



OXFORD
ECONOMICS



INTERNATIONAL WINE AND SPIRITS IN ASEAN:

THE ECONOMIC CONTRIBUTION OF THE INTERNATIONAL
WINE AND SPIRITS VALUE CHAIN IN THAILAND AND VIETNAM

JULY 2023



APISWA

ASIA PACIFIC INTERNATIONAL SPIRITS & WINES ALLIANCE

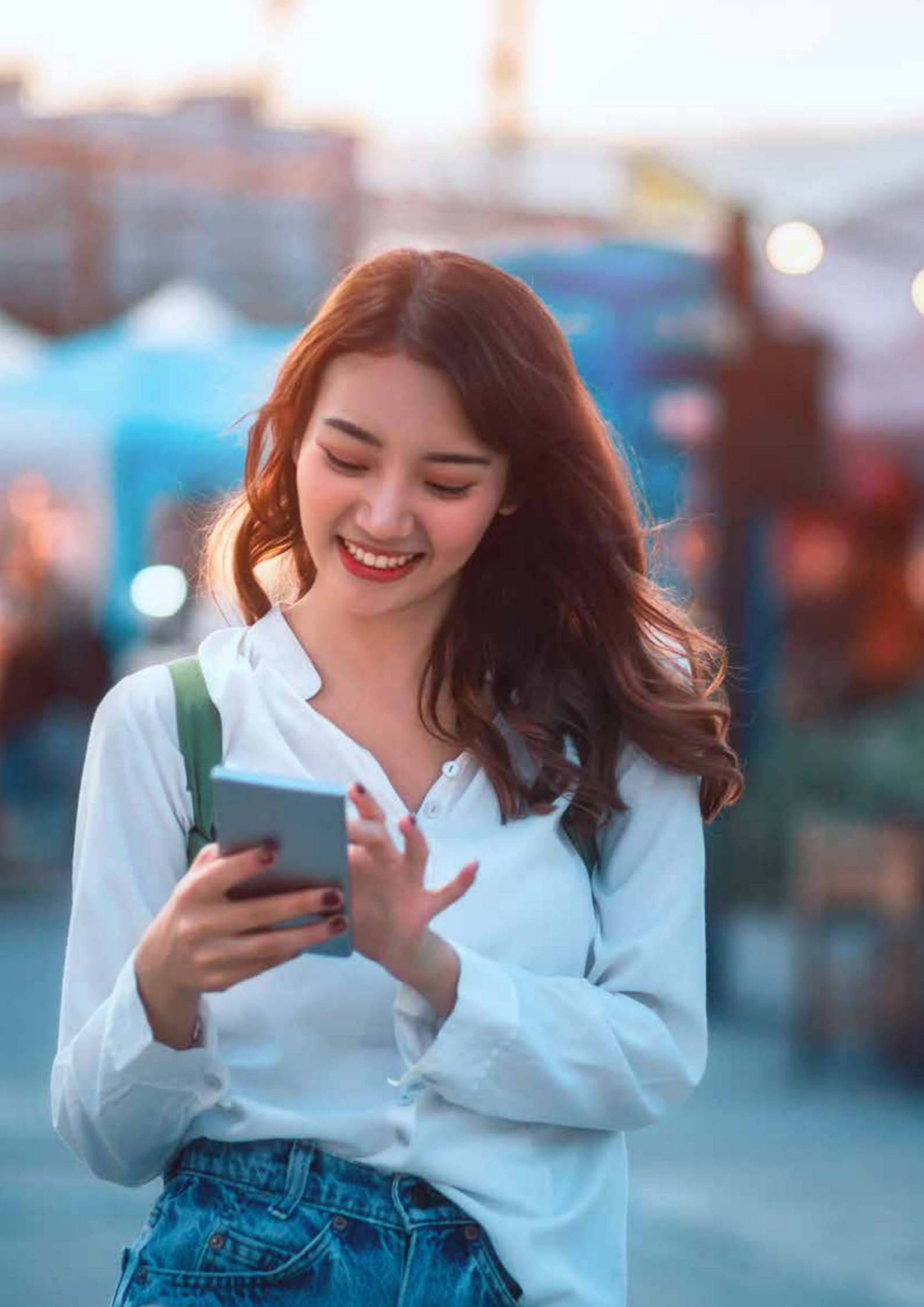


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FOREWORD



downstream impacts to wholesale, retail and other operators along the value chain. For a sector that is mostly composed of micro, small and medium sized enterprises, the qualitative nature of this economic contribution is also important. Case studies in these two markets spotlight how entrepreneurs have harnessed the value generation from international wine and spirits to enhance wages and promote upskilling of their staff.

stakeholders to drive growth in support of domestic businesses, entrepreneurs and the tourism and hospitality economy of ASEAN as whole.

Vijay S. Subramaniam
APISWA Chair

Economies in ASEAN were heavily impacted by the COVID-19 pandemic. This impact was particularly severe in the tourism and hospitality sectors, which generated approximately 12% of GDP in Southeast Asian economies before the pandemic and provided around 11% of employment.*

As travel and tourism across the region continues to rebound, this report studies the contribution of international wine and spirits—a key component of the tourism and hospitality offering—to the recovery in Thailand and Vietnam.

Findings show how, premiumization, the broad trend of consumers ‘trading up’ and drinking better, not more, delivers greater multiplier effects and positive

This is against a backdrop of strong responsible drinking initiatives delivered by industry in both markets. As international spirits and wines producers, we aim to foster an environment where legal spirits and wines can be enjoyed responsibly.” We believe that the responsible consumption of alcohol can be part of a balanced lifestyle and are committed to fighting against harmful drinking and promoting responsible marketing practices. Our flagship drink driving digital public awareness campaign, the “Power of No”, has reached 40 million young adults of legal drinking age in six ASEAN markets, including Thailand and Vietnam.”

We hope the findings will provide an opportunity to better understand the economic gains delivered by international wine and spirits and spur greater consultation between public and private

* <https://www.oecd.org/development/economic-outlook-southeast-asia-china-india-tourism-sector-post-pandemic.htm>

” APISWA does not recommend that anyone drink alcohol for health benefits. However, for adults who choose to drink and are of legal drinking age, moderate drinking can be part of well-balanced lifestyle.

”” For more information on the “Power of No” campaign, please visit <https://www.power-of-no.org/>

EXECUTIVE SUMMARY

\$198 mn
Total contribution to GDP supported in Thailand in 2022.

The Southeast Asian alcohol market is one of the world's largest and most valuable, channelling billions of dollars of revenue into the hospitality, retail, and manufacturing sectors—and their supply chains—each year. Beer accounts for over two thirds of alcohol consumption in this region by volume. But in value terms, spirits and wines punch above their weight. They accounted for more than half of Southeast Asia's total alcohol sales revenue in 2021, encompassing domestically produced spirits and premium-priced international imports.

20,500
Total jobs supported in Thailand in 2022.

This valuable sector of the region's economy has long faced a considerable problem with illicit alcohol consumption. According to the World Health Organization (WHO), "unrecorded" alcohol, that which is not taxed and is outside the usual system of government control, represented around 32% of total consumption in the ASEAN region in 2019; which is very high compared with Europe (13%) and Latin America (20%).¹ Separate research by the OECD suggests this illicit market thrives on lower prices and inadequate enforcement, and its prevalence leads to public health risks, substantial tax losses, and the diversion of funds to organised criminal activities.

\$292 mn
Total tax revenues supported in Thailand in 2022.

THE LOCAL ECONOMIC BENEFITS OF 'PREMIUMISATION'

A major new trend driving sales and the recovery of the Southeast Asian hospitality sector is the 'premiumisation' of the consumer experience. 'Premiumisation' describes the broad trend of consumers 'trading up' in their consumption choices, and purchasing more premium products. This trend is demonstrated in data that shows the average price per litre of alcohol consumed globally has risen since before the pandemic. From 2019 to 2021, the value of global wine sales increased by 5%, whilst volumes shrank by 2%. The value of global spirits sales increased by 15%, compared to volume growth of only 3%.²

The growing demand for premium goods and services is recognised as a major growth driver for the alcohol sector over the next five years in Southeast Asia for two principal reasons. Firstly, as average household incomes rise, consumer demand becomes more varied and sophisticated, and often tilts towards higher-quality, premium purchases. Secondly, as the tourism sector recovers, international holiday-goers and business travellers demand more unique and memorable experiences. Tourism is of huge importance to the Southeast Asian region, accounting for 11.5% of its GDP in 2019. The ASEAN Tourism Strategic Plan recognises this importance and has stated its aim for ASEAN to be "a quality tourism destination [...] so as to contribute significantly to the socioeconomic wellbeing of ASEAN people".³

A large part of the premium product range comes from overseas. In 2021, imports accounted for 98% and 91% of wine sales by value

in Thailand and Vietnam, respectively, as well as 94% and 78% of spirits sales that year. But there is also a growing trend of local producers creating premium offerings. For example, Song Cai Distillery in Vietnam has established the country's first ever craft gin distillery using a variety of local ingredients and flavours, and is gaining market share and popularity among the burgeoning cocktail bar industry.⁴

'Premiumisation' presents a compelling economic opportunity to Southeast Asian markets, as premium products unlock spending by prosperous residents and high-value international tourists on a wider range of other goods and activities. This spending leads to local economic benefits for entrepreneurs and business owners, as well as creating high value jobs and tax revenues in the hospitality and retail industries.

In the recovery from the pandemic, those markets that can nurture their premium segments and capture this higher-level spending will realise a valuable economic opportunity. In capturing higher value tourism spend, creating an atmosphere to retain highly skilled resident workers and entrepreneurs, and supporting the growth of higher value-adding service sectors, this trend can serve to support and reinforce key government growth initiatives in the region.

THE ECONOMIC IMPACT OF INTERNATIONAL WINE AND SPIRITS IN THAILAND AND VIETNAM

Oxford Economics was commissioned by the Asia Pacific International Spirits and Wine Alliance (APISWA) to assess the economic impact of international wine and spirits (IWS) sales and distribution in two major Southeast Asian economies: Thailand and Vietnam.

In Thailand, we estimate that the sales and distribution of IWS contributed USD 198 million (6.9 billion baht) to GDP in 2022, representing a USD 24 million (0.8 billion baht) increase from its contribution in 2021. This economic footprint supported a total of 20,500 jobs in 2022, involved in the sale and distribution of IWS and generated USD 292 million (10.0 billion baht) in tax revenues, including excise, import, corporate, and income taxes.

In Vietnam, we estimate that sales and distribution of IWS contributed USD 282 million (6.6 trillion dong) to GDP in 2022. This contribution was 11% higher in real terms than its impact the previous year. The economic activity supported by the sale and distribution of IWS supported a total of 65,600 jobs across the country in 2022, and generated a total of USD 253 million (5.9 trillion dong) in tax revenues.

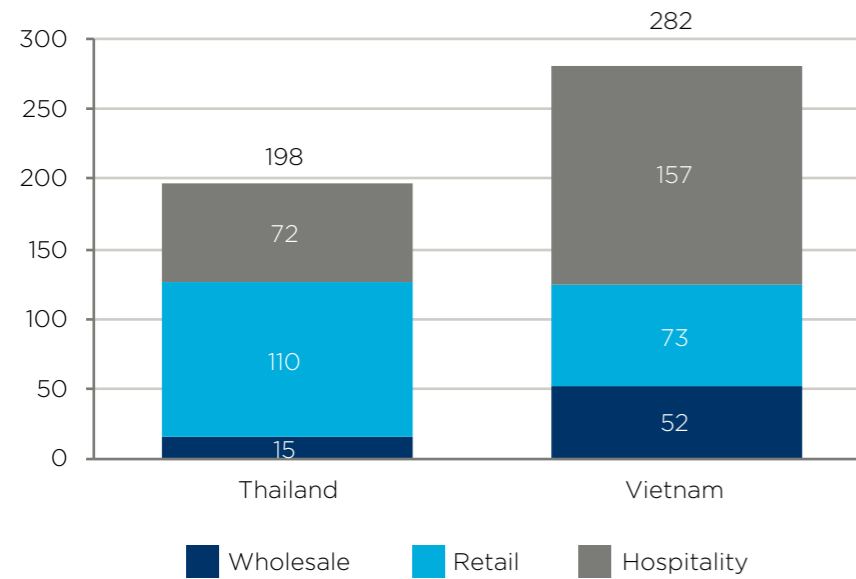
\$282 mn
Total contribution to GDP supported in Vietnam in 2022.

