry of Science and ICT – Press Releases & Policy Briefs (April 29, 2025) Source: www.msit.go.kr)

On April 25, 2025, the Ministry of Science and ICT (MSIT) confirmed five priority areas for the 2025 investment cycle of the Science and Technology Innovation Fund: Semiconductors & Displays, Artificial Intelligence (AI), Advanced Biotechnology, Future Mobility, and Quantum Technology.

The Fund, targeting approximately KRW 1 trillion in private-sector investment over four years, aims to boost commercialisation of national strategic technologies through public-private partnerships. This year alone, KRW 250 billion will be allocated to sub-funds managed by selected asset managers specialising in each focus area.

In particular, the quantum sector will benefit from dedicated seed and venture capital funds to accelerate commercialisation and support early-stage startups. Incentives will also be provided for investments in firms that utilise public R&D outcomes.

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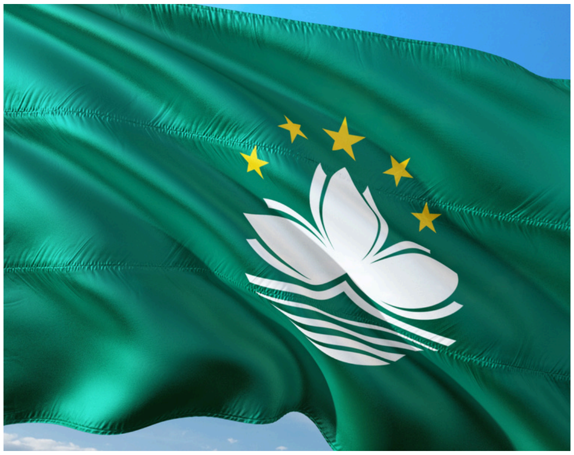
MACAU



CHALLENGES

Macau is experiencing a steady but uneven economic recovery to pre-pandemic levels which puts its existing imbalances into greater relief. Whilst GDP growth for the year is projected to be 10% and tourism centred around the integrated resorts register strong increases in both visitor numbers and revenue, the rest of the economy, composed of small and medium businesses, has been doing less well. The excursions of residents who take advantage of much cheaper goods and services in mainland China has continued apace, as the non-performing loan ratio, mainly due to SMEs, reached above 5% in September. The official unemployment rate has fallen below 2%, but the regime for granting residency rights to skilled workers and professionals from outside remains tight, say in comparison to Hong Kong. The overreliance on tourism remains the key structural challenge amidst increasing uncertainty in the regional and global geopolitical and business environment.

OPPORTUNITIES

At the urging and with the support of the central government, the Macau government published a four-year plan (2024-2028) to diversify the economy with its "1+4" strategy. The “1” for broadening the offer of tourism beyond short-stays in gaming-centred resorts, the “4” for Big Health, Modern Finance, High Technologies, and Conventions and Exhibitions of Culture and Sports. The election of Mr. Sam Hou Fai to the role of the Chief Executive indicates an intention to speed up the implementation of the “1+4” strategy.

His policy programme proposes: the setting up of industrial and tech guidance funds, where the government would take an active role in mobilising investments into specific projects; stronger oversight of the non-gaming investments of the six concessionaires; streamlining of public administration and regulations on business; putting in cross-departmental drafting of laws and regulations; reviewing the talent attraction regime; speeding up urban renewal and creating a support plan to the SMEs. Mr. Sam’s programme also calls for a greater involvement of the Macau government in the running of Hengqin—the site allocated by the central government to help Macau to overcome its bottlenecks in labour and space. Mr. Sam’s emphasis on government leadership in the diversification strategy marks a significant change from the past. The efficacy of this change of philosophy will be tested in the coming years.

TRENDS IN TERMS OF EUROPEAN COMPANIES IN MACAU

The opening of Airbus Helicopters China’s headquarters in Hengqin is the most significant new European investment in the region so far. Airbus Helicopters is the world’s largest helicopter manufacturer, and its China subsidiary holds just over a third of the country’s civil helicopter market. With Macau’s structural challenges being in a state of being resolved, it is reasonable to expect that the continuing development of Hengqin will be critical to the success of the diversification strategy. The University of Macau plans to open a new campus for medicine, tech and engineering in Hengqin in 2028. The scope for European businesses to take advantage of the preferential policies in Macau and Hengqin is significant.

2025 MAY UPDATE

Chief Executive Sam Hou Fai presented his Policy Address in April 2025, turning the key ideas in his election programme into policies. Legislative reform, revamping laws/regulations, broadening digitalisation and simplification of public administration procedures (incl. business licensing) etc appear to be key priorities. Macau is not directly affected by the US “reciprocal tariffs” as its exports to the US account for an insignificant part of its economy.

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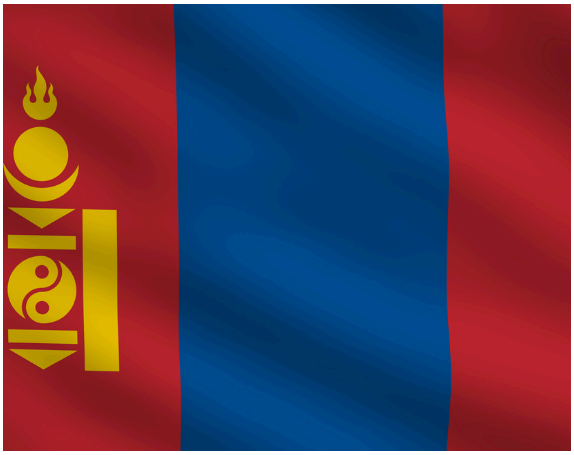
MONGOLIA



INTRODUCTION

Mongolia's economy is projected to grow between 5-7% in 2023, and 6-8% in 2024, and the country has excellent opportunities in various sectors such as mining, agriculture, finance, renewables, and ICT for trade and investment.

The government is implementing Mongolia's Long-Term Development Policy "Vision 2050" which aims to strengthen Mongolia's economy: economic growth will be maintained at an average of 6 percent in the long term, per capita national income will double, and the labor force participation rate will reach 65 percent. The New Recovery Policy prioritises six areas: border ports, energy infrastructure, industrial development, urban and rural green development, and public-sector productivity. Currently, a new Investment Law is being discussed, with some positive changes in eliminating the minimum investment threshold of 100k USD, establishing of Investment Protection Council, reducing government control, and easing the process of obtaining a stabilisation certificate.

However, businesses voice concerns over inflation, access to finance, shortages of skilled labor, an inefficient judicial system, government inefficiency, corruption, poor infrastructure, and tax burden.

OPPORTUNITIES AND CHALLENGES

Financial sector

Substantial achievements have been made in the financial sector, with major banks issuing IPOs, coal trading through the Commodity Exchange, and an increase in listings on the Mongolian Stock Exchange. For further improvement, the sector needs a refined regulatory framework: banks need more freedom in providing trade loans, more favorable short-term foreign currency swap conditions, and lower risk weights for Letters of Credit, particularly at times of geopolitical turbulence when cooperation with international banks can be limited. Currency fluctuations have hit hard financial institutions that borrow in foreign currency, therefore developing appropriate hedging mechanisms could protect the businesses.

Mining

With vast mineral reserves, land, and millions of livestock, Mongolia offers excellent opportunities for investment in mining and agriculture. The IT sector and renewable energy are also potential areas. The Government's efforts in attracting investment through positive amendments to the Investment Law are plausible and potentially attractive. However, currently, investment opportunities are hindered by an inefficient judicial system, poor enforcement, corruption, and overall government inefficiencies. Court cases take 6.2 years on average- 7 and only 10% of investor complaints are resolved. Introducing interest in judgments could limit abuse of the judicial system, and the creation of courts specialised in addressing commercial legal cases could help improve the efficiency of Mongolian courts. In the mining sector, one of the major drawbacks is that the Mongolian Tax Authority has considerable levels of discretion and flexibility in valuing minerals licences. This affects future investment in mineral exploration and mining through the creation of significant uncertainty for foreign investors. The Mongolian Tax Authority should have a less active role in the valuation of licences and impose a tax on the sale price (after reasonable cost deductions) rather than on the project cost. Furthermore, mismatches between national and local government decisions lead to delays in projects: to start operations mining companies need to obtain land utilisation permits from local governments in addition to licenses and permits from the national government.

Renewable sector

Businesses in the renewable energy sector that signed agreements with the government in line with the Renewable Energy Law of 2008, with high tariffs set in USD, cannot compete with State Owned Enterprises that supply (dirty) energy at subsidised prices. Currently, the government is not honouring the agreement terms due to the higher tariffs on renewable projects and the lack of electricity storage solutions. A paradigm shift in the energy sector is needed, liberalising the energy sector and considering pollution and health impacts from coal energy as costs when compared to renewables. The government needs to solve issues facing Renewable Energy businesses, including honoring the terms of pricing agreements, allowing feasible projects to proceed upon open negotiation with license holders on the supply prices, and possibly cancelling unfeasible projects whilst providing reimbursements and eliminating the lack of clarity for businesses that are waiting to sign power-purchase agreements.

Agriculture

The agriculture sector has great potential for both trade and investment, including intensive farming, meat processing, specialty butcheries, meat processing technologies such as wet aging, and exporting meat. With vast land, Mongolia has opportunities for crop production. However high altitudes, extreme fluctuations in temperature, long winters, and low precipitation are limiting factors. Primarily due to overgrasing, the ecosystem is degrading, and climate change is a pressing concern. Therefore, intensive farming could address this issue and increase productivity in agriculture. As a beneficiary of the EU's GSP+ scheme, Mongolia enjoys customs duty-free imports to the EU exports, particularly cashmere and wool, therefore agriculture products have a great potential for increased exports to the EU.

ICT

A newly emerging and vibrant sector is ICT, with start-ups starting to export, attract investments, and invest abroad. To support the sector, the government should create an 8 enabling environment for investment funds, ease the tax burden, and provide subsidies/grants to incentivise innovation activities and protect intellectual property. Businesses have expressed concerns over the Labor Law 2021 which requires the work and rest shifts must be equal. Employers need to hire more staff to achieve the same staffing levels as the old rules, with a greater administrative burden, and particularly with chronic shortages of skilled labor, which worsens the situation and creates a serious lack of competitiveness in a country with already low productivity by international standards.

REGIONAL ANALYSIS

EU - Mongolia

Mongolia became the first Asia-Pacific country to join the EU's Forest Partnership program, at COP 27 in 2022. As part of Global Gateway, the European Union's strategy to boost sustainable links for the people and the planet, Mongolia and the European Union aim to enhance the role of Mongolian forests in sustainable and inclusive national development while addressing challenges related to deforestation, desertification, climate change, and loss of biodiversity. Key work streams of the Forest Partnership include improved governance, sustainable use and management of forests, sustainable forest management and forest-based value chains, reduction of deforestation and forest degradation, and conservation and restoration of Natural Forests. There are opportunities for European companies to work with Mongolia in this area.

The EU focuses on economic diversification by creating more opportunities in non-mineral sectors. A new trade-focused project "International Trade Development in Mongolia" is underway, which aims to diversify exports, provide better employment opportunities in the non-mining sector, and contribute to a more diversified economy. Through this project, the European Union seeks to increase the trade efficiency of Mongolian Small and Medium Enterprises in the EU and regional markets. The objective is to ensure that Mongolia takes full advantage of the GSP+ regime. To consolidate this, the project aims to enhance the effectiveness of trade policies in Mongolia, with a special focus on innovative products and services with high sustainability, climate resilience, and export potential.

The EU also has been working with the European Bank for Reconstruction and Development to support Mongolian MSMEs' access to finance and expertise. Since the start of the implementation, the Programme has led to around EUR 92 millions of financing to local SMEs.

Another focus area of the EU is improving the investment and business climate through the improvement of judiciary enablers.

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NEW ZEALAND

INTRODUCTION

In the current global economic context, New Zealand grapples with challenges amplified by Europe's near-nil growth, high inflation both in Europe and NZ, and war-induced resource depletion in the EU. These factors cast a shadow over trade growth prospects as consumers exercise caution in spending, and increased shipping costs, driven by Middle East tensions, reroute trade around Africa, negatively impacting the overall trade environment.

To address high inflation, higher interest rates have been implemented, reducing consumer spending power and acting as a disincentive for investments. These economic hurdles are not unique to New Zealand, mirroring challenges faced by several other countries globally.

OPPORTUNITIES AND CHALLENGES

Government response and economic recovery

The aftermath of COVID-19 lockdowns demanded significant government outlays to support businesses and individuals facing sales downturns. Despite a new government since November of the previous year, the economy is poised for recovery, but a full return to pre-pandemic levels is expected to take several years.

Amidst these challenges, certain sectors in New Zealand shows promise, with tourism and agriculture experiencing growth. However, forestry faces a slowdown due to reduced building activity in China. Identifying infrastructure investment as a key growth area, the country seeks opportunities for expansion.

Trade dynamics and agreements

On the trade front, New Zealand has strategically engaged in Free Trade Agreements (FTAs) to boost its economy. The recently signed NZ-EU FTA in July 2023 holds considerable potential. Immediate gains of over $100 million annually are expected, with the possibility of surpassing $1 billion annually upon fuller implementation, anticipated around mid-2024.

This agreement is crucial for New Zealand, offering access to the vast European market. In comparison, the NZ-UK FTA is seen as more favorable in agriculture, providing a diverse trade landscape.

Recognising the significance of active implementation, both the NZ government and NZEBC emphasise a multi-year process over the next five years and beyond. This approach aims to capitalise on the FTAs and navigate growth opportunities in Asian markets, including closer collaborations with Australia. Additionally, the backlog of infrastructure investment presents a potential avenue for European involvement in New Zealand.

Global economic outlook and projects

The global economic outlook further complicates the scenario, with inflationary pressures in Europe and New Zealand prompting higher interest rates and slower growth. The aftermath of the COVID-19 pandemic remains a significant headwind, reflected in forecasted GDP growth for 2023/2024, indicating sluggish growth globally, albeit with Asian growth lifting world averages.

As the NZ-EU FTA, signed in July 2023, awaits ratification by EU member countries and the NZ Parliament, the potential for implementation by early 2024 underscores the need for a collaborative effort. This involves MFAT in New Zealand and the EU Delegation, emphasising a coordinated approach to support the effective implementation of the trade agreement.

BUSINESS WITH NEW ZEALAND

The NZ Government has just published its first “action plan” of the year, pledging to use “every tool in the box” to increase foreign investment and improve the economy.

The plan, published on Monday, covers the period from January 1 to March 31 and includes 40 points across the economy, infrastructure and public services.

NZ recently hosted an investment summit to show off the country's investment opportunities to around 100 high-profile overseas investors, business leaders and construction companies

It also covers the already-announced new "one-stop shop" agency Invest New Zealand and altering the settings of the so-called "golden visa" to attract wealthy investors to New Zealand.

Prime Minister Christopher Luxon hopes to pique attendees' interest enough to inspire investments that boost the growth New Zealand needs to lift our incomes, strengthen our businesses, and create opportunities for all New Zealanders.

PM Chris Luxon made it clear that we are open for business and opened the summit which several ministers attended. New Zealand is a country worth investing in; In addition to the excellent quality of life supported by abundant beautiful nature with temperate climate and one of the longest coast lines in the world.

The investor summit was about "unleashing the potential". New Zealand had to enable economic growth and address the country's infrastructure deficit, estimated to be worth $100 billion.

Improving infrastructure will raise NZ productivity and growth. The Government has a massive program of infrastructure investment over the next five years. Part of the massive investment needs to come from overseas.

NZ has a well-educated work force with many Asian immigrants offering language skills with 300,000 Indians and as many Chinese as well as from all other South East Asian countries. Also for access to the Pacific Islands NZ is a great base with more 'islanders' living in NZ than on their original islands.

This year, at least two business and investment promotion trips with major corporates are planned to The Netherlands for one week at the end of June, another trip is planned for Romania, Czech Republic and Poland in October. Earlier trips have included Ireland and Denmark. In October the EU Delegation is hosting an EU summit in support of the expanded exchange Europe – NZ. The FTA EU-NZ went into effect May 2024 and has had a great start for New Zealand which has a trade deficit with EU.

In terms of the new trade challenges flowing from a shift in US trade policy, NZ is less affected than many others. NZ has an almost balanced trade with the US, a surplus in trade with China and a significant trade deficit with the EU. The Central Bank predicts growth of 1.5 to 2 percent this year, picking up to 2.5 percent in the next few years.

The tariff war may affect these numbers negatively. Strong exports, tourism, and cheaper retail rates are expected to fuel the rise.

New Zealand Europe Business Council's purpose is to promote investments, trade in goods and services and also research and education between Europe and New Zealand.

CONCLUSION

New Zealand's economic trajectory is marked by challenges and opportunities. Strategic engagement in FTAs, particularly the NZ-EU FTA, presents a pathway for economic growth. Active and coordinated implementation, coupled with a focus on infrastructure and global partnerships, will be essential in navigating through uncertainties and fostering sustained growth in the coming years.

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PAPUA NEW GUINEA

INTRODUCTION

Approximately 25 European companies are operating in Papua New Guinea (PNG), primarily in industries such as oil and gas, mining, brewing, freight forwarding, and general retail. Despite the challenges posed by Covid-19, there has been no obvious reduction in the number of European companies operating in the country.

Currently, business confidence in PNG is low, with few companies, European or otherwise, view the country with optimism. However, business conditions in PNG can change rapidly, offering potential for improved economic conditions in the future.

POLITICAL ENVIRONMENT AND BUSINESS NAVIGATION

While there is relatively little political interference in business operations in PNG, corruption remains a significant challenge. European companies, like others, face requests for "facilitating" payments from time to time. Navigating these challenges requires adherence to ethical business practices and careful risk assessment.

ALIGNMENT WITH EU POLICIES

PNG and Europe are at different stages of economic development, resulting in little alignment between their respective policies. PNG's economy focuses on primary industries, while Europe's is more mature with a focus on tertiary industries. Consequently, there is limited alignment between EU policies and those of the PNG government.

ESG LANDSCAPE

The ESG landscape in PNG receives little attention, given its status as a developing economy. There are limited regulations or initiatives in place regarding environmental, social, and governance practices.

NOTABLE CHALLENGES FACED BY EUROPEAN BUSINESSES

Poor economic management, corruption, low levels of literacy and immunisation, and rampant nationalism pose significant challenges for European businesses in PNG. Additionally, there is a fundamental economic mismatch between PNG and Europe, making it challenging for European companies to trade successfully in the country. Recent amendments to PNG's Investment Promotion Act 1992 reflects tightening restrictions on foreign investors, further complicating the business environment.

FUTURE PROSPECTS FOR EUROPEAN COMPANIES

As the PNG economy matures, there may be increased demand for sophisticated manufactured goods and financial services in which European companies have a competitive advantage. However, PNG currently prioritises raw materials and commodities, such as petroleum gas, gold, copper ore, palm oil, and nickel matter exported from China and other Asian countries. European companies should monitor the evolving market dynamics and adjust their strategies accordingly.

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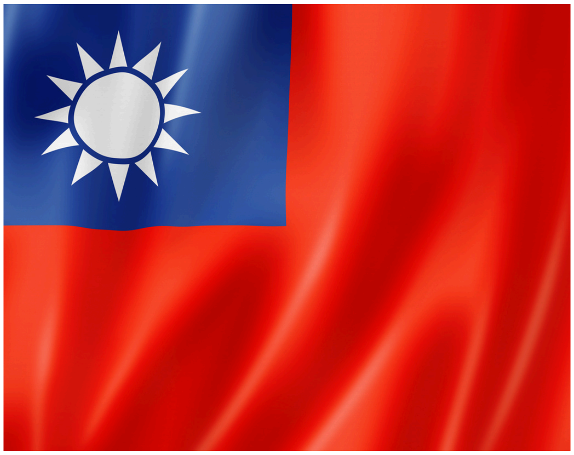
Report Reference

- Information provided in the report from PNG were passed on from their different chambers

TAIWAN



ECONOMIC GROWTH, TRADE, AND INVESTMENT

Taiwan's economic growth moderated in 2023 on the back of declines in industrial production, trade and investment. Growth was supported by strong consumer spending (private consumption). (When measured in Taiwan dollars. Taiwan's 2023 GDP when measured in US dollars was virtually flat compared to 2022). In the first three quarters of 2024, industrial production, trade and investment resumed expansion while private consumption remained positive. However, export performance in 2024 was uneven. Demand for electronic products and components used in AI applications helped to boost overall export value to record levels, but exports of less advanced electronic components, metals, plastic and other products experienced annual declines in the first three quarters of 2024.

Looking ahead, Taiwan's export orders in September marked the seventh consecutive month of year-on-year expansion and a modest 3.7% growth for the first three quarters of 2024. However, in the first ten months of 2024 the manufacturing purchasing managers index (PMI) was in expansionary territory (at or above 50) for only five months out of ten and the business outlook reading for the forthcoming six months was negative in October, indicating expectations for a looming contraction in manufacturing output. If this trend is sustained it will translate into lower economic growth than current forecasts predict. At the time of writing Taiwan's Directorate General of Budget Accounting and Statistics (DGBAS) forecast for GDP growth was 3.9% for 2024 and 3.26% for 2025.

Taiwan's economic indicators

	Year	2022	2023	AUG' 2024*
Economy	GDP growth rate	2.35%	1.28%	3.9%
	GDP (US$ billion)	761	755	782
	GDP per capita (US$)	32,756	33,402	34,684
Inflation	Consumer Price Index annual growth rate	2.95%	2.49%	2.17%
Production	Industrial production annual growth rate	-1.8%	-12.3%	11.0% (Jan-Aug' 24)
Consumption	Private consumption growth rate	6.76%	10.44%	4.77% (2Q24)
Stock market**	Average daily trading volume (NT$ billion)	288.5	334.8	503.7
Investment	Fixed capital formation growth rate (y-o-y change)	7.78%	-8.24%	4.58%
	Capital goods imports annual growth rate (y-o-y change)	9.5%	-17.7%	0.4%
Trade	Imports (y-o-y change)	12.07%	-17.9%	9.3%
	Exports (y-o-y change)	7.40%	-9.8%	10.9%
Banking	Foreign exchange reserves (US$ billion)	554.9	570.6	579.1
Labour	Unemployment rate	3.67%	3.48%	3.48% (Aug)
Tourism	Inbound travel annual change	537.79%	624%	34.7% (Jan-Jul)
	Outbound travel annual change	311.92%	695.5%	59.7% (Jan-Jul)

*Source: Directorate General for Budget Accounting and Statistics (DGBAS), Executive Yuan, Ministry of Finance Economic indicators for 2024 are annual forecasts, except where indicated ** Stock market refers to the Taiwan Stock Exchange plus the over-the-counter market*

EUROPE-TAIWAN TRADE

Europe-Taiwan trade in 2023 and 2024 declined from the record high levels reached in 2022, measured in US dollars. In the first three quarters of 2024 both exports to and imports from Europe to Taiwan were down from the same period in 2023. Unlike China, ASEAN countries and the United States, which have large trade deficits with Taiwan, Europe enjoys a trade surplus with Taiwan (as do Japan and South Korea).