65,600
Total jobs supported in Vietnam in 2022.

\$253 mn
Total tax revenues supported in Vietnam in 2022.

Fig. 1: IWS Contribution to GDP in Thailand and Vietnam by channel, 2022

USD, millions, 2022 prices



Source: Oxford Economics. APISWA. IWSR. Figures may not sum due to rounding.

The sizeable economic footprint of the downstream sales of international wine and spirits in Thailand and Vietnam has been established despite relatively high tax burdens and relatively strict regulatory constraints (compared to competing products), as well as fierce competition from a large illicit market. Looking ahead, effective policies to combat illicit trade, and strategies to enforce them, will be increasingly important. In 2019, unrecorded alcohol accounted for 21% and 57% of all alcohol consumption in Thailand and Vietnam, respectively.⁵ Since higher prices, a high incidence of imports, and higher tax burdens for popular products are identified as drivers of the illicit market, the trend to ‘premiumisation’ of the alcohol sector could see the potential losses to the illicit market increase, if not adequately tackled.

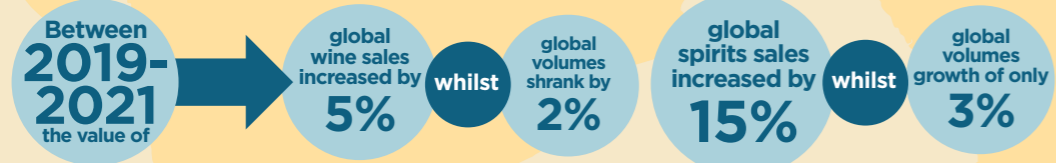
If the formal and legal market for premium products—including beverage alcohol—can thrive in the years ahead, its economic impact will grow. These economic gains will be optimised if an effective policy framework can be put in place to nurture the ecosystem of skilled bartenders and businesspeople, as well as investors and entrepreneurs, that develops around premium offerings within the domestic economy. In order to maximise the benefits of premiumisation, governments in ASEAN should look at policies that may counteract the illicit market, and encourage a healthy, legal market such as narrowing the tax differentials between illicit and legitimate products.



THE ECONOMIC CONTRIBUTION OF INTERNATIONAL WINE AND SPIRITS IN ASEAN

PREMIUMISATION

'Premiumisation' describes the broad trend of consumers 'trading up' in their consumption choices, and choosing to spend their money on more premium goods and services.

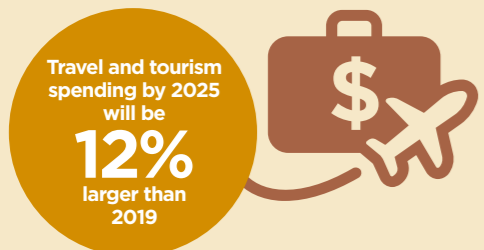


THAILAND

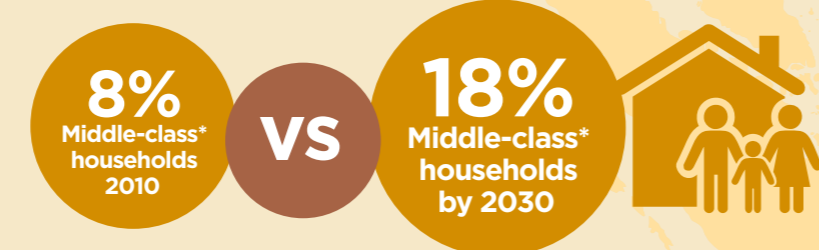
International wine and spirits:



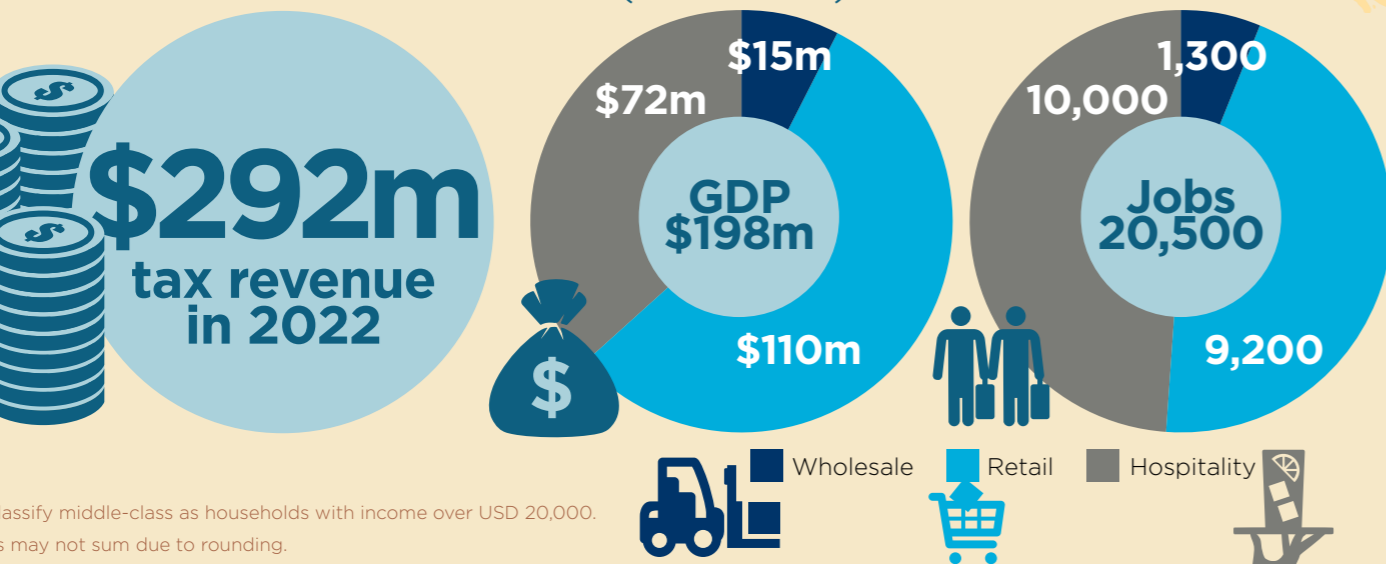
Travel and tourism spending:



More prosperous population:



Total Economic Impact of International Wine and Spirits:



VIETNAM

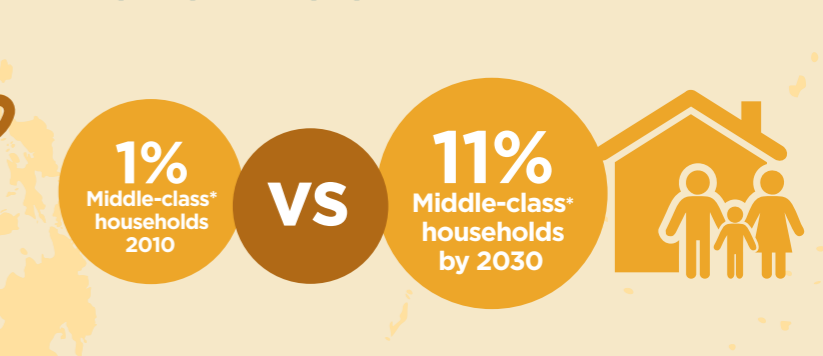
International wine and spirits:



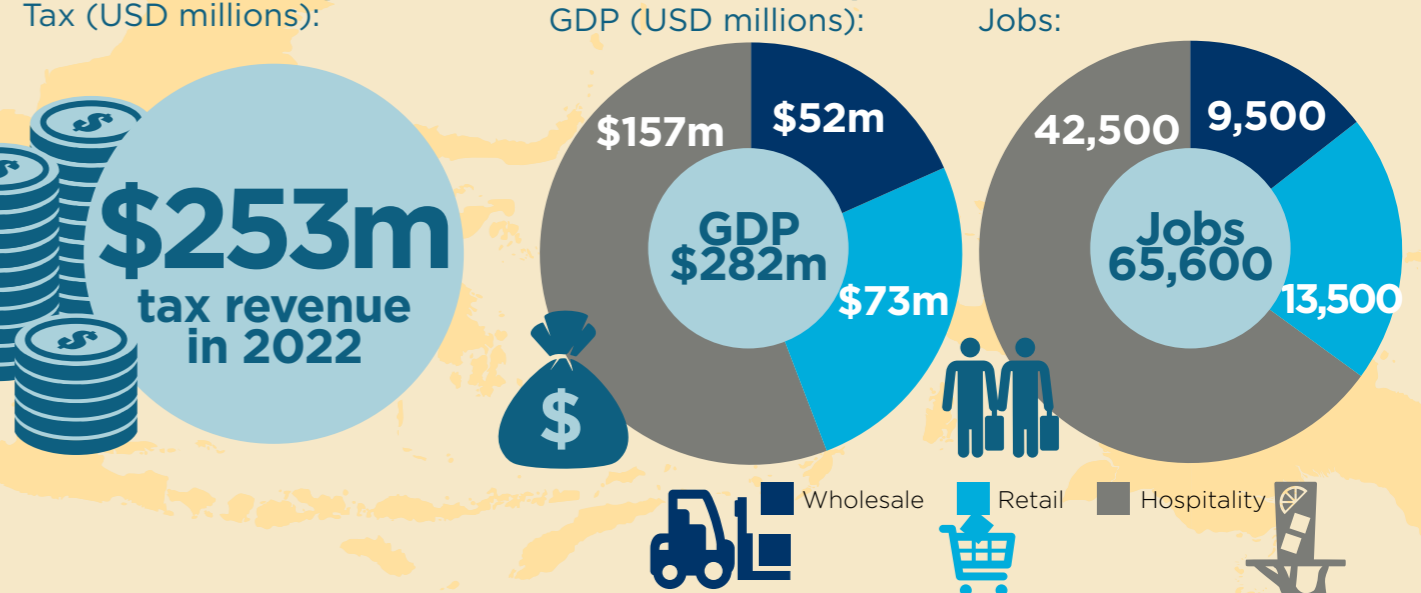
Travel and tourism spending:



More prosperous population:



Total Economic Impact of International Wine and Spirits:



* We classify middle-class as households with income over USD 20,000. Figures may not sum due to rounding.



1. INTRODUCTION

The Covid-19 pandemic caused unprecedented damage to the economies of Southeast Asia, nowhere more so than in the service sector surrounding hospitality and tourism. The rapid recovery of these economies since pandemic restrictions have been removed can be attributed to a strong rebound in the same service sector. After shrinking by 5.1% between 2019 and 2020, service sector output increased in real terms by 3.6% in 2021 and by 7.9% in 2022, surpassing 2019 levels of output.

As the tourism and hospitality recovery gathers pace and average household incomes in Southeast Asia rise over time, there is fierce competition for the return of consumer-spending. The local economies that succeed in winning this customer service-oriented prize will be those that are most competitive. That means a conducive investment and business operating environment, skilled workers, excellent travel and tourism infrastructure, and a varied portfolio of product and service offerings. The quality and availability of alcoholic beverages is important to this mix, as consumers increasingly demand premium products and services. This consumption trend towards higher-value product options across different price bands is known as 'premiumisation'. IWSR, an alcohol industry

research body, describes 'premiumisation' as a key driver of growth in the industry stating that "*over the past few years, growth within the beverage alcohol industry has arisen mainly from people spending more money on better quality beverages, less often*".⁶

Oxford Economics has been commissioned by the Asia Pacific International Spirits and Wine Alliance (APISWA) to explore the economic contribution of international wine and spirits (IWS) in the ASEAN region, in the context of this 'premiumisation' trend. In this study, we analysed the channels through which the sale of IWS creates value in Southeast Asian economies and quantified the contribution this makes to the economies of Thailand and Vietnam—two distinct and important markets in the region's hospitality and tourism landscape.

The report is structured in three parts. In chapter 2, we assess the alcohol market in Southeast Asia and the role of IWS within this market. In chapter 3, we analyse the trend towards premium alcohol products and explore what 'premiumisation' means for Southeast Asian economies. In chapter 4, we quantify the size of the economic footprint of downstream sales of IWS in Thailand and Vietnam in recent years.

⁶ IWSR, "Premiumisation surged during Covid; will it continue?", 2022.



2. THE ALCOHOL MARKET IN SOUTHEAST ASIA

Southeast Asia is home to one of the world's largest and most important alcohol markets—consumers, both local and tourists, in Southeast Asia spent an estimated USD 13 billion on alcoholic beverages in 2021.⁷ The size of the market is expected to grow considerably in the years ahead, as a result of rising disposable incomes and a growing population of young adults.

In 2021, by far the most important component of this market was beer, which accounted for more than two thirds of alcohol sales volumes in the region. Spirits and wine accounted for roughly a fifth of the total. However, in monetary value terms, wine and spirits punch above their weight, accounting for more than half of the total alcohol sales revenue in 2021, whilst the voluminous beer sales represented slightly more than a third.

A few key trends will drive the alcohol market in Southeast Asia over the coming years. Among them are the recovery of the region's vital tourism and hospitality industries after the pandemic, rising incomes amongst the domestic population, and a general trend of 'premiumisation' in hospitality experiences, in which consumers demand a greater diversity and higher quality of products and services. Industry analysts,

IWSR, expect revenue growth to outpace volume growth in the next five years, as a manifestation of this 'premiumisation' trend.

However, one of the major challenges facing this industry in Southeast Asia is a prominent illicit alcohol trade. Consumption of counterfeit alcohol has led to damaging health impacts and even death in recent years, and represents a black market that evades the tax contributions that legal sales of alcohol make. Data from the World Health Organization (WHO) shows that 32% of alcohol consumption in Southeast Asia was unrecorded in 2019, compared to just 13% in Europe and 20% in Latin America.⁸ And according to the OECD illicit trade in alcohol has a wide range of socioeconomic impacts over and above the direct health risks and tax losses, not least in diverting resources to organised crime.⁹ The growing 'premiumisation' of alcohol trend may further exacerbate the illicit market issues in Southeast Asia. The OECD assert that "as a general rule, illicit alcohol trade is closely linked to the low affordability of products". If premium alcohol products are increasingly seen as desirable but have low affordability that is compounded by high taxation, then this could stimulate the market for illicit alcohol. Policies and

enforcement tackling the illicit market will increasingly be required to ensure the socioeconomic impacts of the illicit market don't continue to grow.

In this chapter, we start by assessing the alcohol market and, in particular, the role that international wine and spirits (IWS) plays within it, for two of the region's most important economies: Thailand and Vietnam.

⁷ Oxford Economics estimates.

⁸ World Health Organisation (WHO), "The Global Health Observatory", 2023.

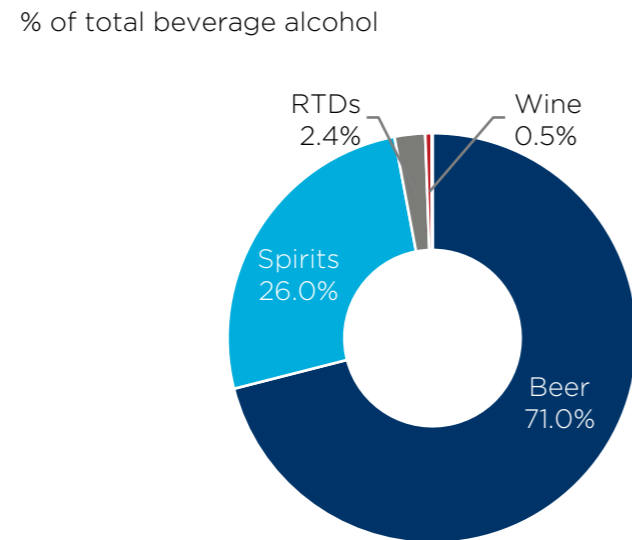
⁹ OECD, "Illicit Trade in High-Risk Sectors: Implications of Illicit Alcohol for Public Health and Criminal Networks", 2022.

2.1 THE ALCOHOL MARKET IN THAILAND

Consumer purchases of alcohol in Thailand were worth USD 5.4 billion in 2021, making it comfortably the largest alcohol market in Southeast Asia. The market is characterised by the dominance of beer, which according to data produced by IWSR, made up 71.0% of the beverage alcohol market by volume in 2021 (see Fig. 2). Spirits made up the next largest proportion of alcohol sales by volume in Thailand, at 26.0%, followed by ready-to-drinks (RTDs) at 2.4% and wine at 0.5%.

The illicit market for alcohol poses a considerable challenge in Thailand. The WHO estimates that in 2019, around 21% of all alcohol consumption in Thailand was unrecorded. A report by the Transnational Alliance to Combat Illicit Trade (TRACIT) estimated that the fiscal loss to the Thai government resulting from this trade was USD 83 million in 2019.¹⁰ The same report found that the price of a bottle of smuggled whisky was 55% lower than a legally sold bottle. Separate research by the OECD asserts that the illicit alcohol trade is closely linked with lower prices and affordability.

Fig. 2: Total volume of beverage alcohol by category, Thailand, 2021



Source: Oxford Economics, IWSR.

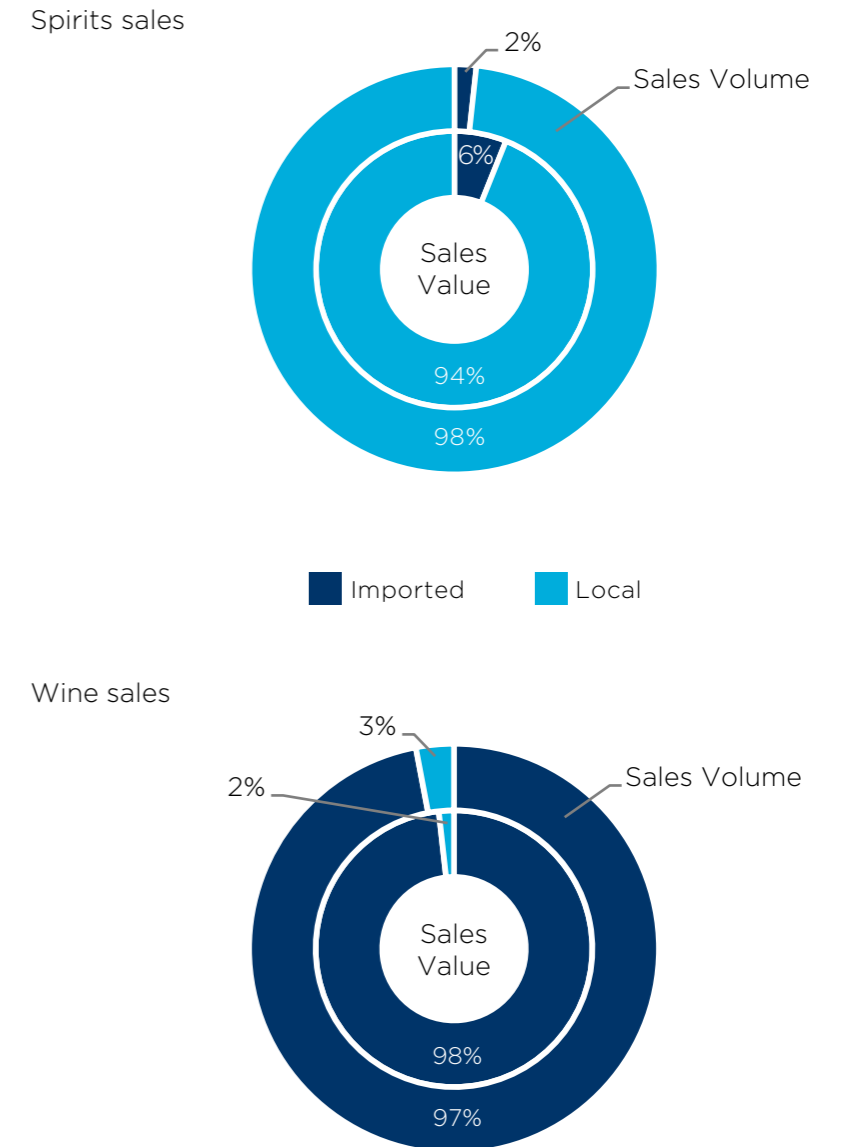
2.1.1 IWS in Thailand

While the alcohol market in Thailand is dominated by beer, IWS forms a small and important niche segment.

In 2021, wine sales were dominated by imports, which accounted for 98% of sales by value (see Fig. 3). Thanks to advancements in grape-cultivation techniques there is a small local wine industry in Thailand, producing a variety of wine offerings including fine wines.¹¹ Wine is in particularly high demand amongst foreign tourists in Thailand, so the 2021 market was still severely hampered by Covid-19 restrictions. According to IWSR projections, wine sales are expected to grow by an average of 3.9% per year in the five years to 2026 as tourism and hospitality spend returns to pre-pandemic levels, albeit from a low base.

Spirits represent a much higher value market in Thailand, making up 94% of the sales value of wine and spirits combined in 2021. Imported spirits are niche within this wider market, accounting for 6% of the total spirits sales value in 2021 and only 2% of sales volumes (see Fig. 3). Imported spirits were on average nearly four times the price of local spirits, which are mainly low-priced products for mass consumption.

Fig. 3: Total volume of beverage alcohol by category, Thailand, 2021



Source: Oxford Economics, IWSR.

Premium wines and spirits sales are characterised by much higher excise tax contributions than other products in the Thai alcohol market. For distilled spirits, apart from a specific tax rate charged per litre of pure alcohol, imported spirits (which form a significant share of premium spirits) are taxed at 20% of the suggested retail price, compared to 2% for local spirits. For wine products, in addition to the specific tax, wines that cost more than 1,000 Thai baht are subject to another 10% excise tax rate on the suggested retail price, compared to a 0% rate for those that cost less. These products are also subject to import taxes on top, at varying

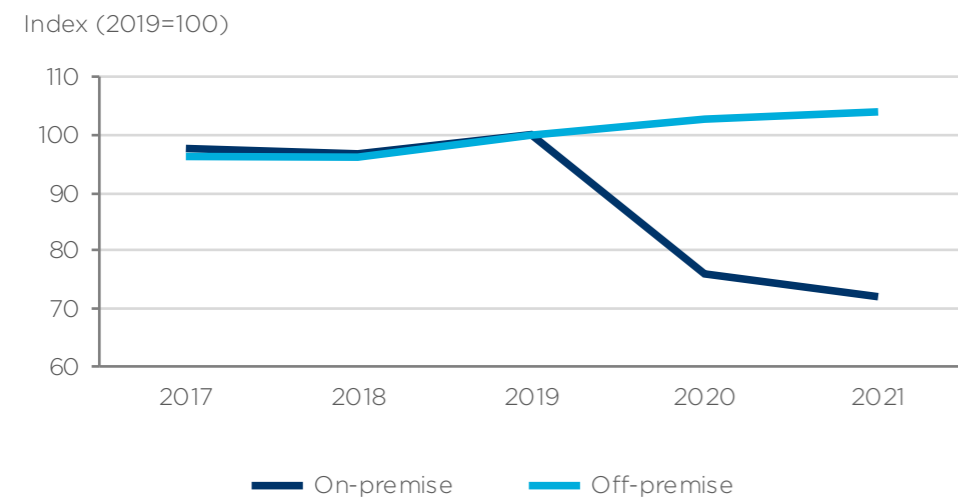
rates depending on whether a free trade agreement exists between Thailand and the exporting countries.

Aside from tax, IWS sales are also impacted by other measures imposed by the Thai government. The Alcoholic Beverage Control Act (ABC Act) restricts advertisements of brand names and illustrations of alcoholic packages on traditional media platforms as well as social media sites. This makes it more difficult for niche brands to gain a market presence and to communicate the quality and values of their products to consumers, thus leaving price as the most prominent differentiator between

premium products and the rest. In response to the rising popularity of e-commerce as a distribution channel due to the Covid-19 pandemic, the Thai government extended this Act to additionally ban online sales of alcohol.

Sales of wine and spirits are heavily concentrated in off-premise channels in Thailand, which refers to products consumed somewhere besides the point of sale. This typically represents retail stores, which account for the majority of wine and spirits sales volumes in Thailand. The pandemic pushed sales volumes further towards off-premise channels, which grew by 3.9% between 2019 and 2021, as consumers

Fig. 4: Thailand sales volume of wines and spirits, by channel, 2017 to 2021



Source: Oxford Economics. IWSR.