Taiwan's trade with its four main trading partners (US$ billion)

Period / Area	2019		2020		2021		2022		2023		2024 (Jan-Aug)	
	Amount	Growth rate	Amount	Growth rate	Amount	Growth rate	Amount	Growth rate	Amount	Growth rate	Amount	Growth rate
China + Hong Kong	190.6	-1.3%	216.2	13.4%	273.07	26.3%	271.39	-0.6%	224.0	-17.4%	146.7	2.0%
Japan	67.3	0.5%	69.3	2.9%	85.3	23.1%	88.2	3.4%	75.7	-14.1%	46.8	-8.9%
USA	81.1	11.7%	83.1	2.4%	104.8	26.2%	120.4	15.1%	116.9	-3.2%	108.6	47.5%
Europe**	63.1	1.8%	61.9	-1.9%	80.9	30.7%	88.2	8.9%	85.5	-3.0%	53.7	-9.2%
ASEAN	88.9	-4.1%	89.1	0.2%	117.4	31.8%	134.5	14.5%	117.3	-12.8%	88.6	16.7%
Global Total	614.9	-0.6%	631.3	2.7%	828.4	31.2%	907.5	9.6%	783.9	-13.6%	564.7	10.2%

Source: International Trade Administration, Ministry of Economic Affairs (MOEA)
*** Europe area, includes the UK, Switzerland and other non-EU countries*

EUROPEAN FDI IN TAIWAN

Investment by Europeans in Taiwan continued to expand in 2023 and 2024 (albeit moderately), further widening the gap between Europe's overall investments and the next largest foreign investors (the United States and Japan).

Foreign Direct Investment in Taiwan from five main areas (US$ billion)

Area	2023		Jan-Aug' 2024	1952-Aug' 2024
	Amount	Annual change	Amount	Amount
Europe*	4.08	-24.05%	1.64	73.6
USA	0.93	133.99%	0.67	27.6
China + Hong Kong	0.26	-36.4%	0.13	13.3
Japan	0.62	-63.5%	0.23	26.7
Caribbean	1.23	-51.03%	2.09	43.3
Global Total	11.3	-15.4%	5.31	224.6

Source: Department of Investment Review, MOEA
** Europe area, includes the UK, Switzerland and other non-EU countries*

Taiwan's outbound investment figures are no doubt skewed by large investments by TSMC in the United States, Germany, and Japan. But these are not Taiwan's only overseas investments. As figures indicate, the trend of diversification of overseas investments beyond China has continued in 2023 and 2024.

Taiwan's overseas investments (US$ billion)

Area	2023		Jan-Aug' 2024	1952-Aug' 2024
	Amount	Annual change	Amount	Amount
China + Hong Kong	3.3	-38%	3.5	218.6
ASEAN	5.2	10.45%	7.5	63.3
USA	9.7	790%	6.3	39.6
Europe*	5.4	501.6%	1.3	20.0
Japan	0.2	193.12%	5.4	17.5
Other	2.9	-5.4%	12.9	95.1
Global total	26.9	76.1%	37.1	455.9

Source: Department of Investment Review, MOEA
** European area, includes the UK, Switzerland and other non-EU countries*

INDUSTRY OUTLOOK

The following is a look at the status and outlook for various industries from the point of view of ECCT members which represent the ECCT's committees. The views expressed in this section do not necessarily reflect the views of the ECCT's board of directors, secretariat, or the ECCT's general membership.

Beverage Alcohol

2024 has been a challenging year for the beverage alcohol industry. The portion of domestically produced and branded alcoholic drinks in overall sales has declined in favour of imported drinks, continuing the trend of recent years. Sales of domestically produced and branded alcoholic drinks have dropped by 10% overall since 2021, with the drop in sales of domestic beer falling by an even larger percentage. The lack of revenue growth has meant that the government's alcohol tax revenues have been stagnant for several years, despite growth in the overall economy. Tax revenue from alcohol sales in 2023 came in at NT$25.9 billion, a slight decrease of NT$0.23 billion from the previous year. Domestic alcohol taxes contributed NT$12.8 billion, while imported alcohol taxes came in at NT$13.0 billion. In the past two decades, the contribution of alcohol tax to overall national tax revenue has decreased year by year, falling from 1.84% in 2004 to just 0.74% in 2023.

The Taiwan government has recently reviewed the possibility of levying a health surcharge on alcoholic beverages. Such a surcharge, if imposed, would increase the retail price of alcoholic products, which could have a negative impact on consumer behaviour as well as related industries (especially retail and hospitality). To deal with the challenges, the industry will need to strengthen business models and operations to increase resilience, promote responsible drinking, and cooperate with the government to meet future challenges and promote industry development.

Electrical Engineering & Equipment

After an economic cooldown in 2023, there was a pick-up in local industrial and commercial activity in 2024. The continued weak economic growth in neighbouring China has impeded the recovery to a certain degree. However, the local electrical infrastructure business has returned to healthy levels, fuelled in particular by continued investments in local semiconductor production and data centre capacities, but also, the ongoing investments related to the energy transition (e.g. grid infrastructure, wind/solar farms and battery storage) from conventional to renewable energy sources. Low levels of inflation and shortened product lead times also support this positive trend.

Mobility

Taiwan's overall sales of imported vehicles saw an increase of 18.11% to 230.038 units in 2023. This was on account of orders generated in 2022 and many new products coming into Taiwan. However, electric vehicles (EVs) only accounted for 6% of overall sales in 2023. In the first eight months of 2024, the overall market declined (-1.6%). Also, the month of August underwent a steep decline (-17%). There are multiple possible reasons for this, including the earthquake in Eastern Taiwan and the fact that many purchases were preponed during the Covid-19 pandemic, which led to a spike in sales of passenger vehicles from consumers wishing to avoid public transport and to travel domestically, since most traveling abroad was not possible at the time.

The supply situation has returned to normal following delays earlier in 2024 on account of the conflict in the Red Sea. This is also reflected in higher costs and lower margins for companies and, consequently, lower taxes for the government. Additional testing and homologation for the aftermarket (e.g. tyres) do not help to improve the situation as this adds to costs and ultimately reduces choices for consumers.

The path to zero emissions mobility still requires long-term support from the government, which means extensions of vehicle subsidies and higher investments in charging infrastructure, as well as raising public awareness and education on the benefits of making more sustainable choices. Consumers also need to be made aware of the locations of charging stations. Finally, customers will only purchase EVs if the government continues existing subsidies after the year 2025. Europe, and Germany in particular, can serve as a cautionary tale of what happens if subsidies for EVs are terminated too early. When subsidies were halted in Germany, sales of EVs dropped drastically, putting at risk the government's targets for carbon reductions and the transition to EVs.

Retail & Distribution

Taiwan's retail sector continued to show steady growth in 2024, supported by strong domestic consumption. Post-pandemic consumer confidence has, despite inflationary pressures, continued to rise, with increased spending on travel, goods and services, including electronics and consumer goods. The hypermarket and supermarket sectors, in particular, have benefited from both holiday-related shopping and pre-storm stockpiling.

Omnichannel and e-commerce continue to grow, driven by price-conscious consumers where inflation has made them more cautious about the value they get for their money. Taiwanese consumers are used to a high level of convenience and will compare prices online and offline and make purchases to meet certain needs. The channel that provides the best price will continue to grow. Emerging AI technology will just make it easier for consumers to compare prices and what other consumers are saying about certain products. European retailers relying on imported goods face a difficult situation with supply chains constantly being disrupted, impacting prices and lead times. This unfortunately also impacts Taiwanese consumers negatively.

Another long-term trend that remains relevant is health and sustainability. Both growing consumer awareness about the impact on their health and the climate has an impact on consumption habits while regulatory requirements such as the EU's Corporate Sustainability Reporting Directive (CSRD) and the Resource Circulation Promotion Act increases the need for retailers to try to stay ahead of the game.

Technology

In the first half of 2023, general manufacturers were primarily fulfilling orders from 2022 due to extended delivery lead times caused by raw material shortages. However, the second half of 2023 saw a significant slowdown in orders, likely resulting from factors such as overstocking, geopolitical conflicts, trade wars, and decreased consumption due to global uncertainties. The first quarter of 2024 was notably slow, marking the lowest quarter in the manufacturing sector in the past five years. However, by the end of the second quarter, orders began to recover gradually, and improvements have been seen since June, leading to optimism that the second half of 2024 will outperform the first.

The results of the US election will play a crucial role in shaping consumer confidence starting from the US and spreading to the rest of the world, while economic risks still loom despite a buoyant stock market. The general confidence level about 2025 is better than 2024, as the current overstocking issues across industries are expected to be resolved, leading to a more balanced economic situation.

Wind Energy

Wind Energy has made amazing strides in Taiwan during the last decade, with more than 300 turbines spinning in the Taiwan Strait by the end of 2024. No other country has managed such an impressive ramp-up in such a short time. However, the industry is at a crossroads: Round 2 projects have reached a financial close and are progressing with installation and grid connection in 2025 and 2026, but, as of the time of writing, not a single Round 3 project has achieved financial close. This means that the grid connection of projects in 2027 and 2028 are at risk, which will seriously endanger the government's targets for renewable energy and severely limit the green electricity available for Taiwanese export companies to purchase in order to fulfill their international obligations.

A survey by the ECCT of its members reveal three major reasons for the deadlock: (1) Lack of sufficient local financing with almost zero participation from local banks; (2) A mismatch between the available offtake (CPPAs) between sellers and buyers of 10-20%; (3) Increased costs due to various fees and local content premiums.

The government will need to address these concerns to keep the local supply chain, which employs more than 10,000 people, operating beyond 2026.

Financial Services

Asset Management

In 2024, the global investment market was dominated by two main themes: Artificial Intelligence (AI) and high expectations for interest rate cuts. These two themes provide strong support for risk assets, leading to a boom year for both equity and fixed-income markets. It is considered an optimistic environment for the asset management industry. In Taiwan, the local stock market is highly correlated with the theme of AI, which has resulted in an outstanding performance for the Taiwan stock market. Coupled with the generally higher risk appetite of Taiwanese investors, this interactive effect has significantly increased the market popularity of related investment products, among which ETFs stand out the most. In previous years, ETFs have been primarily invested in by institutional investors, but today, they have also become the top choice of investment tool for many retail investors. Apart from the outstanding performance of Taiwanese stocks, easy-to-understand investment strategies and the convenience of trading on the stock exchange are among the reasons contributing to this trend. This situation presents both challenges and opportunities for the asset management industry. The challenge lies in how to design products that are more attractive than ETFs in terms of pricing, performance, and ease of understanding of investment strategies. This is particularly pertinent for active asset managers. On the other hand, it also shows that investors' demand for investment products still remains strong, which is at the core of the asset management industry's capabilities and represents an opportunity. At this moment, the Taiwanese asset management market may be at a turning point of structural change. How to shape products that are beneficial for clients' wealth accumulation and also conducive to the sustainable development of asset managers is an important issue.

Banking

Taiwan's economy is expected to grow by 3.9% in 2024 and by 3.26% in 2025, mainly driven by exports of technology products and components. Under healthy and stable macroeconomic conditions, our assessment of the banking industry outlook can be summarised through the following key points:

- Higher business growth in 2024 and 2025 along with better GDP growth and corporate lending demand.
- Steady profitability from stable interest income and fee revenues throughout the year.
- Stable asset quality likely to continue amid strong domestic economic conditions and banks' prudent business management strategies.
- Sufficient capital buffer against potential global economic and market volatility.
- Ample liquidity supported by a high retail deposit base.
- Prudent risk management as evidenced by well-managed portfolios of property-related lending and overseas commercial real estate market.

In terms of loan businesses, slightly higher loan growth was experienced in 2024 versus 2023 along with better domestic GDP growth and recovering corporate demand. Overseas lending rebounded in 2024 following a decline in 2023. Interest rate cuts in the US in the second half of 2024, which are likely to be extended into 2025, will likely boost the demand for foreign currency loans.

On the liability side, a well-diversified retail deposit base supports the stable funding resilience of most Taiwanese banks. The very solid liquidity position can be sustained by a high ratio of household deposits over total market deposits. In the meantime, the liquidity ratio remains healthy, with the loan-to-deposit ratio around 70%.

Banks' profitability is expected to gain momentum steadily with rising fee incomes, stable net interest margins (NIM) and low non-performing loans (NPLs). Hence banks' capitalisation remains strong in a market where the fixed-income market has stabilised while both local and overseas equity markets demonstrate strong resiliency.

Looking ahead to the next several years, two imminent trends should be addressed in order to maintain a competitive edge, namely tech disruption (AI applications) and the adoption of ESG into banks' business models, which are going to produce a profound impact on regulations, customer behaviour and governance. Yet, we believe banks are well-positioned to tackle these upcoming challenges and capture new opportunities in the evolving environment.

Insurance

In recent years, the volume of business in the life insurance market in Taiwan has declined due to the Covid-19 pandemic, sophisticated regulations and interest rate hikes. The life insurance industry is expected to recover as global corporations transition to the post pandemic era and accelerate their industrial transformation, helped by the stabilisation of interest rates and the benefit to the financial industry of the continued evolution of AI technologies. Demand for insurance products will rise, driven by the needs of an ageing population and broader protection for consumers, such as retirement planning, legacy planning, and wealth transfers, and health protection products. In addition, it is expected that digital transformation with the support of AI technologies will continue to create opportunities by providing superior customer services and online applications for simple insurance products.

The key challenge for the industry is how to successfully adopt the new accounting standards (IFRS 17) and capital requirements (ICS 2.0) in 2026 as the industry carries a large back book portfolio of products with high guaranteed income. Portfolio de-risking and capital strengthening will be the key focus for the industry in the next few years. In addition, the lack of transparency, controlled focus and micro-managing approach adopted by regulators impose a significant challenge for the life insurance industry. For example, there is no official criteria on how much can be paid in shareholder dividends, and too many restrictions on product innovation, such as index-linked annuities and Guaranteed Minimum Income Benefit (GMXB) products.

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- European Chamber of Commerce Taiwan. (2025). 2025 Position Papers - Business Climate. Position Papers - Position Papers (ecct.com.tw)

Europe and Eastern Partnership Region

ARMENIA

FUTURE (ECONOMIC) OUTLOOK

The future economic outlook of Armenia is shaped by a combination of internal policy reforms, external geopolitical factors, and global economic trends. Armenia has shown resilience and adaptability in its economic strategies, striving to achieve sustainable growth despite regional challenges. As the country continues to develop, several key factors will likely influence its economic trajectory.

Armenia's economic future appears cautiously optimistic, driven by a diversified approach to growth. The government has been focusing on enhancing sectors such as technology, agriculture, and tourism. The IT sector, in particular, has seen substantial growth, positioning Armenia as a potential tech hub in the region. Investments in infrastructure and education are expected to further support this trend, fostering an environment conducive to innovation and high-tech industry expansion. Additionally, efforts to modernise agriculture through advanced technologies and practices aim to boost productivity and export potential.

Market dynamics in Armenia are expected to evolve, with several trends shaping the landscape. Increased digitalisation and the adoption of new technologies will likely drive efficiency and create new business opportunities. As Armenia strengthens its ties with the European Union and other international markets, there is potential for enhanced trade relationships and increased foreign investment. However, regional instability and geopolitical tensions, particularly with neighboring Azerbaijan, could pose risks to economic stability and investor confidence. The diversification of export markets and the reduction of reliance on any single trading partner will be crucial for mitigating these risks.

The regulatory landscape in Armenia is also poised for transformation. The government has been working on reforms to improve the business environment, reduce corruption, and enhance transparency. These reforms aim to make Armenia more attractive to foreign investors and support the growth of small and medium-sized enterprises (SMEs).

Streamlined regulatory processes, improved legal frameworks, and strengthened institutions are expected to foster a more predictable and stable economic environment. Moreover, ongoing efforts to align with international standards and practices will likely facilitate Armenia's integration into the global economy, providing a more robust foundation for long-term growth.

In 2024, Armenia's GDP is expected to continue its upward trajectory, building on the growth seen in previous years. The country's economic growth is forecasted to be around 5% to 7%, supported by ongoing investments in infrastructure and improvements in the business environment. Armenia's external debt remains a critical factor in its economic planning. As of the end of 2023, the total external debt stood at approximately $15.46 billion.

BUSINESS/ INVESTMENT ENVIRONMENT

Armenia aims to diversify its economy, reducing dependence on traditional sectors like mining. The government encourages investments in technology, manufacturing, and renewable energy.

Digital Transformation

The Armenian government is prioritising digital transformation across various sectors, fostering a favorable environment for IT and innovation-driven businesses.

Infrastructure Development

Significant investments are planned for infrastructure projects, including transportation, energy, and telecommunications, presenting numerous opportunities for European companies.

Education and Skill Development

Focus on improving education and vocational training to enhance the workforce's skills, aligning with the needs of modern industries.

European Integration

Armenia seeks closer ties with the European Union, including through trade agreements and harmonisation of regulations, facilitating easier market access for European firms.

SECTORIAL OPPORTUNITIES & CHALLENGES

Information Technology (IT) and Telecommunications

Opportunities: Armenia's burgeoning IT sector, dubbed the "Silicon Valley of the Caucasus," offers opportunities in software development, cybersecurity, and telecommunications.
Challenges: Competition for skilled labor and the need for continuous innovation.

Renewable Energy

Opportunities: Investment opportunities in solar, wind, and hydroelectric power, supported by favorable government policies and international funding.
Challenges: Regulatory hurdles and the initial cost of setting up infrastructure.

Agriculture and Food Processing

Opportunities: Development of organic and high-value agricultural products, modernisation of food processing techniques, and export potential to European markets.
Challenges: Modernising traditional farming practices and infrastructure deficiencies.

Tourism and Hospitality

Opportunities: Armenia's rich cultural heritage and natural landscapes offer potential for eco-tourism, cultural tourism, and hospitality services.
Challenges: Need for improved infrastructure, marketing, and overcoming regional security concerns.

Manufacturing

Opportunities: Growth in light manufacturing, electronics, textiles, and automotive components. European companies can benefit from Armenia's strategic location and relatively low labor costs.
Challenges: Need for technological upgrades and addressing supply chain inefficiencies.

Healthcare and Pharmaceuticals

Opportunities: Investment in healthcare infrastructure, medical equipment, and pharmaceuticals. Armenia aims to improve healthcare services and local pharmaceutical production.
Challenges: Regulatory environment and ensuring quality standards.

Conclusion

European companies have a range of growth opportunities in Armenia across various sectors, bolstered by the government's proactive economic policies and initiatives. While challenges exist, particularly in regulatory frameworks and infrastructure, the potential for high returns and strategic advantages makes Armenia an attractive destination for European investments. Leveraging Armenia's strategic position, skilled workforce, and evolving market conditions can lead to mutually beneficial outcomes for European businesses and the Armenian economy.

POLITICAL AND ECONOMIC CHALLENGES

Armenia's geopolitical environment, especially its complex relations with neighboring countries like Azerbaijan and Turkey, can impact business operations. The Nagorno-Karabakh conflict poses a risk of regional instability, which may affect investment climates and supply chains.

Regulatory Environment

The Armenian regulatory framework is evolving, with ongoing reforms to align with European standards. However, inconsistencies and bureaucratic hurdles can pose challenges for foreign companies navigating local regulations.

Corruption and Governance Issues

Despite efforts to combat corruption, it remains a concern in Armenia. Governance issues and a lack of transparency in some sectors can create an unpredictable business environment.

Political Stability

Political stability in Armenia can be volatile, influenced by internal political dynamics and external pressures. Changes in government policies and political upheaval can affect business operations and investor confidence.

STRATEGIES FOR EUROPEAN COMPANIES NAVIGATING THESE DYNAMICS

Leverage European Union Support

Take advantage of support mechanisms from the European Union, such as trade agreements, investment funds, and advisory services. The EU's engagement in Armenia provides a framework for more secure and regulated business operations.

Conclusion

European companies can successfully navigate the political and economic challenges in Armenia by employing a combination of strategic risk management, local engagement, legal compliance, and leveraging European Union support. By understanding the local dynamics and being proactive in their approach, businesses can mitigate risks and capitalise on the growth opportunities in Armenia's evolving market.

OTHER REGULATORY AND LEGAL CHALLENGES

Economic Challenges

Market Size and Purchasing Power

Armenia's relatively small market size and limited purchasing power can restrict the scale of business operations and profitability for European companies.

Economic Dependence

The economy's dependence on remittances and a few key sectors (such as mining) can create economic vulnerabilities, affecting overall business stability and growth potential.

Currency Fluctuations

The Armenian dram can experience volatility, impacting financial planning and profitability for foreign investors.

LEGAL CHALLENGES

Intellectual Property Rights

Enforcement of intellectual property rights (IPR) can be inconsistent. European companies may face challenges in protecting patents, trademarks, and copyrights.

Contract Enforcement

While the legal framework for contract enforcement exists, practical challenges such as lengthy court procedures and variable judicial decisions can hinder business operations.

Taxation

Navigating the tax system, which includes VAT, corporate income tax, and other local taxes, can be complex. Frequent changes in tax legislation may also require constant adaptation and strategic planning.

Customs and Trade Regulations

Import and export procedures can be cumbersome, with potential delays in customs clearance and unpredictable changes in trade regulations impacting supply chains.

Licensing and Permits

Obtaining necessary licenses and permits can involve bureaucratic red tape and delays, affecting the timely start and expansion of business operations.

Environmental Regulations

Compliance with environmental regulations may require significant investment, particularly for businesses in manufacturing, mining, and energy sectors. The regulatory framework can be stringent and enforcement inconsistent.

Anti-Corruption Measures

Despite ongoing reforms, corruption remains a challenge. Navigating the business environment requires diligence and often necessitates engagement with local legal and advisory firms to ensure compliance with anti-corruption laws.

Conclusion

European businesses face a range of economic, legal, and regulatory challenges in Armenia, from market size limitations to complex legal and regulatory frameworks. By adopting strategic measures such as local partnerships, legal advisory services, and robust compliance programs, companies can effectively navigate these challenges and capitalise on the opportunities in the Armenian market.

INTEGRATION WITH EU POLICIES

Alignment with EU Policies in Trade and Commerce
Armenia's integration with European Union policies is largely driven by the Comprehensive and Enhanced Partnership Agreement (CEPA), which came into effect in 2021. This agreement aims to enhance political, economic, and trade relations between Armenia and the EU.

BENEFITS OF ALIGNMENT

Market Access

Improved Access to EU Markets: Alignment with EU standards facilitate easier access to the vast EU market for Armenian products, enhancing trade opportunities.

Preferential Trade Terms: CEPA provides preferential terms for Armenian exports to the EU, reducing tariffs and other trade barriers.

Investment Opportunities

Increased Foreign Investment: Alignment with EU regulations can make Armenia more attractive to European investors, who seek stable and predictable business environments.