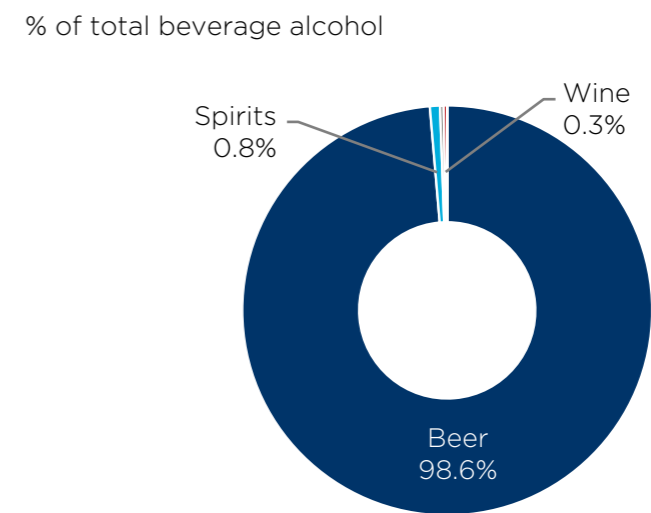
increasingly consumed alcohol in their own homes—driven by social distancing measures and the closure of hospitality venues (see Fig. 4). This compares to a 28% fall in on-premise sales volumes in the same period. As the post-pandemic recovery continues, this trend is expected to reverse to a certain extent, as tourists return and residents revert to pre-pandemic habits of socialisation.

2.2 THE ALCOHOL MARKET IN VIETNAM

In 2021, consumer purchases of alcohol in Vietnam amounted to USD 2.2 billion, making it the third largest alcohol market in Southeast Asia. Most alcohol consumption in Vietnam consists of low-priced beer and local categories such as rice wines and a rice-based spirit known as *rượu đế*, a clear or slightly cloudy spirit of around 40% ABV. According to IWSR estimates, beer made up the overwhelming majority of alcohol sales by volume in the country in 2021, accounting for 98.6% of sales volumes. Spirits accounted for 0.8% of alcohol sales volumes (see Fig. 5), followed by wine which made up 0.3%.

According to estimates by WHO, in 2019, 57% of all alcohol consumed in Vietnam was “unrecorded”, meaning that tax contributions were made on only 43% of total sales. The illicit market poses material risks to Vietnamese society. In November 2020, one person died and six others were hospitalised after drinking alcohol with a high methanol content in the northern Vietnamese province of Bac Giang. It is believed that 60-70% of imported spirits are smuggled into Vietnam, mostly from Cambodia. Some is consumed in major cities and there is also further onward smuggling to other countries in the region. According to estimates by TRACIT, the amount of alcohol smuggled illicitly into Vietnam in 2019 cost the country USD 441 million in tax revenues.¹²

Fig. 5: Total volume of beverage alcohol by category, Vietnam, 2021



Source: Oxford Economics. IWSR.

¹² TRACIT, “Towards an ASEAN Community: Tackling illicit alcohol in Southeast Asia”, 2022.

2.2.1 IWS in Vietnam

Whilst wine and spirits make up a very small share of the total Vietnamese alcohol market, imported wine and spirits products dominate the segment. In 2021, 91% of wine sales by value were of imported wines, with Chilean and French wines being the two most popular source markets (see Fig. 6).

Wine sales value fell by 22% from 2019 to 2021, with imported wine falling more steeply than local wine, but the outlook is much more positive. The IWSR projects average annual growth of 7.6% per year in the five years to 2026, fuelled by the post-Covid-19 recovery. Imported wine sales are expected to grow even more robustly, at 8.3% per year over the period.

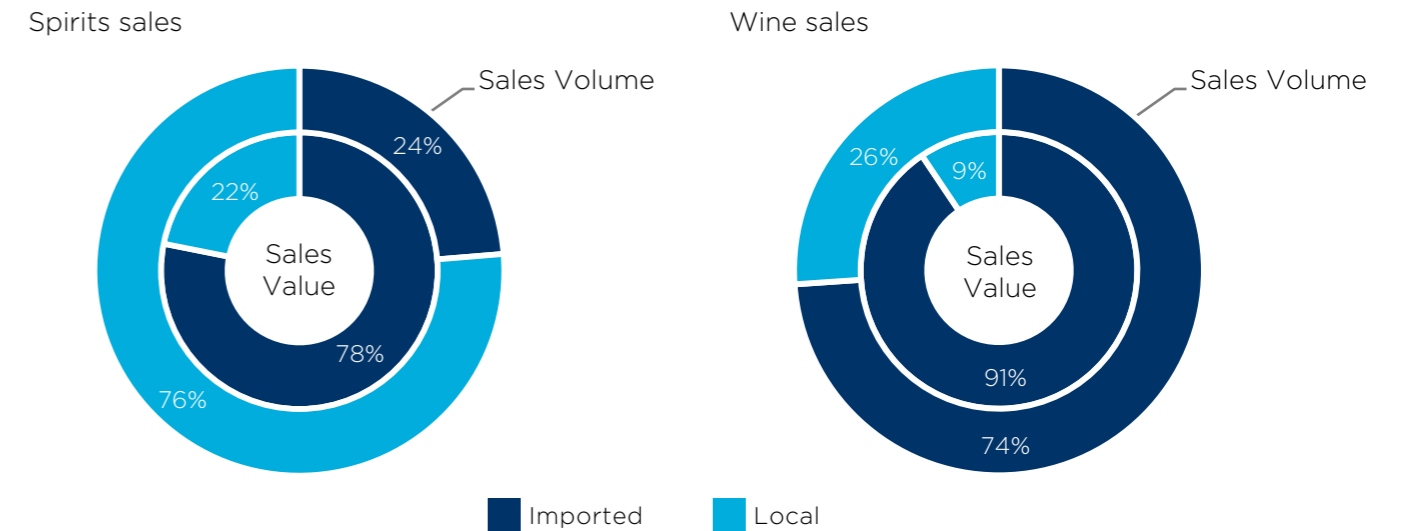
Vietnamese spirit sales are similarly dominated by imported products, which made up 78% of the value of sales in 2021 (see Fig. 6). Local spirits sales, 98% of which are in low-price vodka products, account for the smaller share of the total spirits market by value but around three quarters of the market by volume, reflecting the price disparity between the two products. Local spirits are on average one tenth of the price per litre than imported spirits.

As Vietnam uses an ad valorem tax on alcohol, i.e., taxes based on assessed value, premium products tend to pay higher excises taxes per litre of alcohol than cheaper products. Liquor and wine with ABV levels equal to or higher than 20% face a 65% Special Consumption Tax rate, compared to a 35% tax rate for those with less ABV. Additionally, alcohol products with ABV of greater than 15% are not permitted to advertise on TV, radio, or print, whereas alcohol with less than 15% ABV—the majority of which is beer—is free to do so. This constrains wine and spirits producers' ability to communicate the non-pecuniary value of their products to potential consumers.

Prior to the Covid-19 pandemic, sales volumes of wines and spirits in Vietnam were split fairly evenly between on-premise and off-premise channels. The onset of the pandemic severely impacted on-premise sales volumes which fell by almost half between 2019 and 2021 (see Fig. 7). This was partly offset by an 8% increase in off-premise sales volumes across the same period, as consumers drank more alcohol at home, or away from hospitality venues. The relaxation of social distancing

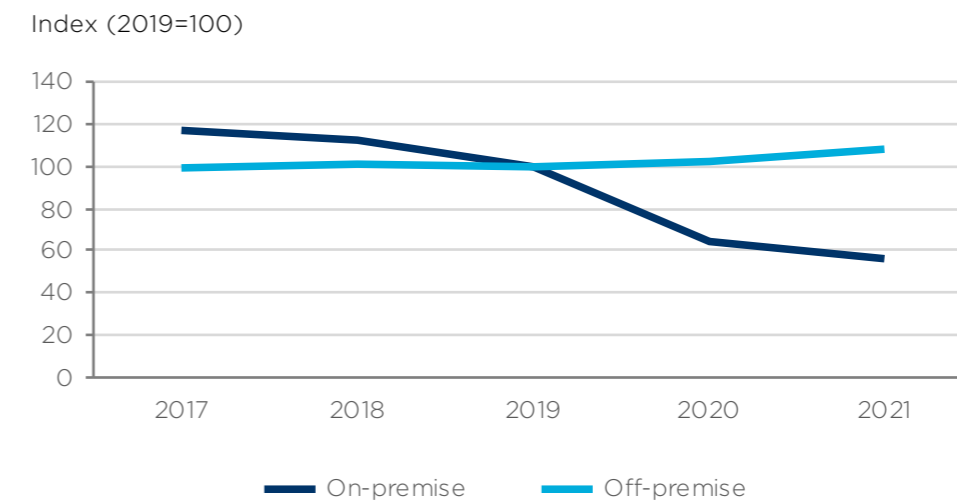
rules means a significant rebalancing of sales volumes is now underway, back towards the on-premise channel. The higher margins charged by on-premise establishments compared to off-premise means that wines and spirits are often less expensive in off-premise which may increase the attractiveness of these channels to consumers.

Fig. 6: Vietnam sales of wine and spirits, 2021



Source: Oxford Economics. IWSR.

Fig. 7: Vietnam sales volume of wines and spirits, by channel, 2017 to 2021



Source: Oxford Economics. IWSR.



3. THE BENEFITS OF 'PREMIUMISATION'

Total global sales of beverage alcohol were worth USD 1.2 trillion in 2021, according to IWSR, an alcohol industry research body. This value surpassed pre-pandemic sales figures despite the volume of sales remaining significantly lower, which implies significant growth in the average price per unit of alcohol being consumed. Globally, premium plus brand sales (i.e., priced USD 22.50+ per 70cl bottle) were 6% higher in 2021 than in 2019, whereas standard and below-brand sales fell in the same period.

These trends towards premium products, known as 'premiumisation', can be seen clearly in wine and spirits sales. In 2021, global volumes of wine sold decreased by 2%, whilst the value of those sales rose by 5%, reflecting a move towards more premium wines. For spirits, total volumes increased by 3% but the value of sales increased by 15%. Looking forward, the IWSR forecasts the value of global wine and spirits sales to grow by 5% and 15%, respectively, whilst the volume of these products are expected to plateau (changing by -1% and 5%, respectively).

In this chapter we explore what impacts the 'premiumisation' trend can deliver in Thailand and Vietnam.

3.1 'PREMIUMISATION' IN THAILAND AND VIETNAM

In Thailand, around 5% of the sales value of wine and spirits in 2021 was from products priced in the "premium-and-above" price bands (i.e., over 1,249 baht per 70cl bottle of spirits and over 500 baht per 75cl bottle of wine). This was down from 7% in the years prior to the pandemic, suggesting that Covid-19 restrictions had made an impression on demand for premium wine and spirits (see Fig. 8). IWS accounted for 99% of all sales value of products priced in the "premium-and-above" price category in 2021, a proportion that has remained unchanged since 2017.

In Vietnam, 55% of all wine and spirits sales value in 2021 came from products in the "premium-and-above" price bands (i.e., over 549,000 dong per 70cl bottle of spirits and over 400,000 dong per 75cl bottle of wine). This is a significant uplift from its position in 2017, when "premium-and-above" products accounted for only 46% of sales value (see Fig. 9). Imported products account for almost the entire market, but in recent years a small segment of premium Vietnamese gin has begun to gain a minor market share. This demonstrates how the 'premiumisation' trend is not exclusive to imported products but can also be a revenue-generating opportunity for domestic producers looking to capitalise on these trends.

Sales of premium-and-above IWS are expected to grow

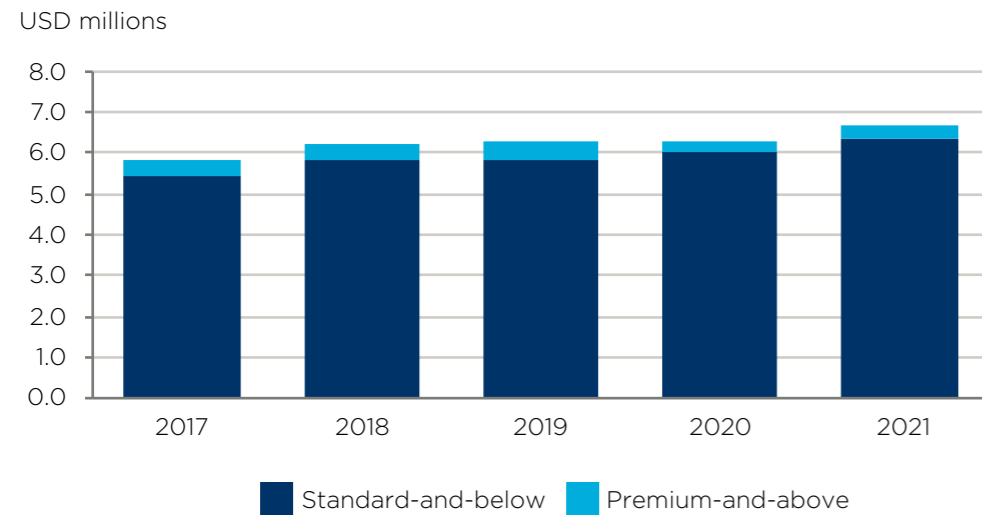
across Thailand and Vietnam in the years ahead, due to a combination of the tourism and hospitality recovery, and rising spending power amongst domestic consumers.