Development of Local Industries: European investments can drive the development of local industries, leading to economic growth and job creation.

Regulatory Standards

Harmonisation with EU Standards: Aligning with EU regulations helps improve product quality and safety standards in Armenia, fostering consumer trust and international competitiveness.

Environmental and Labor Standards: Adoption of EU environmental and labour standards can lead to sustainable development and improved working conditions.

Increased Competition: Greater access to the EU market also means increased competition from European businesses, which can be challenging for local companies.

Market Saturation: Local businesses might struggle to compete in a market saturated with high-quality European products.

POLITICAL AND GEOPOLITICAL FACTORS

Balancing Relations: Armenia must balance its integration with the EU while maintaining relations with other regional powers, which can complicate policy implementation.

Geopolitical Tensions: Ongoing regional tensions can affect the stability and predictability of economic policies.

Conclusion

Alignment with EU policies in trade and commerce presents significant benefits for Armenia, including improved market access, increased foreign investment, and higher regulatory standards. However, these benefits come with challenges such as the cost of compliance, economic adjustments, increased competition, and geopolitical considerations. European companies operating in Armenia need to navigate these dynamics carefully, leveraging the opportunities while mitigating the associated risks.

EU-ARMENIA ECONOMIC RELATIONS

Free Trade Agreements and Other Agreements

Comprehensive and Enhanced Partnership Agreement (CEPA)

Status: Signed in November 2017, provisionally applied from June 2018, and fully entered into force on March 1, 2021.
Implementation: CEPA covers political, economic, and trade cooperation, aiming to align Armenia's regulatory framework with EU standards. The agreement includes provisions on trade in goods, services, customs cooperation, intellectual property rights, public procurement, and competition.

Generalised Scheme of Preferences Plus (GSP+)

Status: Armenia benefits from the EU's GSP+, which provides duty-free access to the EU market for over 66% of tariff lines.
Implementation: GSP+ requires Armenia to implement international conventions related to human rights, labor rights, environmental protection, and good governance. This scheme supports Armenia's export diversification and economic development.

STATISTICS ON EUROPEAN INVESTMENT AND TRADE ACTIVITIES

Trade Statistics Exports to the EU: In 2022, Armenian exports to the EU amounted to approximately €750 million. Key export products include machinery and equipment, textiles, agricultural products, and foodstuffs.

Imports from the EU: In 2022, Armenian imports from the EU were around €1 billion. Major import items include machinery, vehicles, chemicals, and pharmaceutical products.
Investment Statistics

FDI from the EU: The EU is a major source of FDI in Armenia. As of 2022, cumulative FDI from the EU countries stood at around €1.5 billion.

Sectoral Investment: Key sectors attracting European investment include energy, mining, telecommunications, manufacturing, and financial services.

KEY INDUSTRIES AND SECTORS INVOLVED

Information Technology (IT) Overview

Armenia's IT sector is a significant growth area, with substantial investments from European companies in software development, IT services, and tech startups.
Key Players: European tech firms and venture capital are investing in Armenian startups and innovation hubs, contributing to the country's reputation as a tech hub in the region.

Renewable Energy Overview

The renewable energy sector, particularly solar and hydroelectric power, has seen significant European investments.
Key Projects: European firms are involved in various projects aimed at expanding Armenia's renewable energy capacity, such as the Masrik-1 solar power plant, co-financed by the European Bank for Reconstruction and Development (EBRD) and other European investors.

Agriculture and Food Processing Overview

European investments and technical assistance are helping to modernise Armenia's agriculture and food processing sectors.
Key Products: Organic farming, high-value fruits, vegetables, and processed foods are among the areas seeing growth due to enhanced quality standards and export potential to the EU.

Manufacturing Overview

European investments are driving growth in light manufacturing, electronics, textiles, and automotive components.
Key Industries: Investment in technology and infrastructure from European companies is boosting Armenia's manufacturing capabilities and export potential.

Tourism and Hospitality Overview

The tourism sector is benefiting from European investment in infrastructure and services.
Key Developments: European investments are enhancing cultural heritage sites, developing eco-tourism, and expanding hotel and resort facilities.

Financial Services Overview

European financial institutions are playing a key role in developing Armenia's banking and financial services sectors.
Key Contributions: European banks and investment funds provide capital, technological solutions, and expertise to improve financial inclusion and digital banking in Armenia.

Conclusion

Economic relations between Armenia and the EU are characterised by robust trade and investment activities, supported by agreements like CEPA and GSP+. European investments are prominent in key sectors such as IT, renewable energy, agriculture, manufacturing, tourism, and financial services. These sectors benefit from the transfer of technology, expertise, and capital, driving Armenia's economic growth and development. The alignment with EU policies and standards through agreements enhanced market access, regulatory compliance, and overall competitiveness of the Armenian businesses on the global stage.

EUROPEAN BUSINESS PRESENCE

Since the onset of the COVID-19 pandemic, the landscape for European businesses in Armenia has seen both challenges and opportunities. The trends can be categorised into growth, contraction, and factors influencing market entry.

STATISTICS/TRENDS IN THE PRESENCE OF EUROPEAN COMPANIES SINCE THE PANDEMIC

Growth Trends Post-Pandemic Recovery

Following initial disruptions caused by the pandemic, there has been a noticeable resurgence in activities by European companies, particularly in sectors such as IT, renewable energy, and manufacturing. This resurgence is driven by a global shift toward digital services, sustainability, and diversified supply chains.

Increasing Investment in Tech and Innovation

The IT sector, notably, has seen significant interest from European investors aiming to tap into Armenia's growing reputation as a tech hub, boosted by a skilled, yet cost-effective workforce.

Contraction Trends

Hospitality and Tourism

Sectors heavily reliant on physical presence and travel, such as tourism and hospitality, experienced contractions. Despite recent recovery signs, these sectors are still not at pre-pandemic levels due to ongoing global travel uncertainties.

Trade Disruptions

Trade sectors experienced initial contractions due to disruptions in global logistics and supply chains. While recovery has been strong, the sector still faces challenges due to geopolitical tensions and global economic pressures.

Factors Influencing Market Entry Regulatory Environment CEPA Implementation

The implementation of CEPA has streamlined many regulatory processes, aligning them more closely with EU standards, thus reducing the bureaucratic hurdles for European companies.

GSP+ Benefits

The preferential trade terms under the GSP+ encourage European businesses to establish local operations to benefit from duty-free exports to the EU.

Economic Climate

Economic Stability: Armenia's relative economic stability and ongoing reforms present a favorable environment for European investors.

Currency Fluctuations: The stability of the Armenian dram and its implications for repatriation of profits and local investment costs are also critical considerations.

Market Factors Local Market Size: The relatively small domestic market may be a limiting factor for European companies seeking large-scale consumers, pushing them to focus more on niche markets or use Armenia as a base for regional operations.

Labor Market: The availability of skilled but affordable labor is a significant draw, particularly for service and technology-oriented industries.

Geopolitical and Regional Stability

Regional Tensions: Ongoing tensions with neighboring countries can affect market stability and operations, particularly in sectors like logistics and trade.

EU-Armenia Relations: The deepening political and economic ties with the EU provide a buffer against regional uncertainties, making Armenia more attractive to European businesses.

Infrastructure and Connectivity

Digital Infrastructure: Significant improvements in digital infrastructure make Armenia more appealing for IT and tech-based industries.

Transport and Logistics: Enhancements in transport infrastructure, crucial for manufacturing and export-oriented businesses, influence European company decisions on establishing bases in Armenia.

Conclusion

Since the pandemic, the presence of European companies in Armenia has evolved with significant growth in technology and renewable energy sectors, countered by contractions in tourism and traditional trade sectors. The regulatory changes facilitated by agreements like CEPA, economic stability, skilled labor force, and improving infrastructure are key factors attracting European business to Armenia. However, challenges remain due to the size of the local market and regional geopolitical tensions. These dynamics will continue to shape the European business landscape in Armenia.

OPPORTUNITIES AND CHALLENGES

ESG Trends

Environmental, Social, and Governance (ESG) considerations are increasingly central to business operations globally, and Armenia is no exception.

European businesses, in particular, are often at the forefront of integrating ESG principles due to stringent EU regulations and growing investor and consumer expectations.

Adaptation to Local Regulations by European Businesses Regulatory Alignment with EU Standards Comprehensive and Enhanced Partnership Agreement (CEPA): This agreement includes commitments to environmental protection and sustainability, which requires businesses to align their operations with both local and EU standards.

Local Regulatory Environment: Armenia has been working on enhancing its environmental regulations to attract foreign investment and improve sustainability. European companies often find that these local regulations are becoming more aligned with EU standards, easing their adaptation process.

Emerging Sustainability Initiatives

Renewable Energy Projects

Many European businesses are investing in renewable energy projects in Armenia, such as solar and wind energy farms. This not only complies with ESG criteria but also aligns with Armenia's goal to increase its share of renewable energy sources in the energy mix.

Waste Management and Recycling

Initiatives to improve waste management and recycling processes are gaining traction. European companies are introducing advanced technologies and practices in Armenia, which help in setting industry standards and driving regulatory changes.

Sustainable Agriculture

With a significant portion of the Armenian economy dependent on agriculture, sustainable agricultural practices are crucial. European businesses are introducing organic farming techniques and sustainable water management practices, which are becoming increasingly popular.

Level of Corporate Responsibility

Community Engagement and Development

European companies in Armenia are often involved in community development projects, such as educational programs, local infrastructure improvements, and health and safety initiatives. These efforts not only improve their ESG scores but also build goodwill and a strong local presence.

Labor Rights and Fair Practices

Aligning with EU labor standards, European companies tend to implement fair labor practices, including equitable pay, workers' rights, and safe working conditions. This sets a benchmark for local businesses and influences broader industry practices in Armenia.

Transparency and Governance

There is a growing emphasis on governance and transparency, with European companies leading by example through regular reporting and adherence to international best practices in corporate governance.

This transparency is critical in maintaining trust among stakeholders and complying with both Armenian and EU regulations.

CHALLENGES IN ESG IMPLEMENTATION

Local Implementation Gaps

While the regulatory framework may be improving, there can be gaps in local implementation and enforcement. European businesses often have to invest additional resources to comply with ESG standards, which can be a hurdle, particularly for smaller enterprises.

Cultural and Economic Barriers

Integrating ESG principles can sometimes clash with local cultural practices or economic realities. For instance, shifting to sustainable practices may require overcoming traditional methods or perceptions in agriculture or waste management.

Cost of Compliance

The initial cost of integrating ESG compliant technologies and practices can be high. Although this is often offset by long-term gains in efficiency and brand value, the upfront investment can be a significant barrier.

Conclusion

The ESG landscape in Armenia offers both opportunities and challenges for European businesses. As local regulations evolve to align more closely with EU standards, European companies continue to lead in adopting and promoting sustainable practices. This leadership not only helps in achieving their ESG goals but also plays a crucial role in transforming the broader business environment in Armenia. However, navigating the local implementation challenges and cultural nuances requires ongoing commitment and innovation.

SUPPLY CHAIN REDISTRIBUTION/RESILIENCE

The COVID-19 pandemic exposed vulnerabilities in global supply chains, prompting a reevaluation of supply chain strategies worldwide. This shift has been particularly pertinent for European businesses operating in Armenia, which are now focusing on enhancing resilience and considering diversification or reshoring to mitigate future disruptions.

The Changing Supply Chain Landscape Decentralisation and Diversification

Post-COVID Developments

The pandemic underscored the risk of relying heavily on a single source or geography for critical components and materials. In response, European businesses are increasingly looking to decentralise their supply chains and diversify their supplier base. This involves identifying alternative suppliers in different regions to reduce dependency on any single country or region.

Local Sourcing

There is a growing trend towards local sourcing where possible, to shorten supply chains and reduce associated risks and costs. For Armenia, this could mean increased opportunities for local manufacturers and suppliers to integrate into the supply chains of European businesses.

Increased Use of Technology

Digitalisation

To enhance visibility and responsiveness, European companies are investing in digital technologies such as IoT, AI, and blockchain. These technologies help in real-time tracking of supply chain activities, predicting disruptions, and automating processes.

Advanced Analytics

Data analytics plays a crucial role in scenario planning and risk management, helping companies to make informed decisions based on predictive insights and trend analysis.

Sustainability Driven Supply Chain Changes

In response to increasing environmental concerns and regulatory pressures, there is a shift towards more sustainable supply chain practices. European businesses are integrating ESG criteria into their supplier selection processes, which affects sourcing decisions and operational methods.

IMPACTS ON EUROPEAN BUSINESSES

Cost Implications

While diversification and increased resilience might lead to higher initial costs due to the establishment of new supplier relationships and investments in technology, these costs are generally viewed as strategic investments to prevent future losses.

Operational Adjustments

Adjusting operations to integrate new suppliers or technologies requires changes in internal processes, training for staff, and sometimes even restructuring. This transition period can temporarily affect the efficiency but is essential for long-term resilience.

Supply Chain Security

Enhancing supply chain security has become a priority, with companies more carefully assessing geopolitical risks, regulatory changes, and the financial stability of suppliers to ensure continuity and compliance.

POTENTIAL FOR SUPPLY CHAIN DIVERSIFICATION OR RESHORING

Increased Local Manufacturing

For European businesses, there is a potential to increase manufacturing in Armenia, especially in sectors like pharmaceuticals, textiles, and electronics, where Armenia can offer competitive advantages such as skilled labor at lower costs compared to many parts of Europe.

Reshoring

Reshoring to Europe is another strategy being considered to reduce the length of the supply chain and enhance control. While this may not directly impact Armenia unless components are sourced or partially assembled there, it creates a market for high-value, less bulk-oriented goods that Armenia could potentially supply.

Regional Hubs

Establishing regional hubs in Armenia could serve European companies looking to manage distribution more effectively across the Eurasian market. Armenia's geographical position can be leveraged as a strategic transit point, particularly for companies looking to balance between Asian and European markets.

Conclusion

The post-COVID era has seen a significant transformation in the approach of European businesses towards supply chain management, with a heightened focus on resilience and sustainability. The evolving landscape presents both challenges and opportunities for European companies in Armenia, offering potential for growth and strategic realignment in response to global supply chain vulnerabilities.

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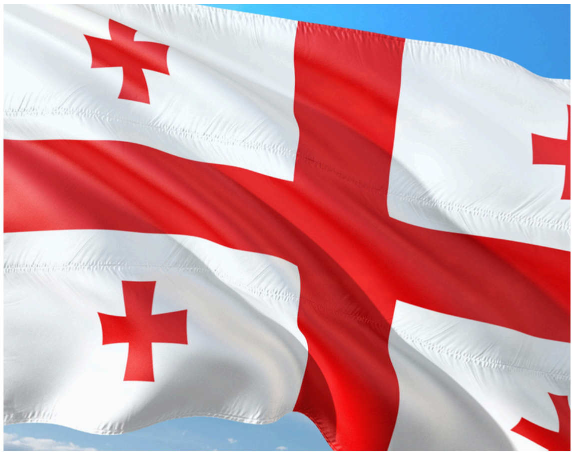
GEORGIA



FUTURE (ECONOMIC) OUTLOOK

First, Georgia needs to continue with ambition on its connectivity agenda, taking a strategic approach to energy, transport and digital investments. Second, Georgia should work further on the diversification of its energy supplies and develop its renewable energy production. Third, digitalisation, access to finance and investing in human capital are the cornerstones for job creation, growth and SME productivity.

According to the World Bank estimates, a reduction in cash flows from Russia, additional export restrictions, and a slowdown in economic growth are likely to impact the Caucasus region. Remittances from Russia are expected to decrease as developed countries tighten their monetary policy rates. Georgia's GDP will increase up to 3.3% in 2023 driven by high consumer spending, an increase in exports and cash flows, but will decline to 3.2% in 2024.

The government of Georgia expects a 5.0% GDP increase in 2024-2027 years, an increase in current account deficit in 2024 but a decline in 2027 up to GDP's 3.5%. In case of a negative scenario that considers risks such as high dependence on oil, the war in Ukraine and internal political conflicts, GDP is expected to grow by 2.2% in 2024 and by 2.2% in 2024-2027. This scenario assumes that economic activity is lower than expected; a tighter monetary policy will be necessary and increased remittances and revenues from tourism sectors will have less of a positive effect than expected.

BUSINESS/ INVESTMENT ENVIRONMENT

The business environment in Georgia is conducive for investment. Georgia ranks among the best performers in the world according to international indices on doing business and openness to foreign direct investment. Opening a business in Georgia is easy and quick. Trade openness has been increasing constantly since the 1990s. Despite the surrounding geopolitical turmoil, Georgia has demonstrated remarkable economic resilience, and to some extent, in economic terms, even came out favorably.

Inbound flows of people and money from Ukraine and the Russian Federation benefitted the local currency and the overall economy.

However, positive economic growth in 2022 and the first part of 2023 may mask underlying political risks and uncertainties ahead. For businesses, indeed, political instability, a key dimension of which is the geopolitical element, has always been on top of the list of major obstacles.

According to the EU Business Climate Report Georgia 2023, businesses seem to be paying more attention to the economic reforms. The education sector reform has been the top gainer among all reforms, followed by the building regulations and judiciary system reforms. When it comes to the perceived direction of the reforms, among the positively perceived reforms, the e-commerce reform, the intellectual property reform, the state support to business, and the customs reform are leading the list. It comes with no surprise that the judiciary system reform is the leader among reforms which are perceived to be going in the wrong direction, followed by the education sector reform. Overall, with the exception of two reforms - State support of businesses, the Insolvency reform and evaluation of reforms either did not improve by much or deteriorated in comparison to the previous report.

POLITICAL AND ECONOMIC CHALLENGES

The year of 2023 has been full of challenges and achievements at the same time. Businesses globally have had to navigate the aftermath of the pandemic, geopolitical shifts, supply chain disruptions, and technology transformations. Recent developments in the region established additional constraints.

Despite all of this, 2023 marks a historic moment for Georgia and its people, with the European Commission's decision, in December, that Georgia is granted Candidate Country status.

However, on May 14, 2024, the law on Transparency of Foreign Influence was adopted by the 3rd reading of the Parliament of Georgia. This law not only undermines Georgia's European Union Membership aspirations but also poses a significant threat to them.

This law carries the risk of perpetuating negative stereotypes against foreign investors and discouraging investment which is indispensable for fostering Georgia's economic development.

OTHER REGULATORY AND LEGAL CHALLENGES

CLUSTER 2: INTERNAL MARKET

Chapter 1 - Free movement of goods

The free movement of goods ensures that products can be traded freely across the EU based on common rules and procedures. Where products are governed by national rules, the principle of the free movement of goods prevents these rules from creating unjustified barriers to trade.

- 9905000 Code does not apply to natural persons changing residence; Customs regulation needs to be fully in line with the HS nomenclature 99050000 as per European Union: Georgian Customs regulation is not fully in line with the HS Nomenclature: 99050000. In particular, in accordance with the Commission Regulation (EC) No 1128/2010, personal property belonging to natural persons transferring their normal place of residence is under 9905000 HS nomenclature. The entry under this subheading and the relief from import duties shall be subject to the conditions laid down in Council Regulation (EC) No 1186/2009. The Customs Code of Georgia had been approximated to the Council Regulation (EC) No 1186/2009, subsequently, the business sector of Georgia is keen to see subsequent changes in implementing the provision. In the EU 9905000 is valued as 0% tariff and no VAT applicable as these items are deemed to be already purchased with VAT in the origin country. Georgia approved the 9905000 HS nomenclature, however, there is a difference in the wording (and it refers to only Diplomats in the Georgian Tariff line): Personal property belonging to a diplomat.

Therefore, while importing used personal effects, private citizens (foreign and Georgian) are obliged to register all these items under separate different nomenclatures and pay 18% VAT on their own property when bringing to Georgia even though Georgia signed many double taxation treaties.

A long list of inventories with very concrete details in weight and value per item is required, which is almost impossible to be done with full accuracy. This also hampers current sanctions and other regulations for example that if a family moves with kids and brings its own toys; we are limited as per EU regulation on health and safety in producing toys.

Solution: Fully implement HS nomenclature 99050000 for citizens changing residence.

INTEGRATION WITH EU POLICIES

CLUSTER 3: COMPETITIVENESS AND INCLUSIVE GROWTH

Chapter 29 - Customs union

All Member States are part of the EU customs union and follow the same customs rules and procedures. This requires legislative alignment as well as adequate implementing and enforcement capacity, and access to the common computerised customs systems.

Issues related to AEO status

The AEO status still need to mature; however currently our AEO status for Georgian companies did not bring any promised benefits of simplified and faster clearances options.

Georgia is still using the asycuda and is only changing to Book x in January 2026. This caused a very big gap in alignment on procedures and fastness; as an example , AEO status operators can do clearances at their offices and do not need to visit customs economic zones; Asycuda declarations prepared at an office still needs to get an approval from the economic zones in Asycuda and provides lots of bureaucracy and awaiting customs officials to clear the goods.

It is urgent needed that the change to Book X is done in a faster way, before 01/2025 as this is the main barrier in the way why the DCFTA did not have the desired results till today. It is proven that all exporters to EU are having difficulties with logistics solutions, especially SME businesses that rely on groupage (consolidation) transports.

With the introduction of Book X, we can finally create T1 documents (EU transit paperwork) in line with EU countries and reduce transport cost by HALF.

Another issue is priority for logistics companies having AEO status; For physical visits to the Georgian economic zones, they do not get priority status as customs officials claim that they only can use it with importing or exporting their own goods; however, as a logistic company you do not have any goods; you have customers that request logistics companies a full service. These AEO logistics companies should be receiving full priority for all goods.

EU-GEORGIA ECONOMIC RELATIONS

Investment and Trade

DFTA - Opportunities of from the DCFTA continue to be underutilised and trade with the EU remains limited. Exports to the EU grew by 27% and 21% and imports from the EU grew by 25% and 32% in 2021 and 2022, correspondingly. However, the total share of the EU trade in 2022 did not exceed 21% - down from 25% in 2014 and same as in 2021.

FTAs - Liberal foreign trade policy is one of the major principles of the economic policy of Georgia. Georgia places no quantitative restrictions (quotas) on trade, except on ozone-depleting substances. Only medical products, firearms, explosives, radioactive substances, dual-use goods, industrial waste and a few types of agricultural chemical products are subject to import/export licensing. In 2005, the number of permits required for import and export was reduced from 14 to 8, where it has remained until the present. Since 2006 tariffs on import decreased from 16 tariff rates to 3, on about 85% of goods the tariff on imports was cancelled; Excise taxes and value-added tax (VAT) is imposed based on the principle of country of destination and is equal for local and imported goods.

The Majority of Georgia's trade partners are members of the World Trade Organisation (WTO). However, among 164 countries, trade relationships are based on the MFN principles. Georgia is the beneficiary of GSP regime and benefits from the low tariffs from the USA, Japan and Canada and gets access from goods from developing countries to the market of developed ones. The EU grants Georgia GSP+ treatment, with duty-free treatment for more than 7,000 products. Georgia has free trade regimes with CIS countries, Turkey, the EU, People's Republic of China and an Association Agreement with the EU and two members of EFTA, which are Norway and Iceland. Georgia signed a free trade agreement (FTA) with China in 2017, and with Hong Kong in 2018. Georgia has been negotiating with India on FTA after the feasibility study that was conducted in 2019. In addition, on 10 October 2023, Georgia signed FTA with UAE which will cover trade in goods.

TRENDS IN TERMS OF EUROPEAN COMPANIES IN GEORGIA

European Business Presence

Reforms and open-market policies have enhanced regulatory efficiency, improved transparency, and significantly reduced corruption within the country. This progress is reflected in Georgia's rankings in various international indexes. In the World Bank's 2020 Ease of Doing Business index, Georgia ranked 7th, while it ranked 35th in the 2023 Economic Freedom Index. According to the 2020-2021 Global Competitiveness Index report, out of 12 indicators, Georgia's rating improved in 6 areas, including the financial system, business dynamism and innovative opportunities.

The "one-stop shop" principle created by the LEPL "National Agency of Public Registry" operates in the country and it is available to all persons. Anyone interested in registration services can apply to the LEPL National Agency of Public Registry territorial offices, houses of justice, community centers and other authorised users of the Public Registry. The unified portal of electronic services (my.gov.ge) offers all the services required for business registration. Entrepreneurs can register a business without leaving home or the office, make a change in the registered data without a visit to the Revenue Service, on a one-stop-shop basis, register as a value-added taxpayer, etc.

The EU Business Climate Survey Georgia 2022, The 2022 survey addressed the question of the most important business climate factors until recently. For the last few years, Georgia was among the top performers in terms of critical ingredients of the climate of doing business. These were often the main decision factors to invest or to do business in the otherwise small domestic market of Georgia. Some of these important factors were easy procedures of doing business in Georgia (21.2%), followed by low tax rates (11.6%), low labor costs of production (10.4%), access to the local domestic market (10.4%), and diversification of the supply chain (9.6%).

According to the Survey Report 2023, over 2022 and the majority of 2023, businesses in Georgia had multiple reasons to worry. The geopolitical events in the region on the one hand and economic performance inside the country, on the other, may have affected business performance as well as optimism for the future. The majority (54%) of EU businesses report that their overall business performance improved. Business performance remained unchanged for 34% of the surveyed companies and another 12% report that their performance went negative. This represents a considerable improvement compared to the previous year (i.e., 43% improved), indicating the health of the enterprises.

OPPORTUNITIES AND CHALLENGES

ESG Trends

According to the EU Business Climate Georgia 2023 Businesses embrace green growth paradigm and progress is clear. The span of planned activities includes applying energy-efficient technology, conducting awareness-raising campaigns, adopting the use of renewable energy, using to use recyclable materials, applying technologies to reduce emissions, and investing in environmental projects. It is twice as positive to see that the growth of adoption is significant, with a two-digit percentage point growth for all major environmental actions between the two waves of the survey.

More non-EU owned enterprises than EU-owned, report that they were planning to adopt renewable energy and recyclable materials, whereas EU-owned activities outpace non-EU ones in terms of emission-reducing technologies, awareness campaigns and investing in environmental programs. Overall, the differences are not meaningful, and it could be assumed that other factors (outside ownership) assumed that other factors (outside ownership) define whether a company is taking steps towards environmental responsibility.

Supply Chain Redistribution/Resilience

According to the EU Business Climate Survey 2023, the 2022 report provided the frame of prioritisation of factors, grouping factors according to their importance and recent dynamics, requiring different policy response and level of attention.

This year, an additional element - benchmarking results with the previous study, revealing the most prominent changes over the last year, was added. Access to supply chains were named as one of the biggest winners between the two waves of the survey.

Moreover, the National Bank of Georgia forecasts inflation as moderate and to remain below the target in the short term and converge to the target in the second half of 2024, because of strict monetary policy and improved supply chains.

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KAZAKHSTAN

FUTURE (ECONOMIC) OUTLOOK

- New Tax Code
- New Water Code
- Updated Procurement regulations
- New Investment concept till 2029

BUSINESS/ INVESTMENT ENVIRONMENT

- Investment development
- Tourism Industry Development
- The government has several activities to attract European companies to the market in Kazakhstan

POLITICAL AND ECONOMIC CHALLENGES

- More information and data could be used by European businesses for further decisions on working in Kazakhstan.
- Kazakhstan needs to proceed on permanent basis format look into records and experience of the EU business view.
- Investment climate – in Kazakhstan corruption exists, and we need to try to climb it down. Need to use AIFC (Astana International Financial Centre).
- Problems in the logistics industry, EU funding needed
- Reputation status due to issues with the sanctions. More interest in Kazakhstan and the Region after War in Ukraine and companies leaving Russia.
    - The overall retail market in Kazakhstan is fragmented and unstructured
    - The food processing sector is limited by the relatively small domestic demand for processed foods.
    - Large retail chains and the infrastructure serving them are primarily located in the southern part of the country.

The main challenges for EU producers concern the expectation that most goods will be reasonably cheap for most Kazakh consumers.

OTHER REGULATORY AND LEGAL CHALLENGES

- Not exactly an accurate picture of the Kazakhstan market Investment attractiveness of the country, including some challenges on tax regulations and public procurement regulations.

INTEGRATION WITH EU POLICIES

- Trans Caspian Corridor
- EU Agrifood Mission
- EU raw map
- Statistics on European investment and trade activities
- Logistics
- Raw materials (ESG)
- Oil & Gas
- Green renewable energy
- Health

EU-KAZAKHSTAN ECONOMIC RELATIONS

Investment and Trade

There is interest in the market of Kazakhstan in terms of agriculture, oil & gas, health, ESG, small and medium business

Trends in terms of European Companies

European Business Presence

European Union remains the biggest trading partner and investor in Kazakhstan. EU Delegation keep supporting Kazakhstan in building a robust and resilient national economy not only through our initiatives but also through concrete investments by European businesses and banks, like EBRD and EIB. To continue successfully attracting European investors to the Kazakh market, it is of paramount importance to ensure a favorable business climate and to strengthen joint efforts to fully implement our Enhanced Partnership and Cooperation Agreement (EPCA) which plays a crucial role in the facilitation of bilateral trade and investment.

Geopolitical situation

Uzbekistan and other Central Asian countries are increasingly opening up, attracting growing attention from companies worldwide. Businesses are beginning to recognise the potential of the region and are actively exploring opportunities there.

OPPORTUNITIES AND CHALLENGES

ESG Trends

Thanks to corporate values and commitment in European companies, the responsibility of locally located companies in the field of sustainable development is gaining popularity in Kazakhstan.

Efforts are being made to take responsibility for sustainable development to a new level in such sectors as banks, large businesses, industry

SUPPLY CHAIN REDISTRIBUTION/RESILIENCE

- Significant impact on the supply chain during the COVID period in Kazakhstan as well as the War in Ukraine had a major impact on the whole region.
- At the moment, the Trans Caspian Corridor attracts special attention and has a lot of interest from the Government sides, however, businesses are still stating the high cost of the route.
- Considering the competitive relationships with Uzbekistan, Kazakhstan still advanced service providers, customs control
- The largest economy in Central Asia; and hence a possible initial entry point for companies interested in the wider region.
- Europe is generally a well-regarded region and hence origin for food products. The EU is a common travel destination, creating some first-hand experiences.
- A recent increased focus on diversification of sourcing practices; benefitting both alternative import origins and domestic production.
- A growing and evolving market; the population is growing plus becoming wealthier; and increasing exposure to outside influences.

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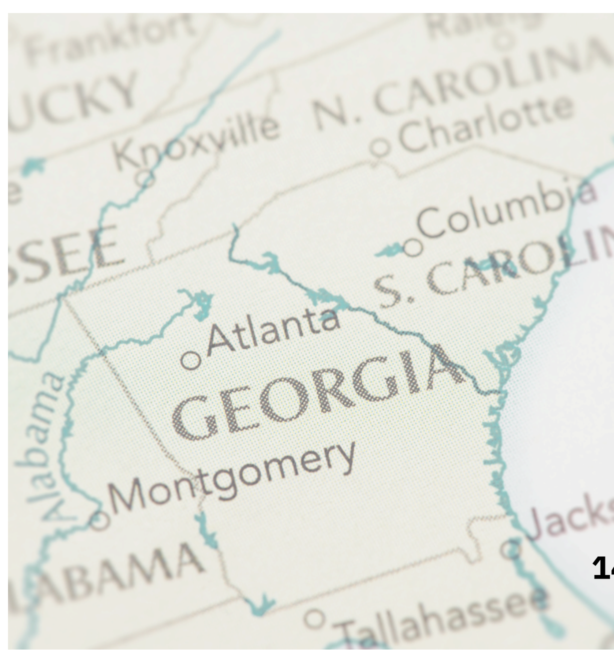

REPUBLIC OF MOLDOVA

FUTURE (ECONOMIC) OUTLOOK

Since 2014 when the Republic of Moldova (RM) signed the Association Agreement with the EU and its component part – the Deep and Comprehensive Free Trade Agreement – the country committed to a complex, extensive, and cross-sector reform process aimed at boosting economic growth, investment attraction and business development in the country.
The accession of Moldova to the European Union is a prior objective of the current political leadership of the RM, this being on the current agenda for future enlargement of the EU. Following an application by Moldova in March 2022, Moldova was officially granted candidate status by EU on 22 June 2022.

Moldova set a target date of 2030 for EU Accession
On 14 December 2023, the European Council decided to open accession negotiations with Moldova. It is one of nine current EU candidate countries, together with Albania, Bosnia and Herzegovina, Georgia, Montenegro, North Macedonia, Serbia, Turkey and Ukraine.

Currently, the RM is subjected to a dynamic legislation screening process aimed at ensuring the compliance of the RM legislation to the EU Aquis Communautaire. Moldovan Authorities aim to join the EU until 2030.

On 28 June 2023 President von der Leyen presented five priorities aimed at addressing the impact of Russia's war of aggression against Ukraine and bringing Moldova closer to the European Union.

Out of the 5 priorities – 3 of them are directly impacting business development:

Facilitating economic development and connectivity through the Priority Action Plan for trade under the DCFTA and the dedicated flagships of the Economic and Investment Plan (EIP). These focus on support to SMEs, trade, energy efficiency, human capital development as well as connectivity. Under the EU-Ukraine Solidarity Lanes initiative, the Connecting Europe Facility (CEF) for Transport will provide funding to projects addressing bottlenecks at key border crossing points.

The priority is also aimed at addressing challenges faced by cross-border communities through strengthened Interreg programmes. Finally, building on the recent achievement to reduce roaming prices, we are working towards a long-term roaming arrangement.

Supporting Moldova's reforms through strengthening administrative capacity, advisory services focusing on challenges arising on the enlargement path, dedicated training and support programmes as well as increasing the participation of Moldova in EU programmes like Horizon Europe, Fiscalis, Customs, LIFE and EU4Health.

Ensuring Moldova's energy security through increasing domestic electricity production, participating in the EU common gas purchasing mechanism, boosting renewables and focusing on energy efficiency.

As such, since 2022, the RM committed to a very serious and substantial reform design and implementation agenda in multiple sectors, by ensuring a very complex legal transformation process. These reforms aim to improve the business climate, increase investments attraction and align the Moldovan legal framework to the EU Aquis Communautaire. Such legal transformations have already taken place in the following areas as: Competition, Tax Policy, GDPR, e-commerce, digitalisation of certain public services, Customs Code, food safety etc. Even if certain achievements are on the way, still the public resource of the authorities is limited to ensure the necessary national level awareness, especially in the detached regions of the RM which are negatively impacted by Pro-Russian propaganda.

Business/ Investment Environment

In the context of the EU Moldova Candidacy Status, the RM committed to the following reforms and currently is subject to a legal screening process to ensure the legal framework alignment to the EU Aquis Communitaire: Rule of law, Vetting and Pre-Vetting procedure to increase the credibility of the legal/court system in the RM.

Green Deal

Energy Security, Renewables, Wastes Management, Water Management, afforestation of the country.

GDPR, Digitalisation of Public Services, E-Commerce, Roaming Trade facilitation

Implementation of a new Customs Code, simplification of the trade procedures related to food products, ensure a higher level of food safety, implement the necessary legislation to enable export of animal origin products, AML, E-KYC, PSD2/ open banking, Education, Competition, Labour Code etc.

POLITICAL AND ECONOMIC CHALLENGES

There exists pro-Russian propaganda in certain pro-Russian-speaking regions of Moldova. Additionally, due to the war in Ukraine, Moldova is still considered as a red-risk country, accordingly with low investment appetite; there is the lack of public resource to ensure reforms implementation.

Slow rule of law reform process

Moldova is a transit country for trade; there is a need to increase the number of border crossing points with the EU.

OTHER REGULATORY AND LEGAL CHALLENGES

Digitalisation of public services

Ensure a stronger mobility across the Moldova EU border by implementing the necessary systems like NTS and electronic registries as well as increase the nr of border crossing points with EU.

INTEGRATION WITH EU POLICIES

A significant importance for the private sector is the evaluation of the transposition of several important new directives and regulations from the European Commission that are set to enter into force in 2024-2025, impacting entrepreneurial activity across various sectors. These include ESG Reporting Indicators (such as the Corporate Sustainability Reporting Directive, Sustainable Finance Disclosure Regulation, Directive on Corporate Sustainability Due Diligence), as well as the Digital Markets Act, and the Digital Services Act. The voluntary implementation of these directives will help Moldova's private sector gain competitive advantages, attract investments, improve governance, and align with global best practices, thereby enhancing their market position and ensuring sustainable growth.

EU-MOLDOVA ECONOMIC RELATIONS

Investment and Trade

EU Moldova Association Agreement and Deep and Comprehensive Free Trade Agreement was created in 2014. Additionally, there exists the European Free Trade Association 2023, CEFTA Countries 2007, GUAM 2002 Turkey 2017, the UK Moldova Strategic Partnership and Trade Agreement 2020.

Export Structure

In 2023, exports amounted to $4.04 bn (3.7 bn Euro), down by 6.5% nominally Exports to the EU increased by 4.3% holding a share of 65.4% in total exports.
In 2023, the value of imports decreased by 5.9% in 2023, totaling $8.6 bn (8 bn Euro). Imports from the EU decreased by 4.1%, holding a share of 48,3% of total imports.

Structure of FDI

- EU FDI – 86.3
- Other Countries 13,7

TRENDS IN TERMS OF EUROPEAN COMPANIES

Factors influencing market entry

Rule of law, a sound legal framework compliant with the

EU, functioning public intuitions, a well-prepared labor force, and a sound education system, and easy access to funding.

OPPORTUNITIES AND CHALLENGES

The ESG landscape and adaptation to local regulations by European businesses

Most of the EU Companies are in the process of ESG reporting and implementation. Additionally, a lot of capacity building process is taking place in the private and public sector.

SUPPLY CHAIN REDISTRIBUTION/RESILIENCE

Most of the SMEs and private sector are investing in green technologies, better production facilities, packaging, international certification etc. in order to comply with value chain recent requirements.

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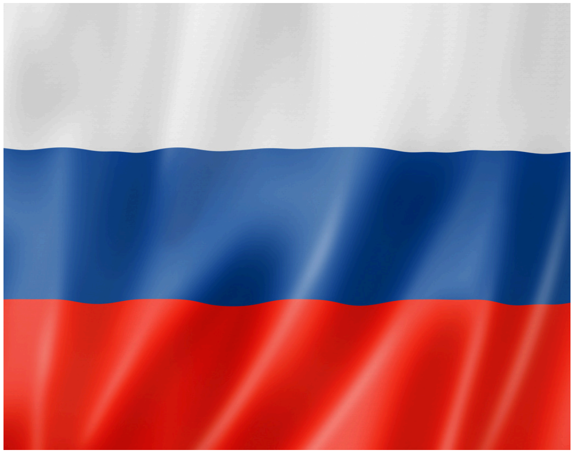
RUSSIA



INTRODUCTION

The Association of European Businesses is a non-profit organisation that serves as a representative body for European businesses operating in Russia. Established in 1995, the AEB has emerged as a leading business organisation in the country, boasting a strong engagement with both local authorities, and the EU Delegation. The AEB represents almost 400 member companies from diverse sectors, including automotive, health and pharmaceuticals, retail, and finance.

FUTURE (ECONOMIC) OUTLOOK

The Russian economy remains in a relatively good shape. The monetary authorities are not convinced that the current growth rates are sustainable. Instead, they see them as proof that the economy is overheating as domestic demand outstrips supply. In 9M24, the economy expanded by 4% YoY. In 4Q24, the Economy Ministry expects the growth to slow slightly and expects 2024 GDP growth to end at 3.9% YoY. Based on the latest statistical data the ministry puts growth in September at 2.9% YoY, up from 2.4% YoY in August.

In October 2024, the Central Bank of Russia raised the key rate by 200bp (up to 21%) saying, it was needed to restore a fundamental balance between demand and supply in the economy which, in turn, the CBR said is the root of high inflation. Thus far, the reaction of the economy to the tighter monetary policy has been muted. The full impact of the CBR's action should be seen in 1H25.

Government plans fiscal tightening. In addition, the government is set to shift to a much more stringent fiscal policy: after planning a big expansion of spending in 4Q24, the Cabinet plans to curtail its expenditures and at the same time boost its revenues following the approved tax increases.

By early 2025 Russia is likely to be left with only one key growth driver: this is fiscal spending which will continue to support high volumes of output in defense and military-related sectors of industry and, to a lesser extent, robust consumer demand in low- to middle-income groups that benefit from wage hikes in public sector and large payouts to the military.

BUSINESS/ INVESTMENT ENVIRONMENT

According to the AEB Annual Business Climate Survey, expectations for Russian economy development in the short-term have improved significantly – 64% of companies answered that they expected the growth of Russian economy over the next 1-2 years (vs 37% in 2023). Mid-term (3-5 years) and long-term (6-10 years) outlook estimates show diverse dynamics: mid-term forecast have improved slightly (60% of companies expect economy growth vs 55% in 2023), long-term forecast have worsened slightly (66% of companies expect economy growth vs 71% in 2023).

Business has been mainly adapted to the current situation, which allows companies to make realistic business development forecasts – more than a half (55%) of survey members stated that their business results in the first 3 months of 2024 were as expected (52% in 2023), 25% – better (28% in 2023) and only 17% – worse (the index remained at the same level as last year). Companies' forecasts for their turnover growth over the next 3 years have improved slightly – 53% of companies expect growth vs 48% in 2023, profit growth forecasts are on the previous year level – 42% of companies expect the growth.

The most significant barriers to business in Russia are restrictions due to U.S., EU and other sanctions towards Russia, difficulties with making payments and settlements and refusal of foreign partner companies to do business in Russia.

POLITICAL AND ECONOMIC CHALLENGES

According to the AEB Annual Business Climate Survey, the top list of negative factors in 2024 includes:

- 80% Restrictions due to U.S., EU and other sanctions towards Russia
- 50% Difficulties with making payments and settlements
- 44% Refusal of foreign partner companies to do business in Russia
- 43% Lack of workers and/or qualified personnel
- 40% Difficulties with using foreign software
- 39% Restrictions due to Russia's countermeasures
- 36% The economic crisis and uncertainty of development of the situation in Russia
- 35% Regulatory restrictions 34% FX rate volatility
- 32% Difficulties with logistics, supplies, incl. lack of materials and component parts
- 30% Reputational risks for businesses from working in Russia

OTHER REGULATORY AND LEGAL CHALLENGES

Like previous years since 24 February 2022, this year also shown a number of important regulatory changes:

- Counter-sanctions regulation
  - Government Commission for Control over Foreign Investments (obtaining approval to sell the company (share), to pay dividends)
  - Mechanism of external management
  - Restrictions with payments and transfers (decisions of the Bank of Russia)
- Tax Regulation
  - Tax Reform (25% levy on corporate profits and increase of personal income tax)
  - Suspension of certain provisions of DTA
- Customs regulation
  - Inclusion of dividends in customs value
  - Partial legalisation of parallel imports
  - Ban on export of certain goods and equipment from Russia
  - Restrictions re seeds imports
- Expanding the use of compulsory licensing in the pharmaceutical sector
- Extended producer responsibility (ecological fee rates increase)

INTEGRATION WITH EU POLICIES

Russia's main priority in relation to current EU policies, particularly sanctions and asset issues, is negative, i.e. it aims to minimise the negative impact of the latter on its economy and international standing. The imposition of sanctions by the EU has had economic consequences for Russia, particularly in financial sector. In response, Russia has sought to diversify its economy and strengthen its relationships with other countries, particularly those in Asia.

EU-RUSSIA ECONOMIC RELATIONS

Investment and Trade

There is no Free Trade Agreement (FTA) between the European Union and Russia. However, the EU and Russia have a Partnership and Cooperation Agreement (PCA) that was signed in 1994, entered into force in 1997 and suspended in 2022. After February 2022 any cooperation in political, cultural, and scientific spheres was also suspended.

Additionally, in August 2022, Russia has suspended certain provisions of Double Taxation Agreements (DTA) with 38 states, including EU countries, the United States, and Japan.

Statistics on European investment and trade activities

According to the latest Eurostat data, in the second quarter of 2024 both imports from and exports to Russia decreased by 16.0% and 9.5% with respect to the previous quarter. Between the first quarter of 2022 and the second quarter of 2024, the value of EU imports from Russia fell by 87%. Russia's share in extra-EU imports of petroleum oil fell from 21% in the second quarter of 2022 to 1% in the second quarter of 2024.

After 2022, investments from the EU have stopped in Russia in energy, heavy industry, automotive area, while companies from pharmaceuticals, food processing, consumer goods sector continues its business in Russia in line with all current restrictions but do not invest in new activities.

EUROPEAN BUSINESS PRESENCE

It is difficult to provide exact date regarding the current number of EU businesses still active in Russia. What can be said, is that the number of EU businesses active in Russia has been shrinking, but it is all but impossible to provide exact data. First, most data are highly controversial and serves conflicting political narratives. Second, companies have adopted varying strategies in reaction to the current geopolitical crisis (sale of business including MBOs, reducing visibility, reducing business activity, stopping investments, continuing without change, in particular in humanitarian sectors).

Factors Influencing Market Entry

In 2020, many European companies faced challenges due to lockdowns, supply chain disruptions, and economic uncertainty. Some firms temporarily halted or reduced their activities in Russia. Alongside the pandemic's direct effects, geopolitical tensions between Europe and Russia also influenced the presence of European companies. Some companies had to reconsider activities in the country.

According to the AEB Annual Business Climate Survey, the primary reasons foreign companies initially entered the Russian market were its large size, positive market dynamics, and significant potential, with 88%, 88%, and 86% of respondents, respectively, citing these as the most important factors. These reasons remain relevant today, alongside the availability of skilled personnel, as key motivators for maintaining a presence in the Russian market.