In Thailand, IWSR analysis suggests that sales volumes of premium-and-above wine will be 43% higher in 2026 than in 2021. In that time period, sales volumes of standard-and-below wine are only expected to grow by 17%. Likewise, in spirits the premium-and-above sales volume is expected to be 78% larger in 2026, compared to 2021 levels—representing a rate of growth much faster than the 5% growth forecast for standard-and-below sales volumes.

In Vietnam, IWSR analysis suggests that sales volumes of premium-and-above wine will be 55% higher in 2026 than in 2021, compared to a growth in sales volumes of only 45% across the same period for wine in the standard-and-below price bands. Sales volumes of spirits in the premium-and-above price bands are also expected to grow significantly faster than standard-and-below priced products, with an estimated 57% and 10% growth by 2026, respectively.

This predicted growth in premium alcohol sales is, however, from a low base as these products only form a small, niche segment of the overall alcohol market in these countries and are faced with significant hurdles in the forms of tax structures, advertising restrictions and large alcohol illicit markets.

Fig. 8: Wine and spirits sales value in Thailand, by price band, 2017 to 2021



Source: Oxford Economics. IWSR.

Fig. 9: Wine and spirits sales value in Vietnam, by price band, 2017 to 2021



Source: Oxford Economics. IWSR.

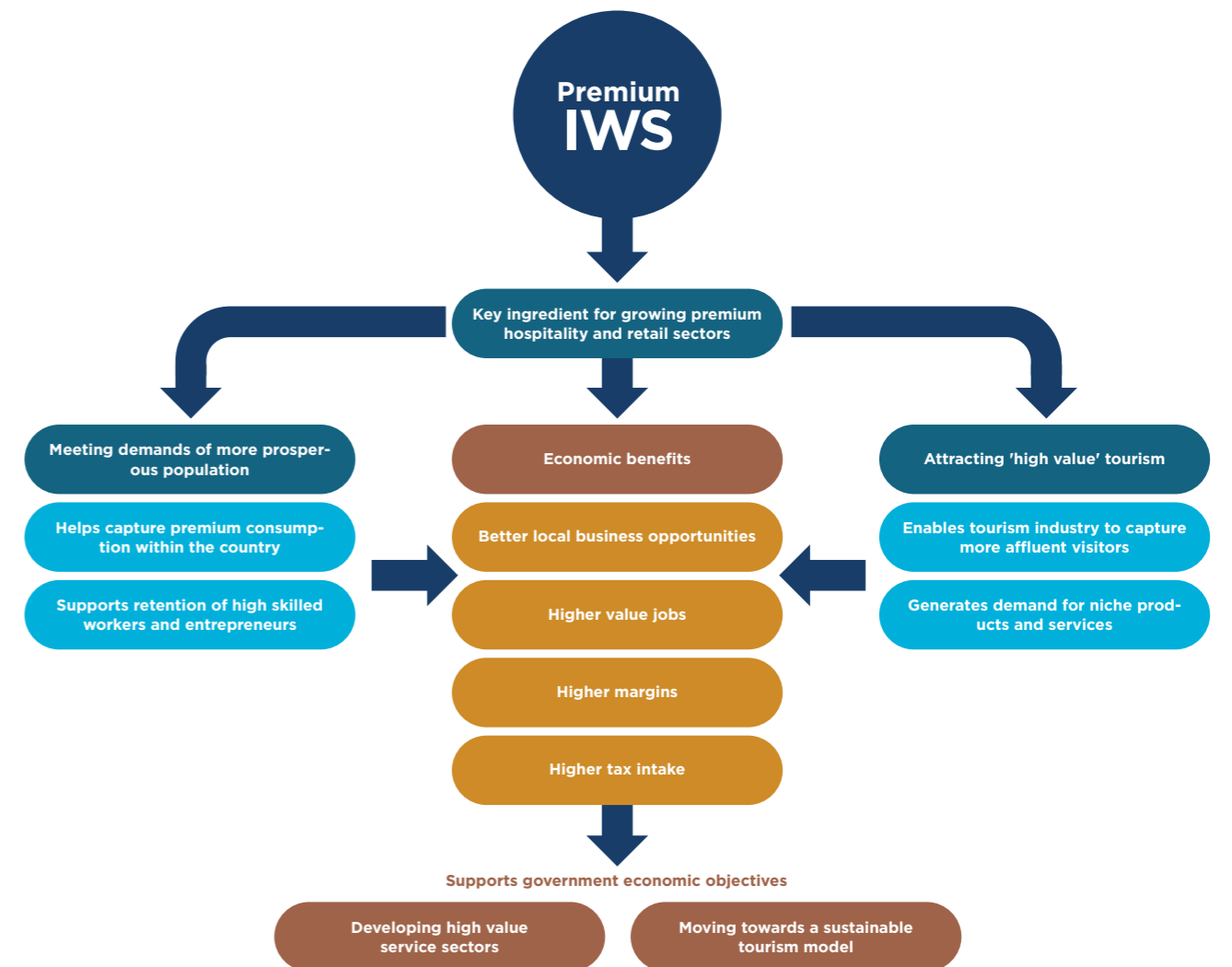
3.2 ECONOMIC BENEFITS OF 'PREMIUMISATION'

International wine and spirits producers are clearly serving a local demand for premium consumption; but they are also playing a role in facilitating the broader local economic impact that 'premiumisation'

brings. Premium wines and spirits form part of a menu of premium goods and services that are increasingly demanded by resident consumers and international tourists. If these demands can be catered for, sales of IWS and other premium products can unlock spending across a wider

range of activities, which leads to local economic benefits including new local business opportunities and high value jobs, higher profit margins, and tax receipts in the hospitality and retail industry, as illustrated in Fig. 10.

Fig. 10: How premium IWS delivers economic benefits



Source: Oxford Economics.

3.2.1 Meeting demands of a more prosperous population

In Vietnam, the middle-class proportion of total households is expected to more than double in the decade to 2030.¹³ In Thailand, this proportion is expected to rise from 8% to 18% over the same period (see Fig. 11). As these middle-class populations grow, historical trends suggest they will demand higher quality, more diverse and more premium products and services. A report by the World Economic Forum in 2020 estimated that the growth of the middle classes in ASEAN during

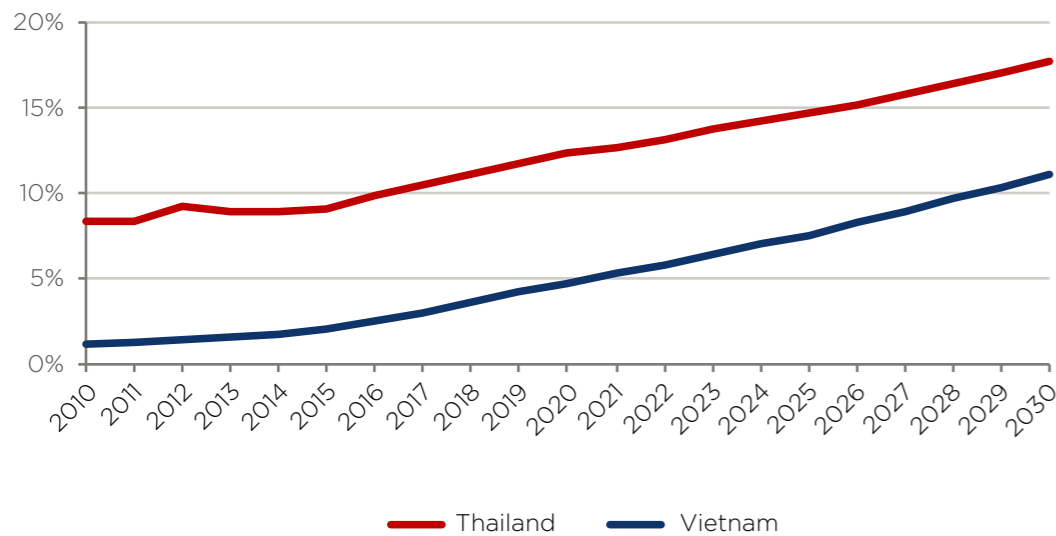
the 2020s would lead to a 4.7-times increase in spending on “special treats” (including dining out, alcohol, and travel) from 2020 to 2030.¹⁴

This same trend is reflected in Southeast Asian consumers’ attitudes towards alcohol. Market research conducted by Deloitte in 2019 found that the top attribute driving alcohol purchase behaviour for Vietnamese consumers was “quality”.¹⁵ In Vietnam, alcohol is recognised as a popular gift or gesture to show respect towards one’s friends, family, or associates, and to maintain relationships. This disposition

is reflected in the spike in premium drinks sales prior to the Tet holidays, a festival that is characterised by gift-giving. In 2021, alcoholic beverages on average constituted around 24% of total Tet spend.¹⁶

Consumers in Vietnam and Thailand are becoming more health-conscious, according to a 2022 survey by Euromonitor International¹⁷. Only 6.3% of millennials across Asia-Pacific said they drank almost daily, compared to twice that share of “baby boomers”.

Fig. 11: Middle-class households as a proportion of total households, 2010-2030



Source: Oxford Economics.

¹³ Middle-class households have been defined as those earning USD 20,000 and above in a given year.
¹⁴ World Economic Forum, “Future of Consumption in Fast-Growth Consumer Markets: ASEAN”, 2020.
¹⁵ Deloitte, “The Vietnam Consumer Survey: An accelerating momentum”, 2020.
¹⁶ Infocus Mekong Research, “Tet Purchase Behaviour Report”, 2021.
¹⁷ Euromonitor International, “Changing Alcoholic Drinks Trends in APAC”, 2022.



CASE STUDY: BARTENDER PHẠM TIẾN TIẾP

In 2012, Vietnamese bartender Phạm Tiến Tiếp took part in Diageo World Class Vietnam, an initiative designed to support, train, and inspire local bartenders, and was awarded the top prize, becoming the competition's inaugural champion. Following the support and exposure brought to him by this contest, he has succeeded in opening multiple cocktail bars of his own. He started with Ne Cocktail Bar in his hometown Hanoi in 2016 and is now the owner of three other cocktail bars in the city—Ne Boongke, Attic, and Lanca, employing a growing number of skilled staff in Hanoi. When he started his business, he found it difficult to compete with the cheap bia hoi beer

marketplace in Hanoi, where people were used to drinking beer at less than USD 1 on little stools that line the streets. Over time, however, he saw a shift in local consumption from bia hoi to cocktails, which he credits to an increase in local exposure to social and international media as well as more Vietnamese travelling abroad.

His bars are renowned for using local ingredients blended with international spirits to demonstrate Vietnamese cultural values in the drinks. In this way, Phạm Tiến Tiếp's success ripples across the wider Vietnamese economy through his spending on goods and services within a Vietnamese supply chain.