At the same time, 80% of companies were negatively affected by the sanctions and Russian countermeasures. The most negative impact on business was caused by sanctions targeting Russian financial organisations (47% of companies marked it), export and import restrictions towards Russia (43%), software restrictions (37%), transport restrictions (35%) & difficulties in payment of dividends and intra-group loans (34%).

Opportunities and Challenges

ESG Trends

Overall, the ESG landscape in Russia is evolving rapidly, with companies, investors, and government entities all recognising the importance of sustainable and responsible business practices.

Government support for ESG initiatives: the Russian government is taking steps to promote ESG initiatives across various sectors, including energy, transport, and healthcare. This includes introducing regulations to incentivise companies to adopt sustainable practices and providing funding for ESG projects.

Rise of sustainable finance initiatives: Russian financial institutions are launching a range of sustainable finance products, such as green bonds and ESG-linked loans, to meet the growing demand for ESG investment options. These initiatives are aimed at financing projects that have a positive impact on the environment and society.

According to the AEB Annual Business Climate Survey, More than half of survey members (51%) responded that a sustainable development strategy was developed and approved in their company. Also 10% of companies are planning to develop a sustainable development strategy in the near future.

Supply Chain Redistribution/Resilience

The global pandemic has led to disruptions in supply chains worldwide, including in Russia, as companies struggle to adapt to changing market conditions and restrictions on movement and trade.

After 2022, Russia has increasingly turned its focus towards the East in the field of logistics as part of its efforts to diversify trade routes and reduce dependence on Western markets. This shift has been driven by the country's desire to strengthen economic ties with Asian countries, particularly China.

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UKRAINE

FUTURE (ECONOMIC) OUTLOOK

In 2024, despite the challenges posed by ongoing conflict, Ukraine's economy continues to show resilience and growth. The GDP is forecasted to increase between 3% and 5%. Inflation is anticipated to rise to around 10% by the end of the year, largely due to external factors such as disruptions in supply chains and infrastructure damage. However, this inflation rate remains manageable, due to the proactive measures taken by the National Bank of Ukraine (NBU). One of the notable positive developments is the NBU's recent decisions to liberalise currency restrictions.

External financing remains a critical aspect of Ukraine's economic stability. In 2024, Ukraine is expected to need substantial international financial assistance, estimated at around $28-30 billion, to balance its external accounts and maintain economic stability. The sustainability and volume of this support are pivotal in shaping the macroeconomic landscape.

BUSINESS/ INVESTMENT ENVIRONMENT

53% of the surveyed EBA companies predict positive dynamics of their business development in 2025. 33% of directors expect to keep business indicators at the level of the previous year in 2025, and 14% predict negative dynamics. The financial forecast for 2025 in UAH is almost identical to those of the previous period. Most CEOs, 72%, expect revenue growth in UAH, while only 15% anticipate a decline. Meanwhile, 46% expect revenue growth in volumes, and 43% in USD. A revenue decline in volumes is forecasted by 21%, and 27% expect a decrease in USD.

In 2025, 46% plan to increase the number of employees, and 88% plan to raise salaries. The key priorities for the government of Ukraine in 2025, according to businesses, are combating corruption, judicial reform and the establishment of the rule of law, ensuring macroeconomic stability, as well as implementing tax and customs reforms.

Besides, 70% of surveyed companies plan to invest in Ukraine despite the war.

POLITICAL AND ECONOMIC CHALLENGES

The Russian aggression in 2024 has profound political consequences for Ukraine, including strengthened national unity, increased focus on security and defence, and significant international support and integration efforts. These impacts shape both domestic policies and Ukraine's position in the global political arena.

The unpredictability of the military conflict continues to pose substantial uncertainty and has profound consequences for Ukraine's economy and business environment. The key business consequences are the following: energy infrastructure damage, workforce shortages, logistical challenges due to blockades and damage to transportation infrastructure. Also, the ongoing conflict has dampened investor confidence, leading to lower levels of private investment. The anticipated inflow of investment in 2024 is modest, further constraining economic growth and recovery efforts.

OTHER REGULATORY AND LEGAL CHALLENGES

Further damage to energy infrastructure has led to electricity cut-offs, severely affecting both industrial and residential sectors.
Specifically, 87% of the surveyed EBA companies report that power supply disruptions have impacted their operations. As a result of outages, companies were forced to halt operations, increase production costs, and adjust work schedules.

Additionally, the mobilisation of qualified labour into the army has created workforce shortages, impacting productivity and economic growth. Currently, 86% of the surveyed EBA members have employees in the ranks of the Armed Forces. About half of companies report that among them there are specialists critical to the operation of the enterprise, including managers, engineers, IT specialists, drivers, electricians, mechanics, production line operators.

INTEGRATION WITH EU POLICIES

The Ukrainian government is actively pursuing reforms to align with EU standards and regulations, aiming for future EU membership. This process involves significant political and economic reforms, supported by international partners.

The alignment of Ukraine with EU policies in trade and commerce brings substantial benefits, including enhanced market access, increased investment, regulatory improvements, and economic growth. The majority of the EBA companies, namely 71%, positively assess the impact of Ukraine’s European integration movement on their business.

However, these benefits come with challenges such as regulatory compliance costs, increased competition, and economic and political uncertainties.

Addressing these challenges requires sustained efforts from both the Ukrainian government and businesses to fully realise the potential advantages of EU integration.

EU-UKRAINE Economic Relations

Investment and Trade

As of 2024, the Free Trade Agreement (FTA) between Ukraine and the EU continues to play a crucial role in fostering economic cooperation and integration between the two entities. Signed in 2014 and fully implemented in 2016, the Ukraine-EU FTA aims to deepen trade relations, enhance market access, and promote regulatory alignment between Ukraine and the EU member states.

In 2024, the FTA remains in effect, providing Ukrainian exporters with preferential access to the vast European market. The agreement encompasses a wide range of sectors, including agriculture, manufacturing, services, and intellectual property, enabling Ukrainian businesses to benefit from reduced tariffs and non-tariff barriers when trading with EU countries.

The number of the EBA companies planning new large-scale investment projects in 2025 has dropped to 16%. By comparison, 26% of companies planned large projects in 2024 and 19% in 2023. However, the average cost of planned projects has increased, averaging $9 million in 2025 ($8 million in 2024 and $3 million in 2023).

EUROPEAN BUSINESS PRESENCE

Statistics/trends in the presence of European companies since the pandemic

Since the pandemic, the presence of European companies in Ukraine has shown resilience and growth, particularly in the defense sector. Here are some key trends and the current status:

Defense Industry Collaboration

European defense companies have significantly increased their involvement in Ukraine. German arms manufacturer Rheinmetall has partnered with Ukroboronprom (renamed Ukrainian Defense Industry JSC) to establish joint ventures for the maintenance and production of military equipment. This includes the production of 155mm artillery ammunition and armored vehicle maintenance.

Investment and Joint Ventures

European companies are forming joint ventures with Ukrainian firms, not only in defense but also in various industrial sectors. The establishment of the Defense Industries Alliance has seen participation from 38 companies across 19 countries, indicating a strong commitment to joint production and technological cooperation.

Economic Integration

Ukraine's efforts to join the European Union are fostering deeper economic ties with European companies. The EU supports Ukraine's economic reforms and anti-corruption measures, which in turn boosts investor confidence and encourages more European businesses to enter the Ukrainian market.

Overall, despite the challenges posed by the war and economic instability, European companies are increasingly viewing Ukraine as a strategic partner. This growing collaboration is crucial for Ukraine's economic recovery and defense capabilities.

Since 2022 European Business Association attracted more than 200 new members and today, the total number of companies that are members is 924. Half of this companies represent foreign businesses that operate in Ukraine today.

As of today, the European business community in Ukraine is experiencing both growth and contraction in different sectors.

Growth in IT and Tech: European companies are increasingly investing in Ukraine's tech sector due to its skilled workforce and cost advantages.

Agriculture: European agribusinesses are expanding operations, leveraging Ukraine's fertile land.

Renewable Energy: There's a rise in European investments in wind and solar energy projects.

Contraction in Manufacturing: Some European manufacturers have reduced their presence due to logistical challenges and safety concerns.

Retail: European retail chains have scaled back operations in areas heavily affected by the conflict.

Factors Influencing Market Entry

Political Stability

Current Status: Ongoing war with Russia creates significant instability. Government efforts are focused on defense and recovery.

Economic Environment

Current Status: Ukraine's economy is under strain due to war, but there is significant international financial aid and reconstruction plans in place. Inflation remains high.

Regulatory Framework

Current Status: Reforms are being made to attract foreign investment, but bureaucracy and corruption can still pose challenges. Efforts are ongoing to streamline business regulations.

Market Potential

Current Status: Despite the challenges, Ukraine has a large, educated workforce and a growing tech sector. Reconstruction efforts may open new market opportunities.

Infrastructure

Current Status: War has damaged infrastructure, but international aid is helping to rebuild critical infrastructure, including transportation and utilities.

Security Situation

Current Status: Security risks remain high, especially in conflict zones. Businesses must consider the safety of operations and personnel.

OPPORTUNITIES AND CHALLENGES

ESG Trends

The ESG landscape and adaptation to local regulations by European businesses. Businesses need to highlight emerging sustainability initiatives and face a higher level of corporate responsibility.

Businesses also need to solve the problems related to deteriorated social conditions (because of wars and humanitarian crisis). Rebuilding Ukraine will require strong focus on governance and on social well-being. There is disrupted waste management, environmental crisis caused by war. However, there is great potential in green economy and green reconstruction.

Supply Chain Redistribution/Resilience

Ukrainian exporters reliant on Polish transit routes for reaching European markets faced severe supply chain disruptions in 2024. Delays in shipments, increased transportation costs, and uncertainty about delivery schedules disrupted production schedules, strained relationships with customers, and eroded competitiveness in international markets.

At the same time, the opening of an export corridor through the Black Sea in 2024 represents a significant milestone for Ukraine, providing new opportunities for economic growth, enhancing its strategic position, and bolstering its resilience in the face of ongoing geopolitical challenges.

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UZBEKISTAN

FUTURE (ECONOMIC) OUTLOOK

Uzbekistan has seen significant economic upturn over past seven years with new economic reforms that have attracted major interest from the global business community. Latest major international financial institutions projections for economic growth remain strong for both 2024 and 2025 with a consensus expectation of 5%+ annual GDP growth. Uzbekistan currently stands in the initial phase of a second phase of reforms, which are more complex and challenging and will focus on privatisation of state assets & development of PPP projects and attracting new investments for infrastructure development. Uzbekistan is currently in the process of negotiating WTO accession which will mark a significant milestone for its economic development. EPCA between Uzbekistan and the EU is expected to be signed in 2024-2025 period and is now in the formal process of preparation for signature.

BUSINESS/ INVESTMENT ENVIRONMENT

Growth Opportunities for European Companies

The government is prioritising investments into industrial and energy infrastructure, privatisation of state assets, with special emphasis on the banking sector and the development of Public-Private Partnerships across all sectors of the economy.

Sectorial opportunities include particularly the fast-pace development of the energy, chemical and mining sectors as well as imports of all kind of manufacturing machinery from the EU for all sectors, from textile to agricultural sector & challenges include the still strong bureaucratisation of the government institutions, overstretched public management resources and lack of consistency or follow up when it comes to the dialogue with international investors and business companies.

POLITICAL AND ECONOMIC CHALLENGES

Political influences on business operations remain strong with the government present and heavily regulating most sectors of the national economy. Lack of competitive environment or strong economic preferences given to local manufacturers or service providers remain a significant barrier for European companies in the country across multiple sectors.

European companies resolve to maintaining high-level working relationships within highest levels of government, national-level political support, visits of State-level delegations in order to advance their business interests using the momentum of periods of heightened interest to business cooperation with particular countries, especially immediately before or after the Head of State visits.

OTHER REGULATORY AND LEGAL CHALLENGES

Some sectors face more challenges than others, as example in the heavily regulated telecom sector, the tax treatment of a European investor is currently not on the same level as state-owned enterprises operating in the same market. Other examples include that registration procedures of generic medicines produced in all counties of the EU are not unified, resulting in more complex & costly procedures for manufacturers based in certain counties of the European Union.

INTEGRATION WITH EU POLICIES

Currently, there is only limited alignment with the EU polities, but the process of modification of national legislative environment is conspicuously developing with mostly positive signs. The Enhanced Cooperation and Partnership Agreement (EPCA) that will be signed between Uzbekistan and the EU in 2024 and 2025 will be a significant milestone for the alignment and integration with the EU policies, whereas Uzbekistan's WTO accession will further enhance this process.

EU-UZBEKISTAN ECONOMIC RELATIONS

Investment and Trade

- GSP+ beneficiary status, effective as of 2021
- EPCA agreement, in preparation for signature
- WTO accession, in progress
- Uzbekistan's textile and agrobusiness sectors are the first and most prominent beneficiaries of the GSP+ preferential status of Uzbekistan granted by the EU.

Uzbekistan is working intensively in developing high-added-value products within the country for export to the EU, gradually switching from a resource exporting economy to a finished product exporter in various sectors.

EUROPEAN BUSINESS PRESENCE

European business presence has significantly increased in the past seven years, particularly when it comes to several sectors, which include mining, petrochemical sector and energy. List of new European investors in major EU-based companies, like Siemens, EDF, Total Energies, Linde & others. The European companies have also significantly increased supply of industrial machinery into the country, particularly the machinery necessary for local manufacturing of higher-added value goods from the raw materials available in Uzbekistan. The number of EU companies joint-ventures in Uzbekistan has also significantly increased. The most competition that the EU companies face in the country comes from China, Russia, Turkey & South Korea, which is evident across all sectors. In terms of dynamics within the EU business presence in Uzbekistan, the most evident is the significant increase in France's business cooperation with Uzbekistan, ranging from the purchase of a substantial fleet of Airbus produces to major investments from major companies in the energy and mining sectors. France has overtaken Germany in the volume of trade with Uzbekistan in 2024, whereas Germany maintained leadership position among the EU countries trade with Uzbekistan previously.

OPPORTUNITIES AND CHALLENGES

ESG Trends

ESG trends are still significantly underdeveloped in Uzbekistan when it comes to most of the sectors, but with global standards of corporate governance and good business practices being implemented in Uzbekistan and with the country's integration into global supply chains, the pressure is growing, particularly large and heavily exporting sectors to start implementation own ESG strategies on corporate level, particularly by large state-owned enterprises. The pressure is further increased by the government's current ambitious privatisation agenda, with many potential investors unwilling to consider investments into state-owned enterprises in any sector which do not have established ESG strategies.

Supply Chain Redistribution/Resilience

The current geopolitical situation has not had significant negative impact on the supply chains within Uzbekistan as compared to the European countries but has added to the Uzbekistan's ability to increase exports to Russia, particularly in consumer electronics & textile sectors. Accelerated economic development over the past years and EU GSP+ beneficiary status granted in 2021 have also played an important role in Uzbekistan's ability to increase its exports in agricultural products, textiles as well as finished and semi-finished products to Europe and beyond – such as copper tubes and aluminum profiles used in automotive and construction industries. Uzbekistan has remained a major exporter of raw materials, such as gold and uranium and is exploring the possibility of close cooperation with the EU and the Unites States for the critical raw materials export development. The overall balanced and significant range of export products from Uzbekistan have also contributed to the relative stability of county's economic development through the pandemic and allowed the country to maintian a positive growth momentum, despite the global supply chain disruptions.

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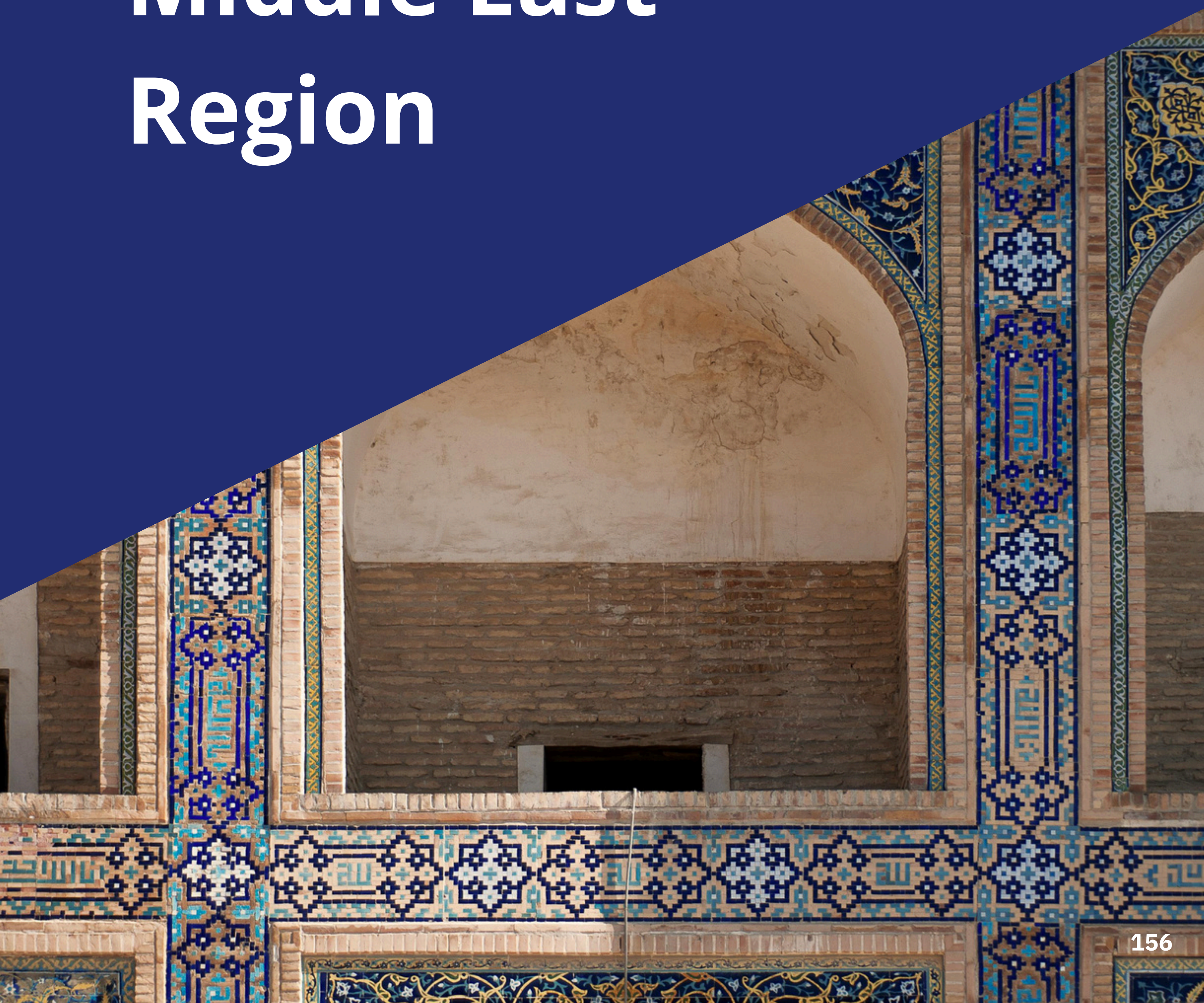
South Asia and Middle East Region



INDIA

INTRODUCTION

FEBI – Federation of European Business in India is the unified, independent, and influential voice of the European Businesses in India, bringing together companies and national bilateral chambers to strengthen the collective EU policy advocacy voice and acting as a credible intermediary between government and businesses.

INDIA'S MACROECONOMIC TRENDS

India, currently the fifth-largest economy in the world, is expected to become the third largest economy by 2030-31.

As of 2024, India's nominal Gross Domestic Product (GDP) was approximately €3.7 Tn and is expected to increase to €4 Tn by 2025. India's GDP is further expected to reach €6.2-6.7 Tn by 2030.

India has emerged as one of the fastest-growing major economies, with a projected growth rate of 6.5% in 2025 government interventions such as increased capital expenditure and low repo rates are major drivers of the economy forward. Key sectors including services and manufacturing, particularly high-value-added industries like electronics and pharmaceuticals, are increasingly integrating into global supply chains.

India is emerging as a global innovation hub, as evidenced by improvements in the Global Innovation Index (GII). As of 2024, India ranked 39th out of 133 economies and first among the 38 lower-middle-income economies, led by increased spending on research and development (R&D).

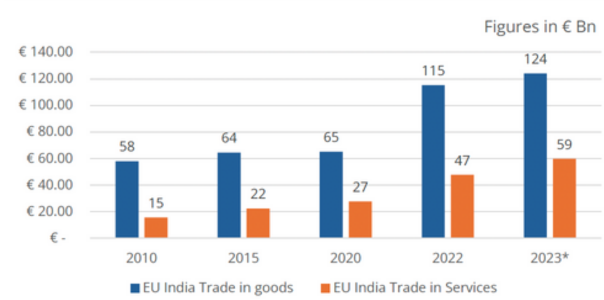
With a strong commitment to development, the Viksit Bharat 2047 Initiative, the Union Budget has allocated €11.4 Bn to the infrastructure sector, marking remarkable progress in the physical, digital, and financial infrastructure.

TRENDS IN EU-INDIA TRADE AND INVESTMENT RELATIONS

The EU is India's largest trading partner, accounting for approximately €124 Bn in goods trade in 2023, which represents 12.2% of India's total trade.

This places the EU ahead of the United States (10.8%) and China (10.5%). India, in turn, is the EU's ninth-largest trading partner, accounting for 2.2% of total EU trade in goods in 2023, behind the United States (16.7%), China (14.6%), and the United Kingdom (10.1%). Between 2013 and 2023, EU-India trade in goods increased by approximately 90%. In 2024, India's exports to the EU increased by 6.08%, with petroleum products, telecom equipment, and electrical machinery accounting for 36% of total exports. However, India's imports from the EU fell by 10% in 2024, totalling $38.02 Bn. Despite this decline, the EU remains a key supplier of industrial machinery for dairy, aircrafts and spacecraft components, telecom instruments, sophisticated technology, and high-value goods, accounting for 22% of India's entire import from the region.

Figure 1: EU-India trade partnership (€ Bn)



Source: Delegation of the European Union to India and Bhutan[9]
**The data for 2023 is from European Commission, Trade and Economic Security*[10]

In services, EU-India bilateral trade has expanded significantly, reaching approximately €59.7 Bn in 2023, up from €30.4 Bn in 2020, driven by transport, telecommunications and IT, and other business services, which include architectural, engineering, and technical services; waste treatment and environmental remediation; agricultural and mining services; operating leasing services; and trade-related services, along with travel. Collectively, these sectors account for over 80% of the EU's service exports to India and more than 90% of its service imports from India.

The EU is the third largest contributor to India's FDI inflows. EU FDI accounted for €112 Bn in cumulative investments between April 2000 and September 2024, which represents 17% of total FDI inflows. Mauritius and Singapore are the leading investors in Indian economy, followed by the EU. Among the EU member states, the Netherlands is the largest investor, contributing 45% of total EU FDI, followed by Germany and France. EU investments in India are diversified across manufacturing, renewable energy, financial services, and information technology, reflecting strong economic engagement in high-growth sectors, with over 6,000 European companies operating in India.

FDI inflows from the EU are concentrated in a few states in India, with Maharashtra (€14.51 Bn), Gujarat (€7.01 Bn), and Karnataka (€6.31 Bn) emerging as the top recipients in 2024. At a sectoral level, computer software and hardware attracted highest FDI (24.6%), followed by financial and business services (12.1%), automotive (11.9%), trade (7.7%), and construction and infrastructure (5.5%). This pattern of FDI highlights the EU's growing interest in India's expanding digital economy, industrial modernisation, and infrastructure development.

As India continues to enhance its business environment and trade policies, EU investors are expected to increase their presence, particularly in technology-driven and sustainable industries. The primary driver of these welfare gains would be the expansion of trade in goods and services, reinforcing the case for a comprehensive trade agreement.

Business & Investment Environment

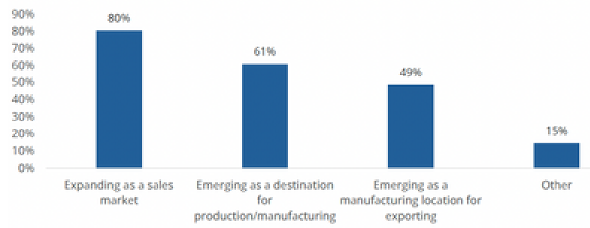
India's Investment Outlook

India's robust macroeconomic outlook is reflected in strengthening confidence among EU businesses, with 95% of respondents anticipating growth in their operations over the next two years. While 22% plan to maintain their current investment levels, 76% of EU firms surveyed aim to increase their investments compared to pre-2025 levels.

EU businesses increasingly see India as a key driver of overall growth, with 80% viewing it as an expanding sales market, 61% recognizing it as an emerging hub for production, and 49% as a location to manufacture for exports.

EU businesses increasingly see India as a key driver of overall growth, with 80% viewing it as an expanding sales market, 61% recognizing it as an emerging hub for production, and 49% as a location to manufacture for exports (Fig 4).

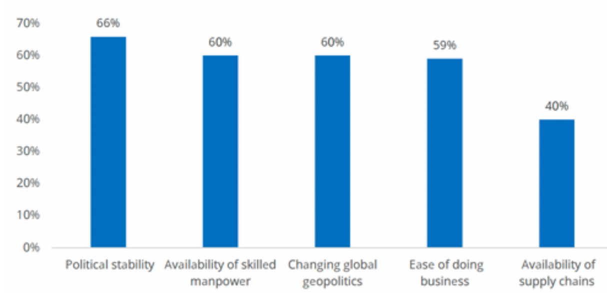
Figure 4: Direction of Future Growth in India



Source: Business Sentiment Survey by FEBI 2025

Investment decisions are driven by India's strong political stability (66%), confidence in its position amid evolving global geopolitics (60%), and the availability of a skilled workforce (60%). Most respondents (59%) find the ease of doing business in India increasingly favourable, reflecting confidence in the country's business environment.

Figure 5: Factors affecting investment decisions of EU businesses in India



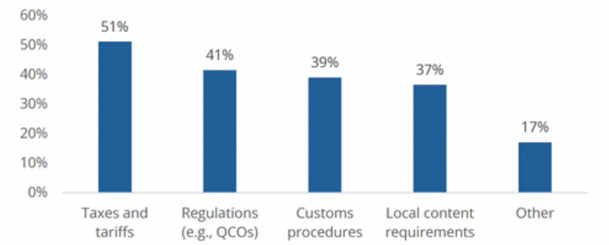
Source: Business Sentiment Survey by FEBI 2025

Ease of Doing Business

83% of respondents rate India's digital and technology ecosystem as excellent or adequate, highlighting the country's advancements in digital infrastructure, e-governance, and techdriven services, and 69% express confidence in the availability of skilled labor, recognising India's strong talent pool, particularly in engineering, IT, and manufacturing. However, India's supplychain infrastructure and taxation policies remain 2 challenging areas for EU Businesses in India. More than 60% of respondents expressed the need for improvements in the supply chain and around 75% for taxation.

Even amidst favorable investment plans, EU businesses in India encounter multiple challenges, with taxes and tariffs being the most significant, affecting 51% of respondents. Quality Control Orders (QCOs), complex customs procedures, and local content requirements are among other barriers faced by businesses.

Figure 7: Barriers to trade that have impacted operations

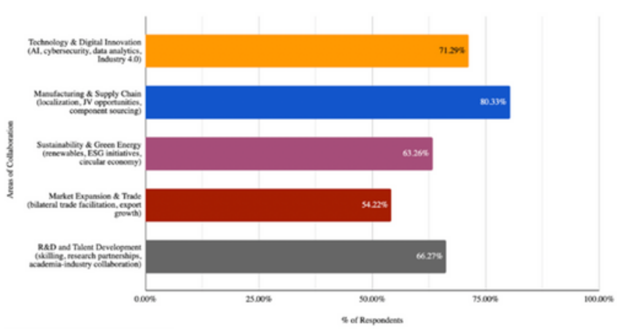


Source: Business Sentiment Survey by FEBI 2025

EU-India Collaboration

80% of the EU Businesses see collaboration opportunities between EU and India in manufacturing and supply chain. Other significant promising areas include Technology, Sustainability and Research.

Fig. 8: Key areas of collaboration



Source: FEBI Business Sentiment Survey

The EU-India FTA is expected to create a favorable business environment, ensuring a level playing field for EU companies in India, with 92% of respondents anticipating a positive impact.

Among them, 72% plan to increase their investment in India within the next two years, demonstrating strong confidence in the agreement's success.

Proposed Inclusions for EU-India FTA

1. Tariff & Non-Tariff Barrier Reductions
   - Eliminate or significantly reduce customs duties on goods (e.g., textiles, automotive, sustainable products).
   - Streamline or remove Quality Control Orders (QCOs), BIS certifications, and other nontariff barriers.
2. Regulatory Harmonisation & Standards
   - Mutual recognition of standards and certifications, with alignment to international norms (e.g., UN regulations in automotive).
   - Simplify labelling, testing, and import procedures, ensuring consistency and predictability for EU businesses.
3. Investment Protection & Fair Dispute Resolution
   - Establish a robust Investment Protection Agreement (IPA) with appropriate dispute mechanisms.
   - Provide legal certainty, protection against expropriation, and enforceable rulings for EU investors.
4. Digital Trade & Data Flows
   - Facilitate cross-border digital transactions without data localisation constraints.
   - Ensure consumer protection, cybersecurity, and interoperability of digital standards.
5. Sustainability & Labour Provisions
   - Encourage responsible business conduct, sustainable production incentives, and cooperative approaches to ESG objectives.

Call for Action

To deepen EU-India economic ties, both partners must address key areas requiring bilateral cooperation. Strengthening investment protection, intellectual property rights, trade facilitation, and public procurement will create a more stable, transparent, and competitive business environment. Targeted policy actions in these areas will enhance investor confidence, foster innovation, and unlock new trade and investment opportunities.

- Investment protection demands consideration to promote a stable and safe investment climate, and establish an efficient dispute resolution process.
- Strengthening intellectual property rights and enforcement measures will protect innovation and encourage R&D.
- Trade facilitation by working towards harmonising trade regulations and standards to ensure seamless movement of goods and services.
- Public procurement is a key area with significant potential for growth. It provides valuable opportunities for businesses and hence enhance competition and strengthen economic cooperation.

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Report Reference

- Business Sentiment Survey by FEBI 2025

NEPAL

FUTURE (ECONOMIC) OUTLOOK

Besides political and economic uncertainty Nepal's economy saw improved growth in the first quarter of FY25 compared to FY24, supported by the services sector, helping its economic growth rebound from a low of 1.9 percent in FY23 to a 4.3 percent in FY24 with a forecasted growth of 4.9%in FY25. This positive scenario has resulted by Export of IT Services and Remittance flow leading the way, fueled by a significant rise in tourist arrivals. Financial and insurance activities also expanded, although there was a contraction in wholesale and retail trade. The industrial sector though stagnant during the periodwith not much contribution to growth , however supported by higher hydroelectric production. In agriculture, there was an increase in paddy production, aided by improved seed availability and favorable weather conditions.

It has been seen that private consumption led to the growth on the domestic demand side , private consumption accounting for 80%of GDP grew by 1%in FY24 up from a 0.7% in FY23, supported by a substantial increase in remittance inflows. The external position also strengthened, as the current account balance recorded a surplus, fueled by rising remittances and a shrinking trade deficit. Official remittance inflows reached an eight-year peak in the first quarter of 2025, driven by increased outmigration and currency depreciation.

Nepal also experienced a notable improvement in its fiscal deficit, with the half-year deficit shrinking to 0.4 percent of GDP in the first quarter of 2024 (from 1.4 percent in the same period last year), primarily attributed to reduced spending.

Recurrent and capital expenditures were reduced. The Fiscal Deficit is projected to remain stable at 2.5% of GDP in FY 25 while lower revenues (including Grants)are expected ,which is anticipated to be offset by reduced expenditures. However the deficit is projected to rise to 2.9 % by FY 26 driven by higher interest payments and capital spending.

Labor force participation: Nepal has a young and growing population with a labor force of around 16 million people. However, the labor force participation rate is low at just 74% for men and 42% for women, according to the international Labor Organization (ILO).

BUSINESS/INVESTMENT ENVIRONMENT

US Tariff impact

Nepal is taken as a favored nation by imposing 10% import duty by USA.

Duties on the similar products which Nepal exports to USA , attracts higher duty from neighboring countries and other Asians Countries . Nepal is in comfortable position at the moment with no immediate impacts.

Current bilateral negotiations being progressed with different Countries like China and India will make it more clearer.

Digital Economy and Innovation

As of January 2025, Nepal had 16.5 million internet users, representing a 56% internet penetration rate. The country also had 14.3 million social media users equating to 48% of total population. These figures indicate a growing digital landscape, presenting opportunities for e-commerce, digital services and fintech innovations.

Business registration

The government of Nepal has made it easier to register a business in recent years, with the time required to register a business falling from 22 days in 2017 to just 5 days in 2024, according to the World Bank. Recently, the government allowed online registration and approval of FDI investment avoiding physical presence. A new announcement is from Government to set up Branches of IT Companies out of Nepal is a way forward in gradual opening of Capital accounts.

Overall, while there have been some positive developments in the business climate in Nepal, there is still much work to be done to address challenges such as bureaucratic hustles, low FDI inflows, and limited labor force participation. However, with continued investment in infrastructure, improvements in the regulatory environment, and a growing focus on sustainable development, there are opportunities for businesses to thrive in Nepal.

POLITICAL AND ECONOMIC CHALLENGES

Nepal faces several political and economic challenges as it navigates its transition toward a federal and secular republic. Here are some key points:

Federal Structure Transition

Nepal has shifted to a federal structure, which presents both opportunities and challenges. The need to clarify the functions and accountabilities of federal, state, and local governments is crucial. Ensuring effective service delivery and maintaining infrastructure development are also priorities.

Private Sector Environment

Creating a conducive environment for the private sector is essential. This involves promoting investment, reducing bureaucracy, and fostering entrepreneurship. A thriving private sector can drive economic growth and job creation.

Governance Weaknesses

Addressing governance weaknesses is critical. As Nepal adapts to federalism, ensuring transparency, accountability, and efficient public administration becomes more complex.

Despite these hurdles, there is newfound optimism for greater political stability, inclusion, and sustainable growth in Nepal. The country's economic growth is projected to rebound in 2024-25 to 6%, with measures like easing monetary policy and productive use of private sector credit. However, addressing these challenges will require concerted efforts from policymakers, businesses, and citizens.

The Government has moved forward with a study on Policy reforms need and the report is submitted to the Prime Minister. It is hoped that in the current year Annual fiscal budget many of these suggested reforms will be implemented.

INTEGRATION WITH EU POLICIES

The EU and Nepal are committed to promoting sustainable trade practices. The European Green Deal and Nepal's sustainability initiatives provide a framework for cooperation in green technologies and sustainable practices.

Integration with European Union (EU) policies has been a significant aspect of Nepal's developmental strategy, aimed at fostering sustainable growth and good governance. The EU's support to Nepal focuses on areas such as human rights, education, and rural development. By aligning with EU policies, Nepal benefits from various development programs, technical assistance, and financial aid, which help improve institutional capacities and promote socio-economic development. This partnership also encourages Nepal to adopt international standards in trade, environment, and social policies, thereby enhancing its global integration and resilience

Investment and Trade

Nepal is one of the beneficiaries of the preferential trading regime. The Nepali traders and the Government can have tariff-free access to the European market for their exports. Although many other Least Development Countries (LDC) have succeeded in reaping substantial benefits from this provision, Nepal is yet to make full use of the facility, due to its narrow export base and competence in international quality standards.

In 2024, the EU as a single market accounted for 9.4% of Nepalese exports (EUR 88 M) and 2.7 % of the country's imports originated from the EU (EUR 210 M1).

The EU imports textiles and clothing from Nepal and exports machinery and transport equipment, chemicals, agricultural products, and other manufactures. On the EU's side, Nepal ranks the 153rd partner country in overall trade value.

The European Union has committed in supporting the government of Nepal to graduate from LDC status to middle-income country by 2026 and helping to obtain GSP plus preferential treatment status further up to 2029.

EU supported Nepal with EU-Nepal Trade and Investment Program (TIP) 2020-2024 with €8 million. The TIP contributed to sectors that are expected to have trade losses upon LDC graduation to achieve sustainable and inclusive economic growth and poverty reduction by increased trade through competitive value-chains and improve the investment climate for attracting Foreign Direct Investment. The program also helps Nepal to formulate policy measures to overcome the impact of COVID-19, and prepare Nepal to avail GSP+ preferences, which would significantly limit losses in the EU markets arising from LDC graduation. TH TIP program ended successfully in October 2024.

Nepal Could benefit from EU'S Global Gateway, a major infrastructure and development support initiative aimed at strengthening global connectivity, digital transformation. Skill development, and clean sustainable energy.

Skill Based Migration and Remittance Sustainability

The EEC-Nepal is an organisation that brings together diverse skills, experiences, culture, and perspectives. It supports social activities in Nepal and aims to promote business relations. EEC-Nepal highlights investment opportunities, provides information on key sectors, and facilitates matchmaking between EU investors and Nepali businesses.

Startup Ecosystem and Youth Entrepreneurship

Nepal's growing startup ecosystem, particularly in ICT, E- Commerce Agriculture and Tourism sector, is contributing to innovation and job creation to young graduates. Government –backed programs such as startup seed funds from state owned financial institutions and set up of incubation centers are supporting entrepreneurship among youth.

Green Energy Transition and Climate Resilience

Nepal is making strides in climate resilience an sustainable energy. Hydropower and Solar energy production has increased significantly and Nepal has begun exporting surplus energy to India and Bangladesh wits vision of becoming regional green energy hub.

Nepal aims to achieve a 28 GW generation capacity within the next 10-12 years. Nepal currently have an agreement with India to export 10,000 MW and could be a big market for EU investment by Equity or Technology transfer.

Attracting European Business Presence

Nepal has been attracting interest from European business and there are several avenues for possible European Investments as has been presented in the last two EU Nepal Business Forums in the sectors like ICT, Energy, High end Tourism, Agro Processing, and Minerals and Startups. Here are some relevant points from the Business Forums:

EU-Nepal Business Forum

The EU-Nepal Business Forum is a platform that brings together Nepali and European businesses to strengthen trade and investment ties. It aims to facilitate joint investments and projects, supporting Nepal's vision of sustainable economic growth led by the private sector. The forum covers several topics, including Nepal's trade and investment climate, supportive policies, infrastructure for investment-driven growth, and market access for Nepali products in the EU. It also organizes business networking events, trade fairs, and matchmaking meetings between potential EU investors and Nepali businesses. Two EU Nepal Business Forum were organized in 2023 and 2024 consecutively. Next Business Forum is announced to happen in Mid- November 2025.

EU's Commitment

The European Union Delegation in Nepal continues to promote European investment in Nepal as part of the year-long celebration of 50 years of diplomatic relations between the EU and Nepal.

ESG (ENVIRONMENTAL, SOCIAL, AND GOVERNANCE) TRENDS

Parliament, after elections outcome in June 24, have continued with the European Commission's ambitious ESG regulatory plan and EU'S Green Deal.

Nepal is in the initial stages of ESG reporting. Compared to the rest of the world, Nepal has lower carbon emissions, less pollution, and a lesser impact of business activities on the environment. Nepal's ESG reporting is nascent, but it is an area of growing interest. Companies are recognising the significance of ESG regulations in driving sustainability progress Europe is witnessing key market trends, legal developments, and anticipated regulatory changes related to ESG. These include changes to the Sustainable Finance Disclosure Regulation (SFDR), the EU Green Bond Standard, and new rules for ESG rating providers. Both the EU and Nepal are navigating ESG challenges and opportunities, with varying levels of progress. While the EU grapples with regulatory dynamics, Nepal is gradually embracing ESG reporting and sustainable practices.

European Economic Chamber Nepal (EEC-Nepal)

The EEC-Nepal is an organization that brings together diverse skills, experiences, culture, and perspectives.

It supports social activities in Nepal and aims to promote business relations. EEC-Nepal highlights investment opportunities, provides information on key sectors, and facilitates matchmaking between EU investors and Nepali businesses.

The members also participate in trade fairs to promote products, arts, crafts, food, and culture between EU member states and Nepal.

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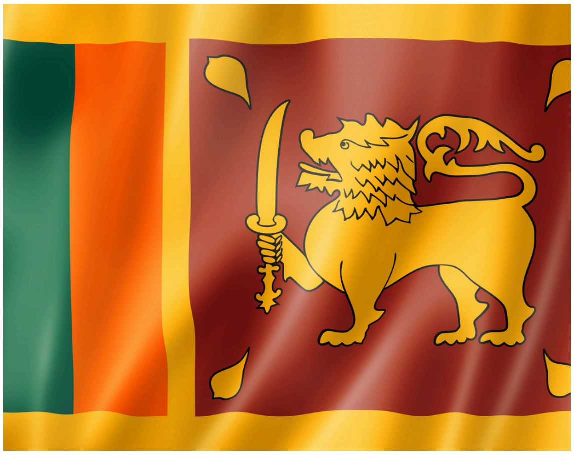
SRI LANKA



INTRODUCTION

Sri Lanka has undergone significant political and economic upheaval since defaulting on its debts two years ago, driven by a combination of the COVID-19 pandemic, excessive borrowing, and policy missteps. The economic crisis which Sri Lanka has been facing was characterised by a shortage of foreign exchange reserves which led to an acute balance of payments issues and unsustainable Government debt repayments.

This situation was further compounded by bank limitations, reduction of national credit limits, substantial levels of inflation and shortages of essential goods including medical supplies and gasoline, which saw trade and commercial activity contract considerably.

Several contributing factors led to the crisis, including but not limited to overgenerous tax cuts, inordinate increases in money supply, a sudden nationwide policy shift to organic farming without proper planning, the lack of tourism revenue stemming from the 2019 Easter bombings, and the impact of the COVID-19 pandemic and associated lockdowns.

In Sri Lanka, the money supply for the year 2020, widened by about 23.4% in comparison with the previous year. This resulted from the Central Bank providing financial assistance to the government to cover pressing costs during the COVID-19 epidemic. To give this support, the Central Bank conducted special acquisitions and bought government securities on the primary market.

As a result of continuous monetary financing, the Central Bank's accumulated significant portions of government securities. This led to high rates of inflation that were common during the last few years. Since then, however, the Central Bank has stopped printing money to finance government budget deficits. Policy adjustments under the IMF-EFF program enabled the government to increase its revenues and cut its expenditures. As such, the net holding of the Central Bank in government securities has continued to decline.

Sri Lanka's money supply had expanded by 8.9% in 2022. Compared to LKR 1,241 billion in 2021, the change in money supply (M2b) rose to LKR 1,649 billion in 2022.

The soaring inflation, depreciation of the currency, and fuel shortages, led to widespread protests and the eventual ousting of President Gotabaya Rajapaksa.

However, since then, the Sri Lankan economy has managed to stabilise to some extent, with inflation under control, an IMF bailout in place, and agreements reached with creditors on debt restructuring. Despite these improvements, discontent remains high among many Sri Lankans.

Beyond economic hardships and austerity measures, the population is frustrated with entrenched corruption and cronyism within the political elite. This dissatisfaction set the stage for the victory of Anura Kumara Dissanayake, leader of the Janatha Vimukthi Peramuna (JVP), in the September 2024 presidential election. Dissanayake's victory, a clear rejection of the political establishment, marked one of the most significant electoral upsets in Sri Lanka’s history, defeating traditional figures like Sajith Premadasa and incumbent Ranil Wickremesinghe. Subsequently President Dissanayake’s NPP party obtained more than a 2/3rd majority in the Parliamentary election held on 14.11.2024.

POLITICAL ENVIRONMENT

The political situation in Sri Lanka has been tense in recent years, ever since the onset of the economic crisis in 2022. Widespread mass protests against the Government at the time led to regime change, culminating with the resignation of the President.

The Government of Sri Lanka announced for the first time in April 2022 that it could no longer pay back creditors. The nation’s foreign currency reserves stood at USD 1.9

billion, and it owed USD 51 billion.

Like any other nation, Sri Lanka's foreign policy undergoes considerable changes during intervals of regime change. This was especially so with the Wickremesinghe regime which took over during the peak of the economic crisis in July 2022. Since its ascendancy, the administration implemented several significant financial reforms, including increasing taxes and pursuing privatisation of loss-incurring state-owned enterprises. Among the loss-making entities are institutions like the State Engineering Corporation, National Machinery and Equipment Corporation, State Development and Construction Corporation, Government Printing Department, the Ceylon Electricity Board, North Sea Limited, Ceylon Petroleum Corporation and the Sri Lanka Fisheries Corporation.

Following lengthy negotiations, an Extended Fund Facility Agreement, valued at approximately $3 billion over a four-year period, was agreed upon by the IMF in March 2023 to support Sri Lanka in its quest to prop up its finances.

Dissanayake faces significant challenges in delivering on his promises of change. His pledge to renegotiate parts of the IMF bailout is fraught with risk, as it could delay crucial financial support.

On the international front, Dissanayake must navigate a delicate balance between China and India. The JVP has historical ties with China, yet Dissanayake has taken steps to engage with both powers, meeting Indian and Chinese officials. His stance on key projects, such as cancelling an Indian-backed wind power project, may strain relations with India. Maintaining good ties with both Asian giants will be critical, especially given their competing interests in the region.