3.2.2 Attracting ‘high quality’ tourism

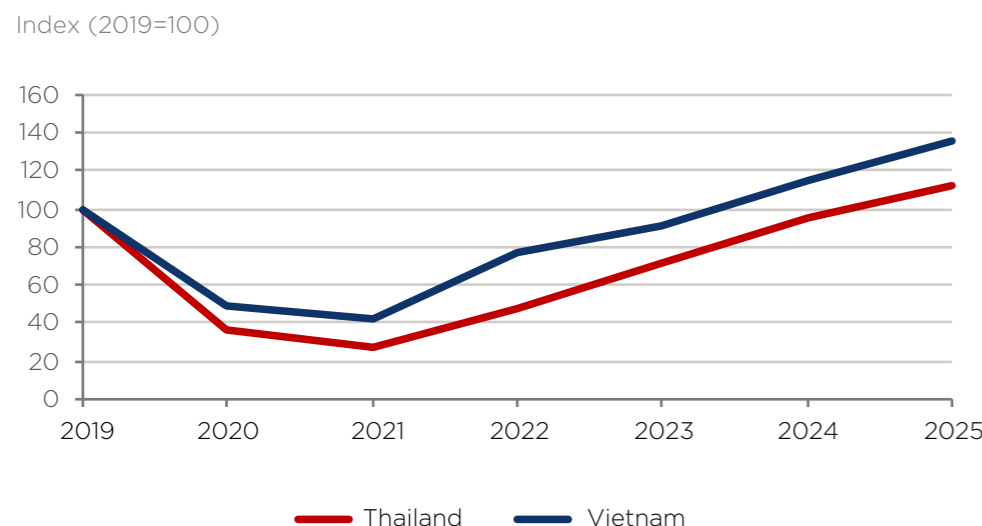
Tourism in Vietnam and Thailand was hit hard by the Covid-19 pandemic. In Thailand, total traveller spending fell from USD 92 billion in 2019 to USD 33 billion in 2020 and further to USD 25 billion in 2021, whilst in Vietnam total traveller spending fell from USD 21 billion in 2019 to USD 10 billion in 2020 and further to USD 9 billion in 2021. Travel and tourism related activity was estimated to have contributed 20.3% of Thai GDP and 7.0% of Vietnamese GDP prior to the pandemic, according to analysis by the World Travel & Tourism Council (WTTC) and Oxford Economics,¹⁸

which illustrates just how severely this combination of international border closures, social distancing measures, and night-time curfews were felt in the industry. The peak years of the Covid-19 pandemic dramatically reduced travel and tourism, leading to wide-ranging business closures and job losses.

Looking forward, tourism and its recovery will play a very important role in the economic prosperity of Thailand and Vietnam in the years to come. Forecasts by Tourism Economics, a specialist subsidiary of Oxford Economics, suggest that travel and tourism spending by 2025 will be 12% and 36%

larger than 2019 in Thailand and Vietnam, respectively. A recent American Express Global Travel Trends Report suggested international tourists are likely to spend more on travel in the immediate post-Covid-19 years than they did previously, after being denied the option of overseas trips for so long.¹⁹

Fig. 12: Travel and tourism spending, 2019-2025



Source: Tourism Economics.

As painful as it was, the pandemic has inadvertently served as an opportunity for Southeast Asian governments to take stock and recalibrate their economic strategies. As this tourism-dependent region emerges from the crisis, there is a clearer goal amongst policymakers to move beyond the mass-market tourism model that has previously characterised the industry, to a higher value adding approach. Policymakers in Thailand and Vietnam are positioning themselves to attract higher-spending visitors, who will contribute more to the local economy per visit than the traditional mass-tourism crowd. The ASEAN Tourism Strategic Plan 2016-2025 has a stated aim of increasing the per capita spend of international tourists in ASEAN countries from USD 877 to USD 1,500 by 2025.²⁰

In Vietnam, the government is increasingly looking to promote “high quality tourism” with a focus on high added-value services such as five-star hotels, and food and beverage and retail outlets, to attract a greater share of long-haul, high-spending tourists from Europe, the US, and Australia.²¹

In Thailand, the Tourism Authority of Thailand (TAT) has established various initiatives and campaigns to attract high spending tourists such as “Visit Thailand Year 2022-2023”, which showcased various premium hospitality offerings such as

5-star hotels, Michelin-starred restaurants, rooftop bars, and dinner cruises.²²

International wine and spirits form an integral ingredient to these premium offerings. A survey of affluent APAC travellers in 2022 found “retail and food & beverage” to be the second most important factor when considering where to book a holiday, after “health and safety”, which was still a prevalent issue due to the Covid-19 pandemic.²³ A study conducted by Barton in 2019 on behalf of the International Luxury Travel Market (ILTM), found that three quarters of the USD 347 billion spent globally on luxury travel pre-Covid-19 went to food & drink.²⁴ From that total, around 70% was spent in bars or in formal dining establishments (restaurants), compared to only 6% in cheaper casual dining (cafes, fast food). Another report by Barton in 2021 found that 45 million people were employed globally in food and drink services as part of the luxury travel ecosystem.²⁵

28 ¹⁸ World Travel & Tourism Council, “Thailand 2022 Annual Research: Key Highlights”, 2022.
¹⁹ American Express, “2022 Global Travel Trends Report”, 2022.

²⁰ The Association of Southeast Asian Nations (ASEAN), “ASEAN Tourism Strategic Plan 2016-2025”, 2015.
²¹ Viet Nam News, “Viet Nam promotes creative, high-quality tourism”, 2018.
²² TAT News, “TAT launches new high-end travel deal for luxury-minded South Korean travellers”, 2022.
²³ ILTM, “Global: Decoding the luxury travel consumer’s mindset”, 2022.
²⁴ ILTM, “The Global Luxury Travel Ecosystem”, 201.
²⁵ ILTM, “Luxury Travel’s True Impact on Business and Employment”, 2021

CASE STUDY: SUPAWIT (PALM) MUTTARATTANA



Supawit 'Palm' Muttaratana is the Group Beverage Director of Watermelon Group, a Thai-owned food and beverage management company. Palm started his hospitality career in a luxury hotel, The St. Regis Bangkok, where he developed his passion for the art of cocktails. His dedication and years of practice enabled him to win Diageo World Class Thailand 2012, a cocktail making competition, and led him to compete in the Global Finals in Brazil. He then joined Diageo as a brand ambassador for Diageo Reserve Thailand, followed by taking up the role of a bar manager at Vesper Cocktail Bar, before joining Watermelon Group in 2021.

The three bars and one restaurant under Watermelon Group management currently employ roughly 50 people. The

typical wage of their bartenders ranges from roughly 2 to 6 times higher than the hospitality industry average in Bangkok. These salaries correspond to the seniority and skills level of bartenders, one key point being their ability to communicate in English with their large foreign consumer base. Palm is also a strong advocate for the upskilling of his bartenders, providing training opportunities for all staff and encouraging knowledge sharing across the different bars and restaurants under Watermelon Group. As well as bar staff, there is a small management and operations team of around 10 people including content creation, marketing, and finance professionals.

International wine and spirits (IWS) are very important to the bars run by Watermelon Group.

Crimson Room, a 1920s-styled jazz club within the portfolio, uses nearly 99% imported spirits. The staff at Crimson Room advise customers on what to drink based on their preferences, and aim to deliver a premium experience. Through these premium offerings, their bars can earn high margins on cocktails made using IWS alongside locally-sourced produce. The bars also source accompanying food supplies via local distributors and markets, which chefs personally visit to look out for seasonal and fresh ingredients, extending the economic footprint of Watermelon Group into the wider economy.

Watermelon Group is aiming to expand its family of bars and restaurants in the coming months and years, with one new venue planned to open this year and another next year, and ambitions to go further afield including into other Asian markets. This will significantly increase the group's headcount with plans to hire more specialised professionals in their management team as well as growing the number of bartenders.

Palm's experience is an example of how Thai entrepreneurship and expertise combined with premium products can deliver a successful service-oriented enterprise in Thailand, supporting high value businesses and good jobs.

3.3 BUSINESS AND EMPLOYMENT OPPORTUNITIES

Despite the challenges the 'premiumisation' trend faces from taxation, regulation and a large illicit alcohol market, it is already delivering tangible economic benefits in Thailand and Vietnam.

Over the past five to 10 years, there are many examples of the increased demand for premium lifestyle and experience offerings spurring growth in the higher-value segment of the Thai and Vietnamese hospitality industries. For example, Vietnam has seen significant growth in its cocktail culture in the last few years, with a growing number of cocktail bars opened by local bartenders turned entrepreneurs. This trend has been stimulated by programmes such as Diageo World Class Vietnam, which trains and promotes Vietnamese bartenders. Many

participants and alumni from this programme have gone on to open their own bars, including 2019 winner Thép Đình whose bar *Stir* is Vietnam's highest entry in Asia's 50 best bars list.

Similarly in Thailand, premium hospitality has increasingly grown in importance as the economy recovers from the effects of the Covid-19 pandemic. A total of nine bars in Thailand were on Asia's 50 best bars list in 2022, despite alcohol being banned for much of the pandemic.²⁶ Though nascent, there is a growing community of aspirational restaurateurs, bartenders, and F&B entrepreneurs generating an environment for lucrative business opportunities. It also provides a platform for knowledge transfer and skills development, in aspects ranging from culinary arts to business management, which adds to the stock of skills in the local workforce.

CASE STUDIES: SMALL BAR OWNERS

In the vibrant cities of Thailand and Vietnam, there are burgeoning communities of small locally-owned cocktail bars. The owners of these bars are often young and ambitious entrepreneurs, many of whom started their careers as bartenders, and all of whom harbour bigger goals such as growing the number of bars under their management, advancing into higher-value job positions in the industry, and training a new generation of bartenders to make an impact in the evolving cocktail scene. These bar owners are following the footsteps of Supawit Muttaratana (Palm) and Phạm Tiến Tiếp, who are successful managers of multiple well-known bars, and can together pave the way to a more vibrant and high value hospitality industry in the two countries.

Success in this exciting and nascent industry relies on local skills, talent, entrepreneurship and expertise, combined with premium beverage alcohol products that not only bring relatively high margins, but are also key to creating the experiences that its consumers desire. In turn, this is creating valuable economic opportunities in both countries by growing high value-added businesses, and supporting quality jobs.



CASE STUDY: NOPADON KUMAMURA



the service provided by expert bartenders. The bar is able to receive relatively high margins on the premium imported spirits it sells compared to local spirits, as Nopadon feels that these premium products require fewer additional ingredients, such as garnishes, to bring out the flavour of his cocktails.

When hiring bartenders, he looks for people skills and the ability to interact with clients, in addition to their technical expertise. Wages earned by his employees are also higher than the average wage in the hospitality industry in Bangkok, demonstrating his commitment to delivering a high-value service.

Nopadon has ambitious plans for the future. He is leaving the running of Pour Bangkok to his friend and colleague, and is now seeking to open a new bar nearer to the busier downtown area, which he aims to get listed in Asia's 50 best bars.

Nopadon Kumamura is the bar owner of Pour Bangkok, a cocktail bar located in the sub-urban district of Lat Phrao, a popular neighbourhood situated away from the busy downtown core. The bar has been open for five years, serving predominantly local customers who live and work in the area and focusing on serving high quality cocktails at an affordable price.

Nopadon does his own extensive research on cocktail ingredients and experiments with a variety of drinks to create seasonal flavours, not relying on a specific product brand or supplier. This makes his cocktails attractive to local patrons, whom, he has observed, have become more open-minded about the types of drinks they try in recent years, and more trusting of

CASE STUDY: WATHANYU MAKMONGKOL ‘MICKY’



Micky believes that international wine and spirits play a crucial role in his bar, primarily due to Liquid Lab’s concept, which is inspired by classic, and sometimes forgotten, cocktails such as those created during the 1920s prohibition period. Imported drinks enable his bar to attract a larger segment of consumers, as the flavour profile of local alcohols are “trickier” and more targeted towards very specific palates. A large proportion of Liquid Lab’s customer base are repeat customers, and Micky puts this success down to the relationship they create between bartender, product and customer. As Micky describes it, “anyone can make a cocktail, but it takes a special skill to make a well-crafted drink that people will come back for time and again”.

Stepping into the next stage of his career, Micky hopes to advance into a managerial role, designing cocktail drinks, creating new menus, hosting masterclasses for bartenders, and expanding the business by opening more bars in Bangkok.

Wathanyu Makmongkol ‘Micky’ owns and runs Liquid Lab, a cocktail bar located in On Nut, a sprawling neighbourhood in Bangkok that boasts several restaurants, bars, and night markets. He has been in the industry for nine years, starting out at the young age of 18.

Initially starting out in distribution, he and his friend expanded their business, opening Liquid Lab to

showcase the brands of alcohol they import, and the vast possibilities of cocktail flavours that can be made from these drinks. Entrepreneurial in nature, he treats his bartenders as business partners, and looks for employees who share his vision, are open to exploring new cocktail flavours together, and are determined to work with him in the long-run to grow the business.

CASE STUDY: DAT NGUYEN



on the best drinks to suit their preferences. They are encouraged to attend masterclasses put on by various drinks companies to further develop their bartending skills.

Customers visiting his bar are mostly locals, whose taste preferences have changed significantly in recent years. Dat observes that since the pandemic, Vietnamese patrons are now more focused on having new experiences and have developed new tastes. Increasingly they are experimental towards the types of alcohol products they are willing to try and have developed a liking for stronger flavours. With this growing demand for a wider range of products, Dat believes that the international wine and spirits market, as well as the cocktail scene in Vietnam, will improve and grow quickly.