Dissanayake, a self-proclaimed pragmatist, brings a unique background to the presidency. He represents a new type of leader for Sri Lanka, but his lack of governing experience may prove a hindrance. As he works to prove that he can govern effectively, pressure from both the public and his party's more radical factions will test his ability to deliver on his bold promises of reform and anti-corruption efforts.

BUSINESS NAVIGATION

According to the World Bank's Ease of Doing Business Index compiled in 2020, establishing a business in Sri Lanka is relatively easy and fast, particularly in comparison with other lower middle-income markets. However, scaling has been problematic since acquisition of land is not possible and qualified labour is in short supply, and the talent pool is minuscule. Furthermore, during the peak of the economic crisis, there was a marked brain drain from the country with a substantial number of citizens migrating abroad.

Although, starting up a business is relatively simple in Sri Lanka, doing business has proven to be challenging. The Ease of Doing Business Index (2020 being the last year in which the Index was prepared) ranked Sri Lanka 99 out of 190 countries. The factors relevant to this poor ranking remain unchanged – the low ranking was in great part attributable to the politico-economic environment which posed challenges for investors such as inflexible and inefficient legal frameworks, bureaucratic delays, inconsistent tax policies, rigid labour markets, inadequate infrastructure, public sector corruption, and political interference.

Some investors note that while staff retention is generally good in Sri Lanka, a large number of public holidays (a fixed total of 25 every year), a reluctance of employees to work at night, an immobile labour pool and difficulties in recruiting women contributes to low productivity and longer start-up times.

Moreover, according to Transparency International's Corruption Perceptions Index (CPI) compiled in 2023, Sri Lanka scored a 34 on a scale from 0 (highly corrupt) to 100 (very clean). Sri Lanka's score has declined every year since the 2020 Index, in which it scored 38.

Moreover, when ranked by score, Sri Lanka ranked #115 among the 180 countries in the Index, wherein the country ranked #1 is perceived to have the most honest public sector. It can be reasonably deduced from these figures that Sri Lanka's public sector is fairly corrupt, and that it poses a considerable barrier for European businesses in their engagements with Government agencies.

Businesses cite a lack of sufficient labour supply as a major hindrance for operating in Sri Lanka. Qualified workers are in short supply as a result of the education system producing too few engineers, technicians, scientists, and English speakers. To make matters worse, there is an outflow of workers leaving for employment abroad due to the economic crisis, which will only further aggravate labour and skilled worker availability in the country. Business representatives complain that the rigid labour laws, including exceptionally high severance pay regulations, make it difficult to adjust staff size and composition to market conditions. There are also numerous overlapping labour laws that are often difficult for investors to understand.

Furthermore, domestic and international firms also often express concern about inconsistent and erratic regulations relating to taxes, customs processes, and regulatory clearances. Widespread corruption and grave defects in the public procurement and tendering process make it very difficult for foreign businesses to compete adequately for major projects. Corruption is very widespread in all areas of the public sector, including in the sphere of Government procurement.

EU–SRI LANKA RELATIONS

Diplomatic Relations

Diplomatic relations between Sri Lanka and the European Community were officially established in 1962. The Sri Lankan Embassy in Brussels, which was established in 1973, obtained accreditation from the EU. The European Commission opened its Delegation office in Colombo in September 1995 and is also accredited to the Maldives. Until then, EU-Sri Lanka relations were managed from New Delhi.

When the Government of Sri Lanka and the European Commission signed the Commercial Cooperation Agreement back in 1975, it was the first economic and political regulatory agreement between the European Community (now the EU) and Sri Lanka. In terms of the Agreement, the Contracting Parties shall use comparative advantage and mutual benefit principles to further develop business relations. 20 years later, the EU's Comprehensive Cooperation Agreement on Partnership and Development came into force in April 1995, and now governs the relationship with Sri Lanka.

The Cooperation Agreement seeks to enhance and diversify cooperation in the various fields between the EU and Sri Lanka through communication and collaboration. Cooperation is premised on respect for human rights and democratic ideals. Regular meetings between Sri Lanka and the EU take place in the form of a Joint Commission, aiming to facilitate the smooth operation and implementation of the agreement.

EU assistance to Sri Lanka is therefore guided by the particular policies and priorities of Sri Lanka and the strategic interests and values of the European Union. Thus far, the European Union has provided close to one billion Euros or approximately 233.5 billion Rupees to Sri Lanka. These funds have been disbursed through more than a hundred bilateral, regional, and international programs covering several sectors.

Trade and Investment

With 12.4% of Sri Lanka's exports going to the EU in 2023, the EU ranks as the country's second-largest trade partner after China. Textiles and rubber products make up 50.9% of Sri Lanka's overall exports to the EU in 2023, making up the majority of the country's exports to the EU.

The EU's GSP+ program which has been in place since 2017, has improved market access for Sri Lankan exporters and was extended until December 2027.

GSP+ seeks to diversify exports and foster investment while promoting more commerce with the EU in order to bolster Sri Lanka's economic growth.

Under GSP+, trade preferences include the complete elimination of tariffs on 66% of tariff lines, which include a wide range of goods including textiles and fisheries.

It is necessary for Sri Lanka to improve labour standards, human rights, good governance, and sustainable development in order to be eligible for the GSP+ program.

The scheme is specifically provided subject to Sri Lanka's promise to ratify and successfully carry out 27 international treaties and conventions that are relevant to these issues.

ECONOMIC OUTLOOK

Although the economy recovered in the third and fourth quarters with growth rates of 1.6% and 4.5%, respectively, GDP still contracted by 2.3% for the year 2023, following six consecutive quarters of recession.

This was somewhat offset by growth in transportation, lodging, food, and beverage services as a consequence of a comeback in tourism.

The factors driving this decline were declining construction and mining, banking and IT services, and textile manufacturing amid sluggish demand, restricted private credit, and material shortages.

Exports, particularly apparel and tea, tourism, and overseas remittances, are the country's key foreign exchange earners. The country earned a total of US$14.9 billion in export revenue in 2023. Remittances were up 57.5% from January to May 2023, as compared with the same period of 2022. In 2023, product exports reached US$4.7 billion, including US$11.8 billion worth of clothes.

After falling to single-digit levels in July 2023, inflation continued to be benign due to increased supply and currency appreciation. However, headline inflation as determined by the Colombo Consumer Price Index rose to 5.9 percent in February 2024 due to an increase in food costs and the pass-through of gasoline and utility prices.

Between 2022 and the third quarter of 2023, the labour force participation rate decreased (from 49.8 to 48.8 percent), particularly in metropolitan regions. In order to cope with reduced wages and pricing pressures, households have resorted to riskier coping mechanisms such as restricting their diets, increasing their debt, and utilising savings.

Sri Lanka's growth in 2024 is expected to be slow due to reduced consumer purchasing power. Because of lower demand for the major export categories, the balance of payments has been poor. Apparel exports, for example, went down by nearly $1 billion in 2023 compared with the previous year. Revenue from exportation of goods decreased by 9% in 2023 compared to the previous year.

Balance of payments would be less strained, and the reserves would be strengthened due to IMF support. Commencement of repayment of the debt in 2025 would exert additional pressure on the country's reserves.

The Central Bank lowered policy rates by 650 basis points between June and November 2023, capping nearly two years of monetary tightening. This led to a significant decrease in the cost of domestic borrowing for the Government when combined with increases in liquidity. Although growth rates are still negative, since June 2023, private sector credit has been rising on a monthly basis. For the first time since 1977, the current account had a surplus of $409 million in 2023 as imports continued to decline and remittances and tourism both saw significant recoveries. A surplus was also achieved in the first quarter of 2024, amounting to $706 million. This occurred despite significant financial outflows, largely due to continued subdued imports and improvements in foreign reserves.

Continued suspension of external debt service, development partner inflows, significant foreign exchange purchases, and deferred repayments on existing credit lines have all contributed to the accumulation of usable official reserves to approximately two months' worth of imports (US$3.1 billion by end-February 2024, compared to US$500 million in December 2022). In 2023, the Rupee gained 10.8% value in relation to the US Dollar.

ESG LANDSCAPE

While ESG reporting is not yet a mandatory requirement of financial reporting in Sri Lanka, it has been gaining considerable momentum in recent years as there has been a substantial increase in the number of companies that publish their annual reports accompanied by standalone sustainability reports. This fact is exemplified by the efforts taken by some organisations such as the Securities and Exchange Commission of Sri Lanka (SEC), The Colombo Stock Exchange, and the CFA Society Sri Lanka (CFASSL), which signed a Memorandum of Understanding that continues to push the agenda forward. There have been two noteworthy developments in this regard:

1. Under Corporate Governance 9.2.11, the Colombo Stock Exchange amended its listing requirements in July 2021 and made it compulsory that every listed business should have an ESG policy on its website with effect from January 2023 onwards.
2. The Central Bank of Sri Lanka encourages licensed banks to disclose the environmental and social impact of their activities using internationally aligned guidelines and standards, such as the Global Reporting Initiative and the recommendations of the Taskforce on Climate-related Financial Disclosures (Direction no. 5 of 2022, 8.22).

Currently, there are a few distinct ESG standards available through numerous institutions such as the Global Reporting Initiative (GRI); Sustainability Accounting Standards board (SASB), European Sustainability Reporting Standards (ESRS) and International Financial

Reporting Standard (IFRS). The IFRS in particular has gained primacy in this regard. On the 26th of June 2023, the International Sustainability Standards Board (ISSB) announced two pioneering standards, IFRS S1 and IFRS S2. IFRS S2 is firmer when it comes to climate-specific disclosures, whereas IFRS S1 is focused on the more general requirements governing the disclosure of sustainability-related financial information. Nationally, the accounting standards maker, the Institute of Chartered Accountants of Sri Lanka (ICASL), has actively pursued these Sustainability Disclosure Standards in the country's context. After appropriate consideration, ICASL released localised versions of these standards as SLFRS S1 and SLFRS S2, which will be effective from the 1st of January 2025.

GOVERNMENT PRIORITIES AND SECTORAL OPPORTUNITIES

Renewable Energy and Self Sufficiency

By 2050, Sri Lanka aims to become CO2-neutral by using only renewable sources of energy to meet all its energy needs and requirements. This is a goal set by the Government so that it may represent and be a part of the Climate Vulnerable Forum. The country also has targets of providing 70% of its energy through renewables by the year 2030, while simultaneously reducing greenhouse gas emissions by 14.5%. From 2050 onwards, all the nation's requirements for energy are planned to be served by renewables.

Off-grid technologies in particular, are of great interest to the private sector, The economic crisis in 2022 simultaneously resulted in an energy crisis, with frequent power outages that would last up to eighteen hours. Even though the power supply has been stabilised, occasional power outages still occur due to grid overloads and technical issues of the Ceylon Electricity Board (CEB). This is largely due to the rapidly growing energy demand, which is expected to increase at an annual growth rate of 6% up until 2030, and due to the shortage of infrastructure development to meet this demand.

The Asian Development Bank estimates that expenditures of USD 54–56 billion would be required to attain the transition to 100% renewable energy. Overall renewable energy capacity is likely to increase from 2,427 MW as at the end of 2020, to 6,240 MW by the end of 2030 and 9,600 MW at the end of 2040, according to the CEB's Long Term Generation Expansion Plan. The aim is not only to increase the share of renewable energies in the energy mix, but also the quality of operation and maintenance of the systems. These goals will be facilitated by the Renewable Energy Resource Development Plan 2021-2026, as the scope for foreign investment will be significantly broadened. Thus, the Government of Sri Lanka will rely on foreign corporations and experts to help it execute its energy ambitions.

Tourism

Sri Lanka’s tourism industry is witnessing a resurgence. The Central Bank of Sri Lanka (CBSL) reported that earnings from tourism soared to over $1.5 billion in the first half of 2024, marking a 78% increase year-on-year. The $1.5 billion revenue surge in the first six months is important and notable considering that it took Sri Lanka 10 months last year to reach $1.59 billion in tourism earnings from 1.1 million arrivals. The tourism sector’s earnings exceeded $2 billion in 2023. This growth is particularly noteworthy considering the economic turmoil Sri Lanka faced in the past few years.

As per the latest available tourism data as of August 2024, a total of 1,362,668 tourists had visited the country in 2024. Furthermore, Sri Lanka aims to welcome 2.5 million tourists and attract revenue worth $4 billion by the end of this year. Sri Lanka received US$ 282.1 million from 164,609 tourists in August this year up from 136,405 last year. This was, however, down from US$ 328.3 million in July but up from US$ 210.5 million in August 2023. Therefore, the total earnings during the first seven months were US$ 2,167.0 million, which translates to an increase of 66.1% over 2023.

The Government has implemented a visa-free travel policy for 38 countries in an effort to boost up total annual arrivals to 2.5 million tourists and reach US$ 4 billion in revenue by the end of 2024. Tourism and remittances are two very vital components of the Sri Lankan economy in terms of providing substantial support to the external sector for economic stability, and the crisis in 2022 hit both segments, followed by the IMF mandated reforms.

Agriculture

Although agriculture is a major business in the country, it only contributes 7.4% to its gross domestic product; farming contributes 5.2% of that.

Despite its relatively modest contribution to the GDP, the share of employment by the agriculture sector has remained disproportionately large. In fact, nearly 30% of Sri Lanka's labour force is contributing to the agriculture sector, meaning that over a quarter of the country's workforce depends on natural resources for their livelihood. Their dependency on natural resources heightens the risks involved with precarious livelihoods due to plant growth characteristics, market forces, and unpredictable weather patterns that have been especially severe and frequent of late.

As part of its move toward organic farming and providing a diet free of toxins to all citizens, the Sri Lankan Government banned the importation of agrochemicals in April 2021. This abrupt policy change hit the input market very hard, sending costs of agrochemicals on an upward spiral that caused yield drag. After the policy shift, the total cultivated area declined by 26% and resulted in a yield loss of 52%. Though 56% of the farmers prefer chemical fertilisers; only 1% of the farmers opt for totally organic farming, whereas the application of organic manure was at its peak when chemical manure use was prohibited. Thus, an alternative shift to 100 % organic farming is neither preferred nor feasible. The role of well-planned and balanced agricultural systems is paramount, integrating conventional and organic practices in the most ecologically and economically sustainable fertiliser practices. Negative measures cannot work optimally, such as outright prohibitions or license restrictions.

CHALLENGES

Government Budget and Taxation

Major tax cuts imposed by the previous Rajapakse administration led to widening budget deficits, affecting fiscal policies and subsequently the earnings of the Government. These included the increasing of tax-free thresholds that reduced the number of registered taxpayers by 33.5%, reduction of VAT from 15% to 8%, reduction of corporation tax from 28% to 24%, abolition of the PAYE tax, and abolition of the 2% Nation Building tax that had funded infrastructure development. The huge loss of tax revenue led the rating agencies to downgrade the sovereign credit rating, which resulted in the Government being unable to take on more debt.

These tax cuts were meant to stimulate the use of money supply and disposable income in spurring the economy into medium and long-term development. However, tax income as a share of GDP decreased from 8.1% in 2020 to 7.7% in 2021 because of the short-term effects of the Covid-19 pandemic on the nation's revenue and the additional burden the tax reliefs placed on the national purse. This was the reason that there were one million fewer taxpayers between 2020 and 2022. These were tax cuts that an economy with a direct contribution to GDP already at only 2% could not afford.

According to the National Taxpayer Perception Study 2024, nearly half of the Sri Lankan population is of the view that the most urgent requirements of the country are not met through the budget allocations for 2024. In a survey conducted by the United Nations Development Programme (UNDP) and the Ceylon Chamber of Commerce, 49.3% of respondents expressed their opinion that the budget was not adequately reflective of national priorities. Complaints were raised most by the holders of Taxpayer Identification Numbers (TIN) at 67.8%, while only 39.1% of non-TIN holders were dissatisfied. Accordingly, the public aspiration for more investment in human resources and essential services raised health as the main priority sector of public spending followed by defence and education.

The report also cited general dissatisfaction with Government services for being inefficient and poorly performed. Longer waiting lists, inadequate instructions and resorting to coercion or bribery to achieve basic tasks were concerning to the majority of the respondents. Despite all these problems, the majority of respondents believed that the reduction in Government spending remained to be the most feasible option of handling the nation's perennial debt problem.

Sri Lanka's corporate tax regime saw a considerable number of changes in 2024 and has proved very challenging for businesses due to increases in Value Added Tax, a higher rate of corporate income tax, and the introduction of new levies such as the Social Security Contribution Levy (SSCL). While the general corporate income tax rate remained at 30%, some areas of business involving the sale of demerit goods such as gambling, liquor and tobacco industries, are levied at a higher rate of 40%. Furthermore, gains from the realisation of investment assets, including shares, are subject to tax at the rate of 30% as well.

A broader attempt to raise Government revenues was also reflected in the Value Added Tax rate rise from 15% to 18%. In addition, a more active approach toward tax collection is also apparent in the application of advance income tax (AIT) and withholding tax (WHT) to a variety of payments, including rent and service fees. The increased 18% VAT rate has resulted in an increase in operating expenses across industries because businesses have to absorb that extra cost or pass it on to customers, which has already led to a lowering in demand. The SSCL's implementation based on turnover, makes financial planning more complicated, especially for companies with narrow profit margins.

Moreover, new compliance obligations such as mandatory VAT registrations and complex withholding tax legislative provisions have raised administrative burdens, creating new operational challenges. It is difficult to sustain and endure such developments without further increasing costs for tax consulting and compliance management, especially in the case of small and medium scale enterprises (SMEs) which are facing the brunt of the new taxation policies. These changes to taxation reduce profit margins and subtly make investment in company growth unattractive, thus hard to cope within an already harsh economic climate. However, all things considered; these changes are part of an extended effort aimed at stabilising the economy of Sri Lanka following recent financial strains.

Unemployment and Human Capital Flight

Sri Lanka is facing acute challenges in unemployment, coupled with a brain drain that was caused by the economic crisis. The country's unemployment rate rose from 4.30% in the fourth quarter of 2023 to 4.50% in the first quarter of 2024. Migration to other countries grew rapidly in 2022, with some 311,056 persons having left Sri Lanka to seek work abroad, or more than 29,000 persons per month. This wave of migration has been manifested in low-skilled workers, which increased by 33.92% in number, and in the professional-seeking workforce, which increased by 4.6% during the same period.

Due to the prevalent economic instability in Sri Lanka, characterised by high unemployment rates and other unfavourable economic conditions, many people are seeking greener pastures elsewhere. Unemployment, especially among the youth, is a significant catalyst of migration. Given the fact that the youth unemployment rate is estimated to be more than half that of the general unemployment rate, many young individuals would prefer to leave Sri Lanka rather than stay home and remain unemployed. This trend in migration has contributed to a shortage of homegrown labour, especially in construction, health, and higher education sectors, hence leading to challenging work environments for those opting to stay in the country.

Import Restrictions

In March 2022, the Government severely restricted imports to conserve foreign exchange, adding 367 items to its list of restricted non-essential imports. Shortages prompted the Government to relax these restrictions in June and August 2022, before lifting the bans entirely in October 2023. As of October 2023, there are no import suspensions on any categories except vehicles and a few other items where import licensing restrictions apply. This includes agricultural commodities, which are under import license control, and they also require non-GMO certification. Sri Lanka reserves the right to prohibit GM agricultural commodities based on the precautionary principle. According to leading Government officials in the treasury committee, there is a possibility that the restrictions on vehicle imports will be completely lifted towards the latter part of 2024. This is done with the aim of reaching IMF revenue targets, while also reflecting the Government's commitment towards balancing economic objectives with fiscal sustainability.

Disempowerment of Micro, Small and Medium Scale Enterprises (MSMEs)

Micro, Small and Medium Scale Enterprises (MSMEs) are significant to the growth of Sri Lanka because they employ a large proportion of the population. MSMEs represent more than 75% of all enterprises in Sri Lanka, providing 45% of all employment, and generating 52% of the nation's GDP. In 2015, MSMEs accounted for more than 95% of all industrial enterprises, with their employment figures representing 45% of the sector's total workforce. Despite all this, the MSME sector in Sri Lanka predominantly operates in the informal sector; a trend shared with many other developing countries in the global South. Due to this reason, most of them may not be operating at full capacity because of capacity constraints, often linked to restricted access to finance and low adoption rate of technology.

As a result of the low level of financial literacy and lack of access to the formal financial system, most MSMEs in Sri Lanka depend on unregistered money lenders for their finances. These moneylenders are dotted all over the country and are offering their financial services at usurious levels of interest. This jeopardises the long-term survival of their respective debtors. Since these loan services are of an informal nature, it is rather cumbersome to monitor such activities, ultimately constraining the potential impact of any proper regulatory intervention.

Largely based in the informal economy, industry has faced numerous challenges, including the COVID-19 pandemic, the 2022 economic crisis, political instability, limited access to traditional financing, and shifts in the global market. Consequently, company insolvency and drastic job losses have been witnessed during the period of crisis. It was revealed that against such a backdrop, the Department of Census and Statistics discovered that MSMEs were compelled to increase prices, cutting costs, and either completely stopping or significantly reducing output.

EBO Contact Information

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Membership Survey Insights

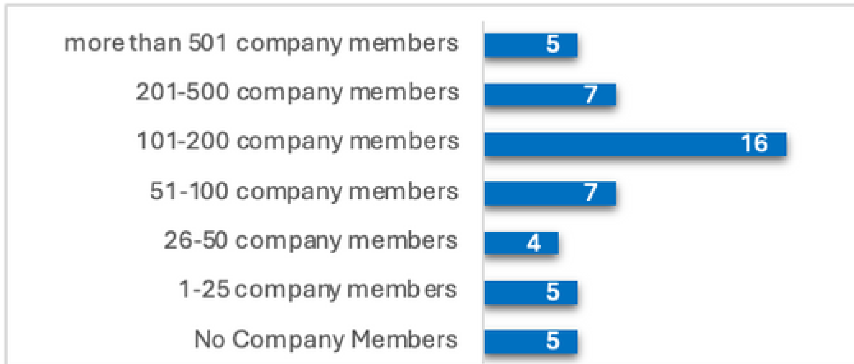
In May 2024, a membership survey was conducted, gathering responses from 49 out of 54 European Business Organisations (EBOs). The survey provided valuable insights into their engagement with sector committees, advocacy priorities, and their overall effectiveness as platforms for advancing European business interests. The findings revealed a diverse range of focus areas, with varying levels of participation across key sectors such as climate and energy, digital transformation, transport, and health. These results highlighted the regional priorities of EBOs, reflecting the influence of initiatives like the EU's Global Gateway and the evolving business landscape.

The survey underscored the critical role of EBOs in engaging with local stakeholders, influencing policy decisions, and driving initiatives aligned with European business interests. Their collaboration with local authorities, EU Delegations, and other key stakeholders emerged as a significant factor in shaping policy and promoting economic growth. The responses also provided a deeper understanding of the strengths and areas for improvement in advocacy efforts, showcasing the diverse approaches and strategies employed across regions. This data serves as a valuable resource for enhancing the collective impact of EBOs and ensuring their sustained relevance in addressing the needs of European businesses worldwide.