In the near future, Dat’s personal goal is to expand his business and manage more bars in Vietnam. Recognising that human capital and skills in bartending are still underdeveloped locally, he intends to organise masterclasses to train his bartenders before they start work, in the process facilitating the transfer of knowledge and benefitting the broader hospitality scene in Vietnam.

Dat Nguyen is one of the best-known bartenders in Vietnam and has been in the industry for around ten years. He has worked in various bars like the popular Rabbit Hole, and Monde Bar, where he got his inspiration to establish Yugen Bar. This “speakeasy” themed bar opened in January 2020 in Ho Chi Minh City, just prior to the lockdowns imposed due to the Covid-19 pandemic.

Despite the challenges resulting from the pandemic Yugen bar has been a relative success. It employs eight staff, split among bartenders, security and managerial roles. Dat seeks to employ highly skilled bartenders who, as well as understanding the fundamentals of cocktail making, are able to provide a valuable service to customers by providing guidance



3.4 SUPPORTING GOVERNMENT OBJECTIVES

Successfully capitalising on the ‘premiumisation’ trend in Southeast Asia will provide a boost to broader strategic economic objectives in the region. Capturing the premium market can help promote the recovery and diversification of the tourism industry, which accounted for 12% of the region’s GDP in 2019 before the pandemic, and can make Southeast Asian destinations more attractive to higher-spending tourists. Fostering development of high value-added services such as premium hospitality and retail can contribute to consumption-driven growth which is recognised by governments in the region to form a key part of continued economic development.

More broadly, the Thailand 4.0 strategy identifies the need to develop high value-added services in order to generate economic prosperity, and address challenges associated with the “middle income trap” (in which middle income economies are unable to transition to a high-income economy often due to declining competitiveness in the industries that have powered previous growth).²⁷ The role of international wine and spirits in the premium hospitality industry will support to this end.

The Vietnam Tourism Marketing Strategy to 2030 has a specific focus on attracting high-spending visitors, with a goal to increase tourism’s contribution to 10% of GDP by 2030. The strategy includes ambitions to develop the night-time economy, an area of the economy that will be reliant on international wine and spirits to attract higher spending.²⁸

The continued development of the premium hospitality sectors in Thailand and Vietnam plays an important role in the broader strategy of capturing more economic value from the tourism market and successfully transitioning to a higher-quality tourism model.

In order to maximise the benefits from the premiumisation trend, governments in the region should seek to create an accommodating business environment for the legal alcohol market. This could include narrowing the tax differentials between illicit and legitimate products, which would reduce the incentives for the illicit trade in alcohol.

²⁷ Thailand Board of Investment, “Thailand 4.0 – a new value-based economy”, 2021.

²⁸ Vietnamplus, “Vietnam Tourism Marketing Strategy to 2030 issued”, 2023.



4. INTERNATIONAL WINE AND SPIRITS' ECONOMIC CONTRIBUTION

The 'premiumisation' of consumer preferences creates a new economic opportunity for those in the region that can seize it, which is particularly valuable in the post-pandemic era as the industry looks for any opportunity to accelerate its recovery. From a policy perspective, seizing the opportunity requires a more detailed understanding of the economic contribution the wine and spirit sector creates.

Our analysis has shown that international wine and spirits play a dominant role in the premium alcohol sector in Thailand and

Vietnam. In fact, they are a key component of the economic contribution of Southeast Asia's retail and hospitality sectors, encompassing local restaurants, bars, retail stores, hotels, travel retailers, and more.

In this chapter, we map out the economic footprint of the downstream sale and distribution of IWS in Thailand and Vietnam, estimating the contribution they make to gross domestic product (GDP), employment, and tax across three channels: wholesale, hospitality, and retail. We also analyse the

trajectory of the sector over recent years and the impact that Covid-19-related policies had on its performance.

All values in our analysis are quoted in US dollars, adjusted to keep prices and exchange rates constant at 2022 levels. This enables comparability across years and the two markets included in the study. We adjust the prices based on economy-wide, rather than sector-specific inflation indices, because our analysis is designed to capture IWS's impact throughout the whole economy.

BOX 1: OUR APPROACH TO ECONOMIC IMPACT ASSESSMENT

In this report, we use a bespoke economic impact modelling framework to analyse the contribution that international wine and spirits makes to the economies of Thailand and Vietnam. We assess the direct economic impact of the businesses and workers involved in the sale and distribution of IWS—that includes wholesalers, hospitality, and retail. We present the impact in three ways:

- **Gross value added (GVA) contribution to gross domestic product (GDP).** This is the value of the output produced by a firm minus its expenditure on inputs (goods and services) that are used up in production. Aggregated across all economic operators in the economy, this forms GDP (plus production taxes and subsidies), which is the most widely recognised measure of total economic output.
- **Employment.** This is measured on a headcount basis to facilitate comparisons with national statistical agencies' employment data. It therefore includes anyone who is paid wages regardless of the length of their working week or whether they work all year round. Those who are paid as part of a contract for the provision of services will be considered as part of the supply chain, for the purposes of this study.
- **Tax contribution.** This includes import and excise taxes, value added tax, corporation tax and income tax in each country, and is estimated using tax data provided by APISWA members and national statistics.

Our results are presented on a gross basis. They therefore ignore any displacement of activity from other uses of the resources used in the sales of IWS.

We present our findings in 2022 prices and a 2022 USD exchange rate. When adjusting prices to real terms, we use official price deflators based on economy wide inflation trends.

4.1 THE ECONOMIC CONTRIBUTION OF IWS IN THAILAND

Sales and distribution of IWS in Thailand contributed USD 198 million (6.9 billion baht) to national GDP in 2022.

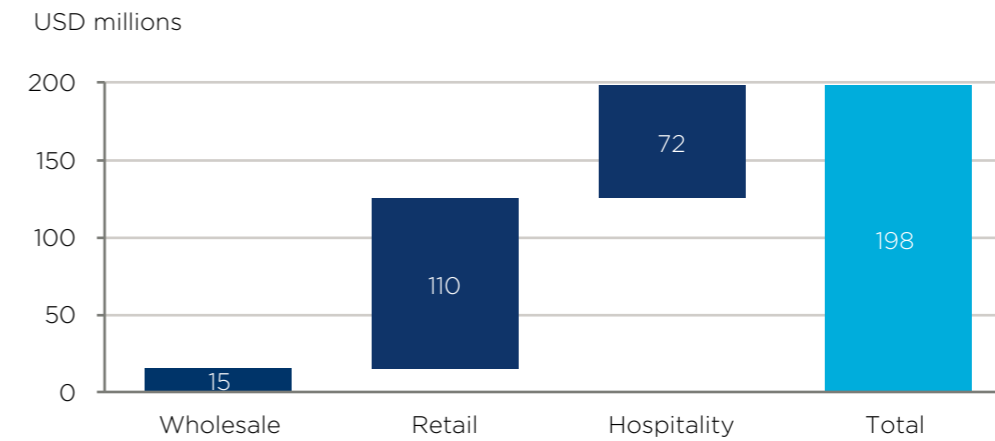
In real terms, this marked a USD 24 million (0.8 billion baht) increase from IWS's contribution in 2021. In total, IWS's contribution to GDP was equivalent to 0.20% of the total contribution hospitality, retail, and wholesale sectors made to GDP. IWS sales and distribution also supported a total of 20,500 jobs in 2022. Additionally, the economic footprint of IWS in Thailand generated a USD 292 million (10.0 billion baht) in tax revenues, accumulated across excise, import, corporate, and income tax contributions.

4.1.1 International wine and spirits impact in detail

The most significant impact IWS makes is in the retail sector, which amounted to USD 110 million (3.9 billion baht) in 2022, and accounted for 56% of total IWS GVA contribution in Thailand that year.

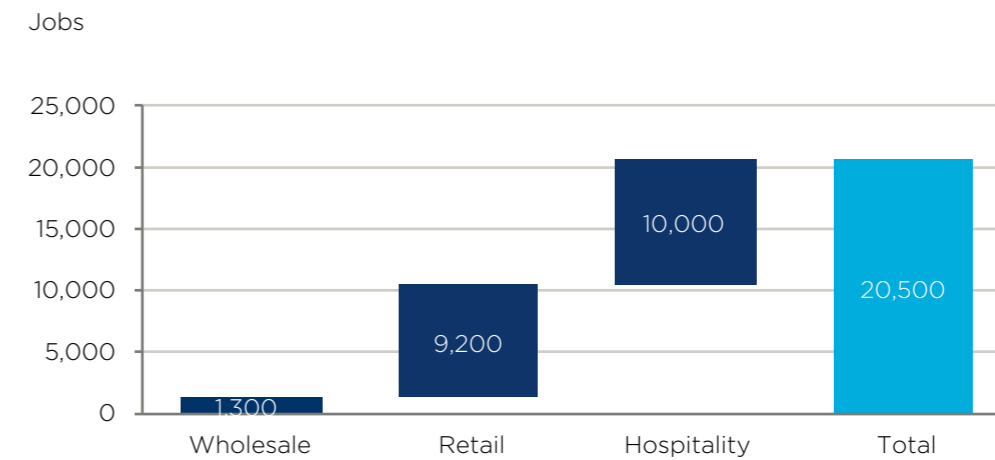
This was followed by the wholesale and hospitality sectors, in which IWS contributed USD 15 million (0.5 billion baht) and USD 72 million (2.5 billion baht) to sector GVA in 2022, respectively (see Fig. 13). Jobs supported by IWS are skewed towards the hospitality sector, which employed roughly 10,000 persons. A further 9,200 and 1,300 jobs were supported in the retail and wholesale sectors respectively that year (see Fig. 14). The higher number of jobs supported in hospitality compared to retail reflects the higher average level of productivity in the latter.

Fig. 13: Distribution of IWS's contribution to GDP in Thailand by channel, 2022



Source: Oxford Economics. APISWA. IWSR. Figures may not sum due to rounding.

Fig. 14: Distribution of jobs supported by IWS in Thailand by channel, 2022



Source: Oxford Economics. APISWA. IWSR.

4.1.2 The evolution of international wine and spirits in Thailand

Between 2019 and 2020, the contribution to GDP from the sales and distribution of IWS fell from USD 235 million (8.2 billion baht) to USD 156 million (5.5 billion baht), reflecting the adverse impact that the pandemic had on the IWS downstream industries.

In the years after 2020, the sector's contribution to GDP began to increase, although it had yet to recover to pre-pandemic levels by 2022. Despite that, IWS's importance across the overall hospitality, retail, and wholesale sectors has grown. Our analysis shows that IWS downstream sales

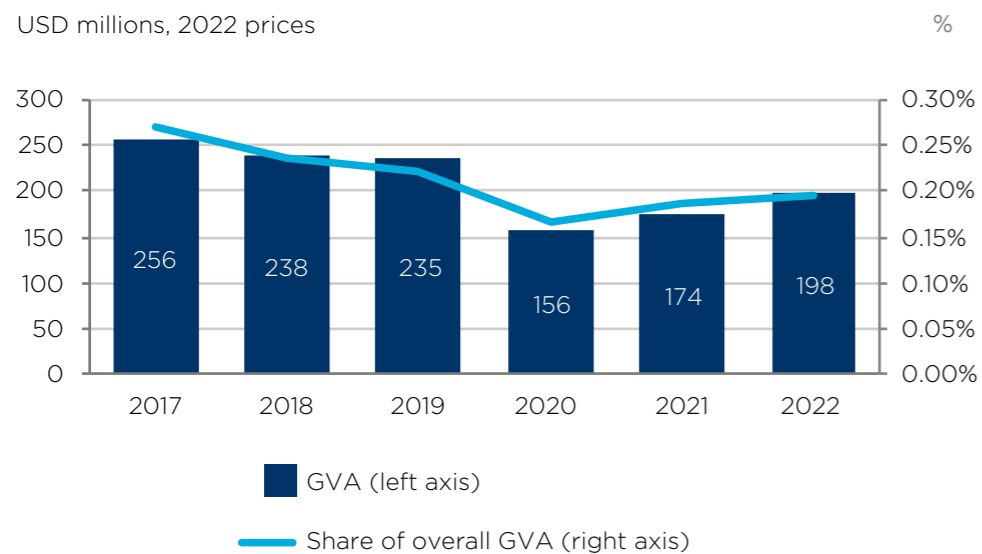
account for a growing share of this aggregated sector's GVA, rising from 0.17% in 2020, to 0.20% in 2022 (see Fig. 15).