THE REACH TO CORPORATE MEMBERS

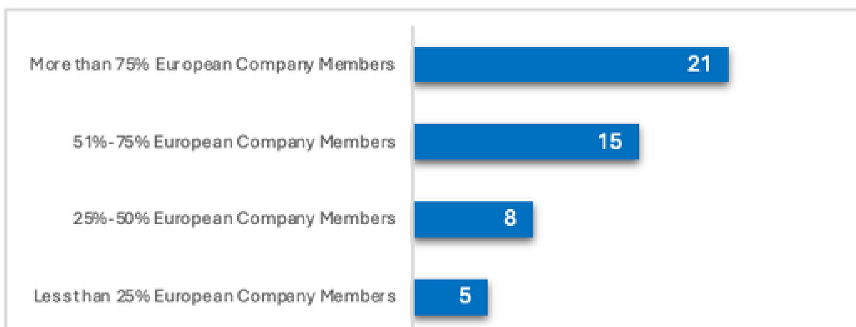
Number of Company Members

The graph demonstrates the diverse range of membership sizes among EBOs, which in turn influences how they operate and serve their members. The largest portion of EBOs (33%) have between 101-200 member companies, indicating that these EBOs have achieved a substantial membership base that may provide a solid foundation for activities and initiatives. 24% of EBOs have over 200 company members, these figures demonstrate the extensive resources and influence these EBOs have and the potential they have to take on larger initiatives and offer more extensive services. EBOs with smaller membership base often focuses on more personalised services, and within niche markets.



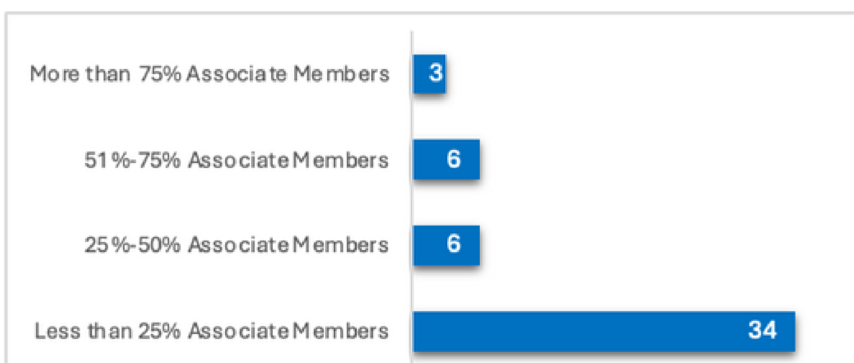
Percentage of European Company Members

43% of the EBOs report more than 75% of their total membership comes from European companies, a further 31% of EBOs have European companies making up more than half of their membership base. This shows the strong focus on European business and interests within these EBOs. 26% of EBOs report that European members constitute 50% or less of their total membership, suggesting these EBOs may have a more global or varied membership base.



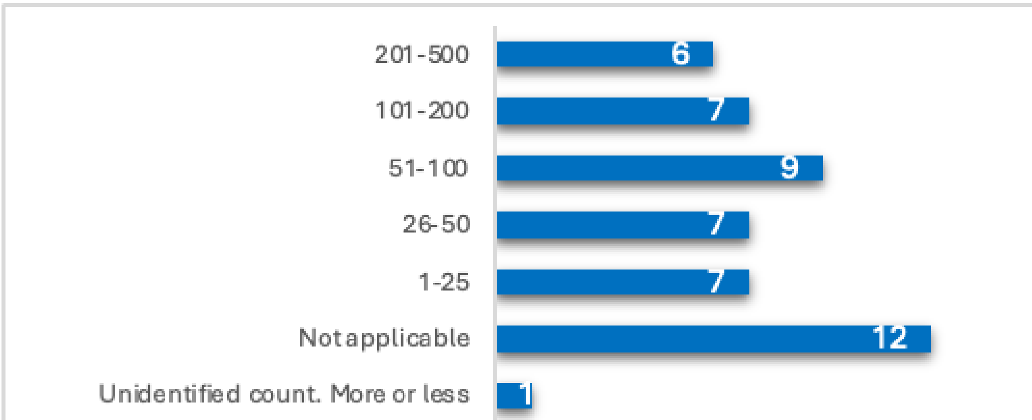
Percentage of Associate Company Members

The associate membership category is intended for non-European companies, individuals or entities that wish to support or engage with the EBO. Strategic inclusion of associate members can provide valuable support, diverse perspectives, expertise and networking opportunities. A diverse membership base enables EBOs to advocate a broad range of interests and priorities, strengthening their advocacy efforts. However, the low percentage of EBOS with high associate membership indicates that EBOs are primarily focused on representing European businesses and are aligned with the mission of the European Business Organisation Worldwide Network (EBOWN).



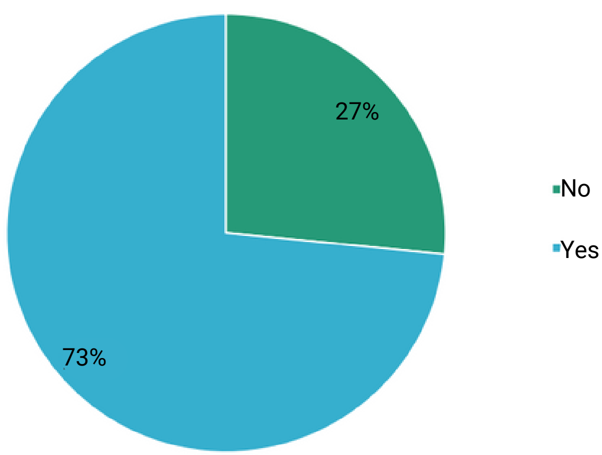
EBOS AS ADVOCACY PLATFORMS

Accumulated Number of Company Members Active on EBO's Advocacy Platforms



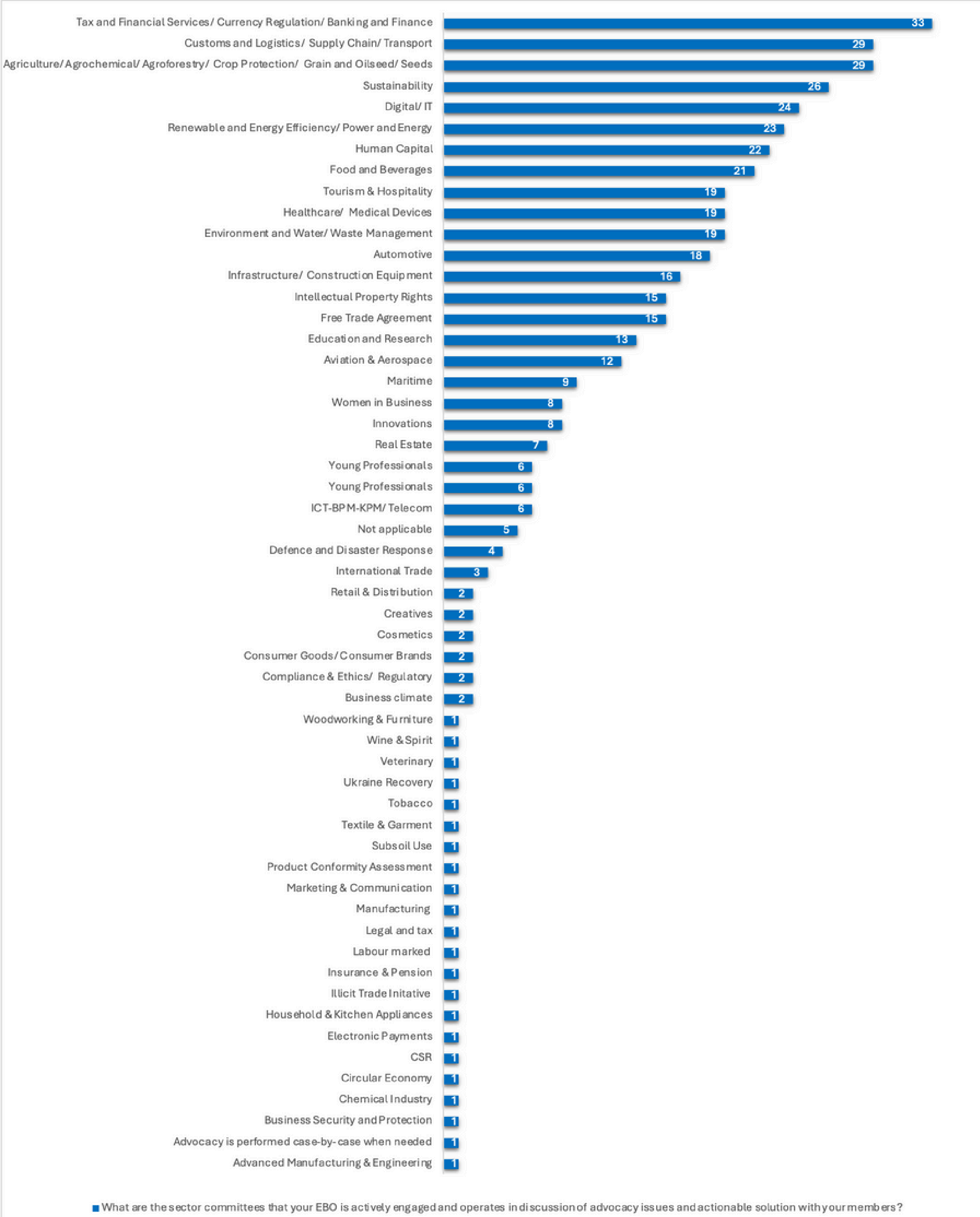
Company member participation in advocacy platforms among EBOs underscores the importance of structured advocacy mechanisms in representing the interests of members effectively. EBOs with established advocacy platforms benefit from increased member engagement, diverse representation, and enhanced advocacy effectiveness. EBOs without advocacy platforms have the opportunity to establish mechanisms that facilitate member engagement, amplify their advocacy efforts, and strengthen their role as advocates for the European business community. By leveraging advocacy platforms effectively, EBOs can drive positive change, shape public policy, promote EU policies, and further the interests of their members on both national and international levels.

Management and Operation of Sector Committees



73% of surveyed EBOs run sector committees as part of their advocacy platforms. Sector committees can provide in-depth expertise and insights into sector-specific issues. The 27% of EBOs that do not operate such committees may rely on alternative advocacy methods or have limited capacity for sector-specific advocacy.

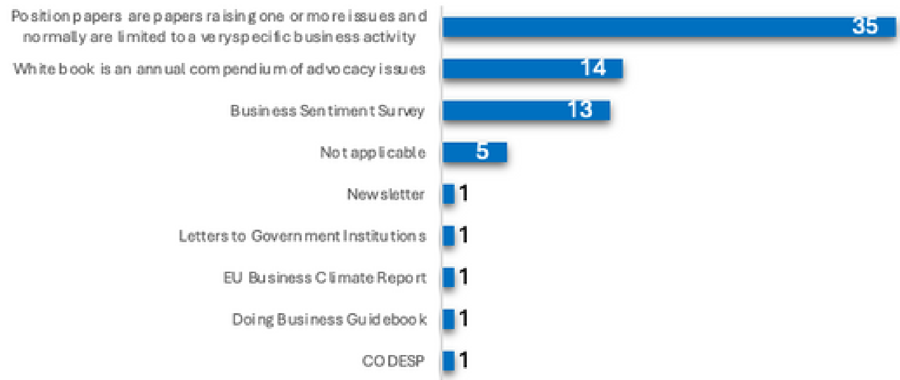
Active Advocacy Committees



EBOs engage actively in a broad array of sectors, underscoring the vital role these platforms play in driving actionable solutions and influencing policy for the benefit of global business communities. The alignment with EU policies ensures that EBOs' advocacy efforts are not only relevant but also well-supported within the larger framework of European economic and regulatory initiatives. The high prioritisation of Sustainability, Renewable and Energy Efficiency indicates a growing global emphasis on environmental responsibility and the direct impact on business operations, corporate reputation, and regulatory pressures from EU Green Deal and sustainability targets.

Advocacy Paper Publications

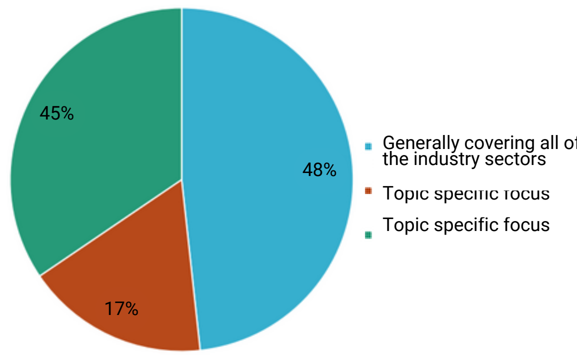
Position papers are the most commonly published advocacy document. Position papers address specific issues within a particular area of business and are used to present a detailed argument or stance. The prevalence of position papers demonstrates that many EBOs prioritise targeted advocacy on specific issues relevant to their members.

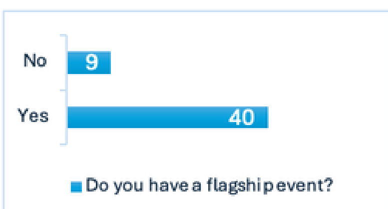


14 EBOs surveyed publish White Books, a more comprehensive document that covers various topics relevant to the business community and provides a more holistic view of the business environment.

White Book Industry Inclusion

A significant portion of EBOs prefers to cover all industry sectors in their White Books, providing a broad and inclusive approach to advocacy. However, a notable number of EBOs also focus on specific industries or topics, allowing for more detailed and targeted advocacy. The choice of focus is often influenced by the local economic situation and prevailing policy priorities, highlighting the importance of context-sensitive advocacy strategies.





EBOs with Flagship Events

Roughly 82% of EBOs surveyed host a flagship event. This overwhelming presence of flagship events suggests their importance and prevalence within the activities of EBOs, highlighting their role as key components of organisational strategies for engagement, networking, and knowledge dissemination. Flagship events can serve as a focal point for raising awareness around key issues, promoting collaboration and enhancing the visibility of the EBO.

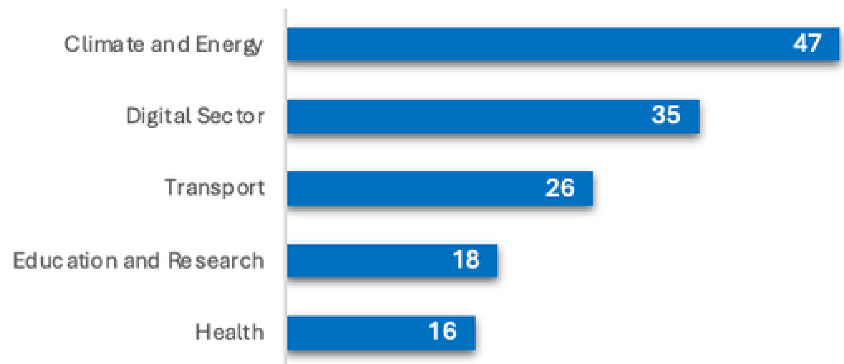
Advocacy Sectors That Flagship Events Focus On

Sustainability is the most common theme of EBO flagship events. This demonstrates the growing awareness and importance of sustainable business practices. EBOs demonstrate a diverse range of advocacy sector focuses during their flagship events, reflecting the multifaceted nature of contemporary business challenges and opportunities.

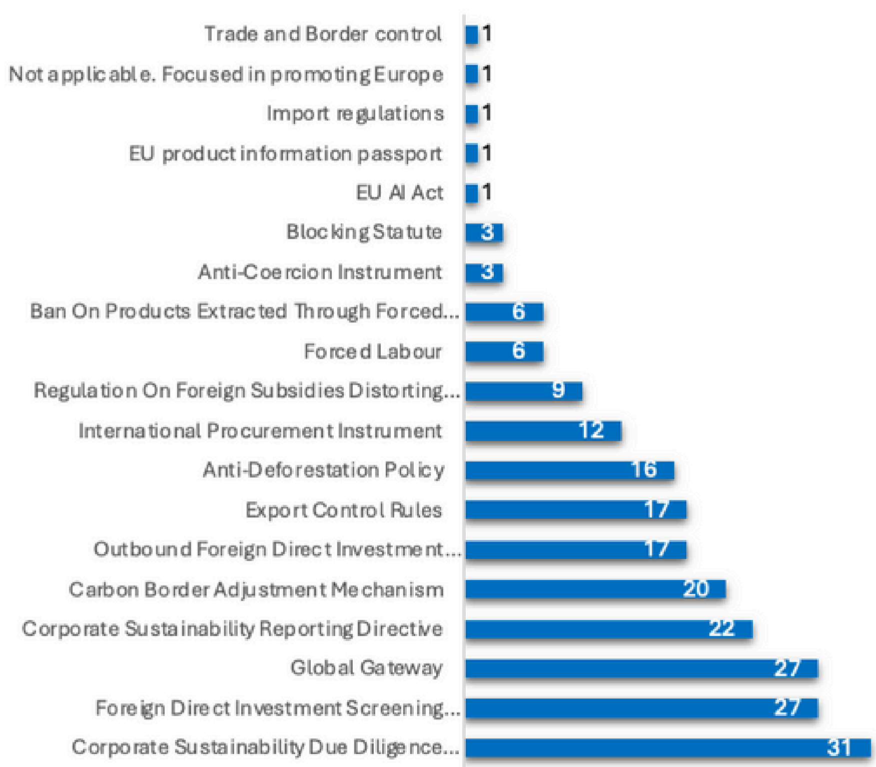
ENGAGEMENT WITH EU STAKEHOLDERS AND PROJECTS

Advocacy Areas of Interest in Global Gateway Sectors

Climate and energy is the most popular advocacy area among EBOs, indicating a strong interest in furthering EU sustainability targets and an increasing awareness of the importance of sustainable development, policies that promote environmental stewardship and clean energy solutions.

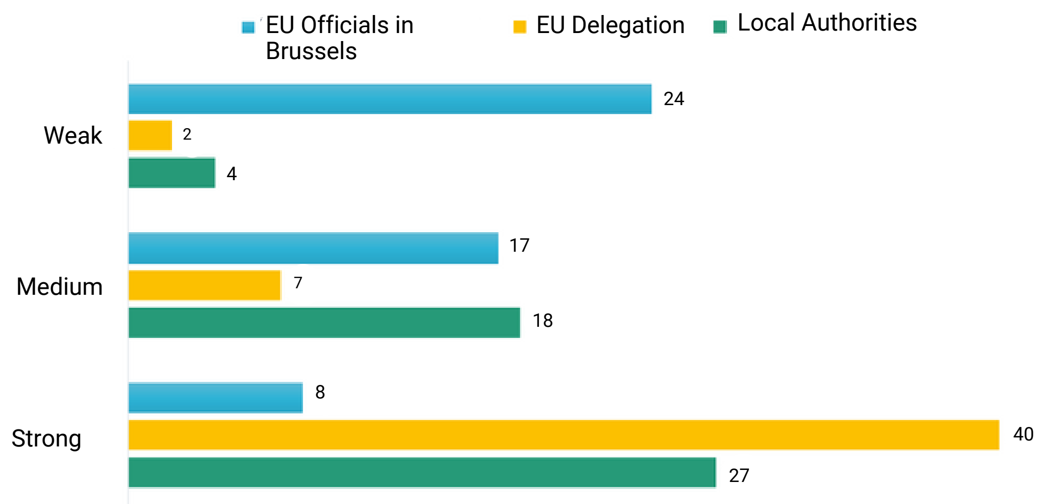


EU Policies of Interest



EBOWN sought feedback from members on the EU policies that garner the most interest. The results reveal a strong interest in sustainability-related topics. Other key areas of interest include Global Gateway, highlighting the importance of infrastructure, digital and energy projects as well as interest in foreign direct investment, suggesting that EBOs are keen on understanding and navigating the regulatory landscape affecting foreign investments, highlighting the importance of protecting and facilitating cross-border investments.

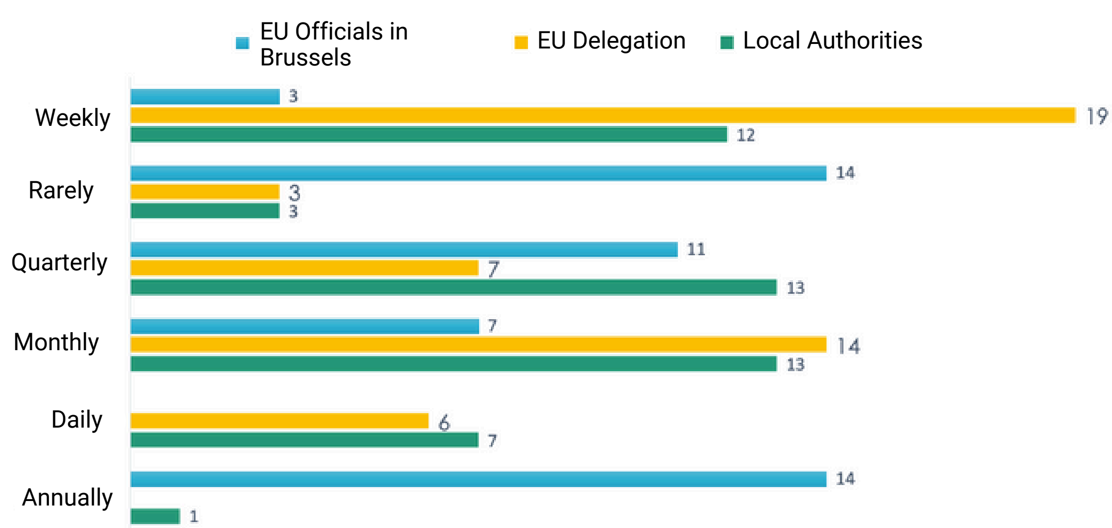
Chamber Engagements with External Stakeholders



27 EBOs reported strong engagement with local authorities. Strong ties with local authorities indicate proactive collaboration, effective communication channels, and mutual support in addressing local business concerns, promoting economic development, and fostering a conducive business environment. Medium engagement suggests that chambers maintain regular communication with local authorities though may encounter challenges or limitations. Weak engagement suggests limited resources or a challenging environment for advocacy efforts at the local level.

40 EBOs reported strong engagement with the EU Delegation, this demonstrates active involvement and solid partnerships to advance mutual interests. The weakest relationship was between EBOs and EU officials in Brussels; only 8 EBOs described their engagement as strong, indicating an area for growth.

Frequency of Chamber Engagements with External Stakeholders



The majority of EBOs have monthly, quarterly, or even weekly engagement with local authorities suggesting that most chambers maintain frequent communication. The largest proportion of EBOs describe their engagement with the EU Delegation as weekly, followed by monthly. 14 chambers engage only once a year with EU officials in Brussels, indicating a low frequency of interaction. Quarterly and monthly engagements are moderate. The high number of annual engagements indicates that interactions with EU officials in Brussels are less frequent and likely occur around major events or reporting periods, this highlights the need for more structured and possibly enhanced regular contact.

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