As the pandemic restrictions came into force in 2020, the number of jobs supported by downstream IWS sales in Thailand also fell.

IWS sales and distribution activity supported an estimated 24,900 jobs in 2019 in the hospitality, retail, and wholesale sectors, which fell to 15,900 in 2020. The number of jobs supported by IWS in Thailand in 2022 had also yet to reach its pre-pandemic levels. However, like its share of the sector's GDP contribution, IWS increased the share of Thai employment

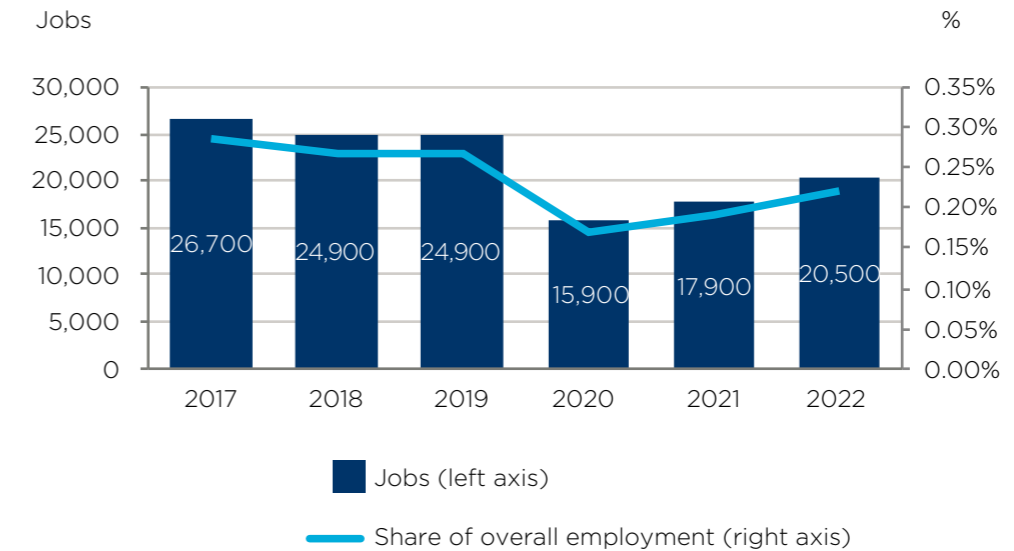
in the overall hospitality, retail, and wholesale sector that it accounts for from 0.17% to 0.22% between 2020 and 2022 (see Fig. 16).

Fig. 15: IWS share of the hospitality, retail, and wholesale industry GDP contribution in Thailand, 2017-2022



Source: Oxford Economics. APISWA. IWSR.

Fig. 16: IWS share of the hospitality, retail, and wholesale industry's employment in Thailand, 2017-2022

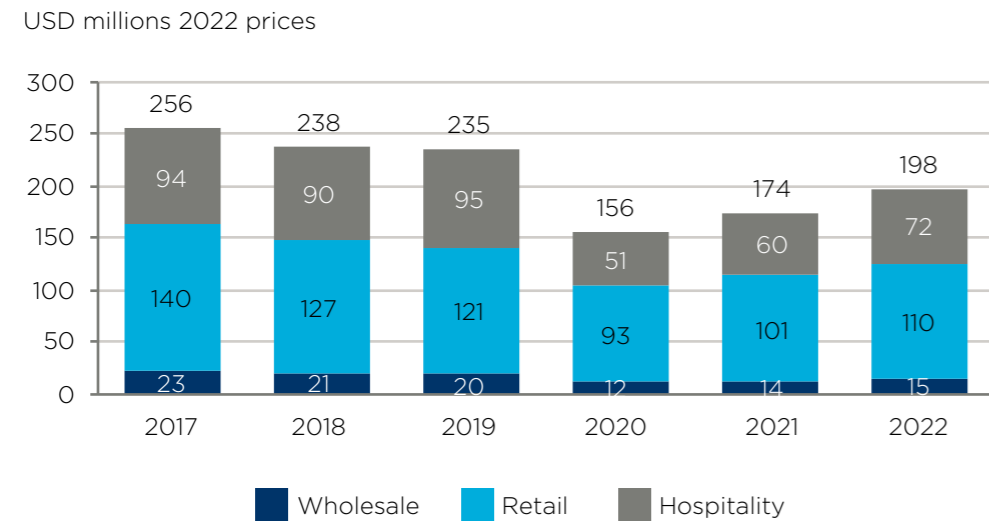


Source: Oxford Economics. APISWA. IWSR.

During the pandemic, the economic footprint of IWS fared better in the retail sector than in hospitality. The retail sector had traditionally accounted for a larger portion of the IWS economic footprint in Thailand, and it played a role in buoying IWS sales during the pandemic, supporting 59% of the total GVA contribution in 2020, up from 51% in 2019. By contrast, IWS's economic footprint in the hospitality sector fell by 8 percentage points in

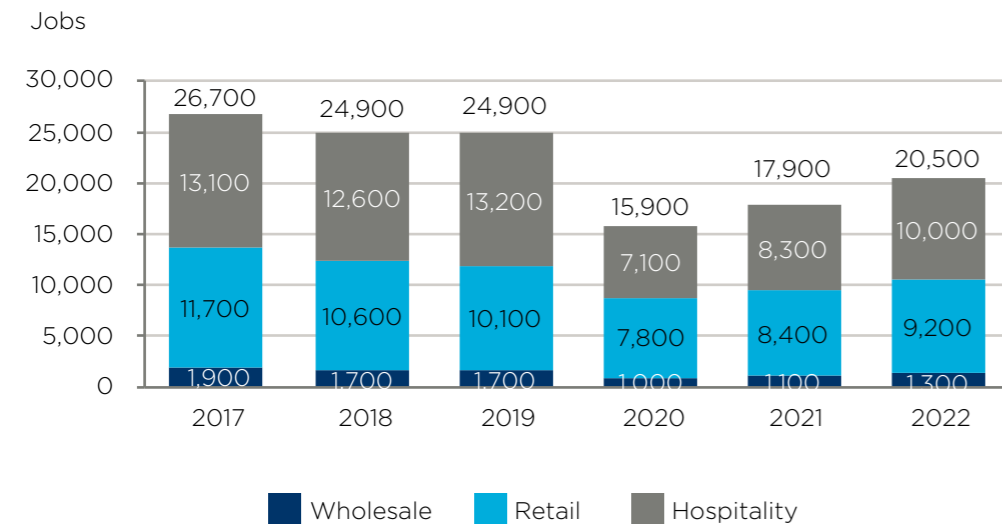
the same period. Meanwhile, the wholesale sector quite consistently contributed around 8% of IWS' total GVA impact. Between 2020 and 2021, the IWS footprint began to shift towards the hospitality sector, in a gradual return to 2019 levels. Value added from IWS sales and distribution in each of the three sectors in absolute terms gradually increased between 2020 and 2022, showing a trend towards recovery (see Fig. 17).

Fig. 17: IWS contribution to GDP in Thailand by channel, 2017-2022



Source: Oxford Economics. APISWA. IWSR. Figures may not sum due to rounding.

Fig. 18: Jobs supported by IWS in Thailand by channel, 2017-2022



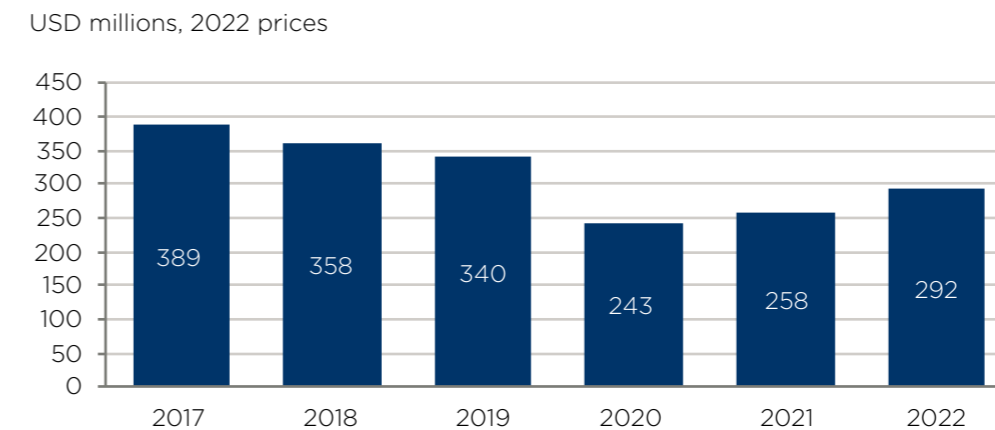
Source: Oxford Economics. APISWA. IWSR. Figures may not sum due to rounding.

The employment supported by IWS sales and distribution across its three channels trended in a broadly similar fashion to that of its GDP footprint. While hospitality's share of the IWS employment footprint fell from 53% to 45% between 2019 and 2020, retail's share of total employment supported by IWS sales and distribution increased by 8 percentage points. The wholesale

sector's contribution to total employment remained fairly consistent at 7% (see Fig. 18). **IWS's downstream activities contribute substantial tax revenues to the government, primarily in the form of excise, import, and value added taxes.** The firms and employees that form part of the economy footprint also generate corporation and income tax revenues. In

2022, tax receipts totalled USD 292 million (10.0 billion baht) in 2022 and represented 34% of the overall IWS retail value in Thailand. Tax revenue collected steadily increased since 2020, parallel to the industry's contribution to GVA, and remained at 86% of 2019 levels in 2022 (see Fig. 19).

Fig. 19: IWS contribution to taxes in Thailand, 2017-2022



Source: Oxford Economics. APISWA. IWSR.



4.2 THE ECONOMIC CONTRIBUTION OF IWS IN VIETNAM

Sales and distribution of IWS in Vietnam contributed USD 282 million (6.6 trillion dong) to national GDP in 2022, in real terms this marked an 11% increase from IWS’s impact in 2021.

In total, IWS’s contribution to GDP was equivalent to 0.60% of total hospitality, retail, and wholesale GDP. The economic activity stimulated by IWS sales and distribution supported a total of 65,600 jobs across the country in 2022. Additionally, the economic footprint of IWS in Vietnam generated a total of USD 253 million (5.9 trillion dong) in tax revenues.

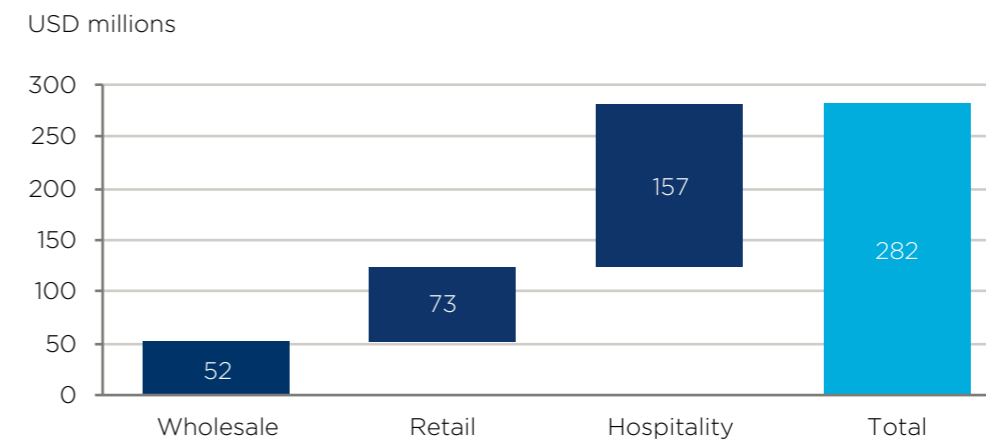
4.2.1 International wine and spirits impact in detail

The economic footprint of IWS sales and distribution in Vietnam was largest in the hospitality sector in 2022.

This prominent share of gross value added is realised despite the sector accounting for a smaller share of IWS sales than the retail sector, due to the higher margins that bars, restaurants, and hotels are able to charge on those IWS sales. The hospitality sector accounted for 56% of the IWS GDP contribution, compared to 26% and 18% in the retail and wholesale sectors, respectively (see Fig. 20). This sectoral composition also directly translates into the IWS employment footprint,

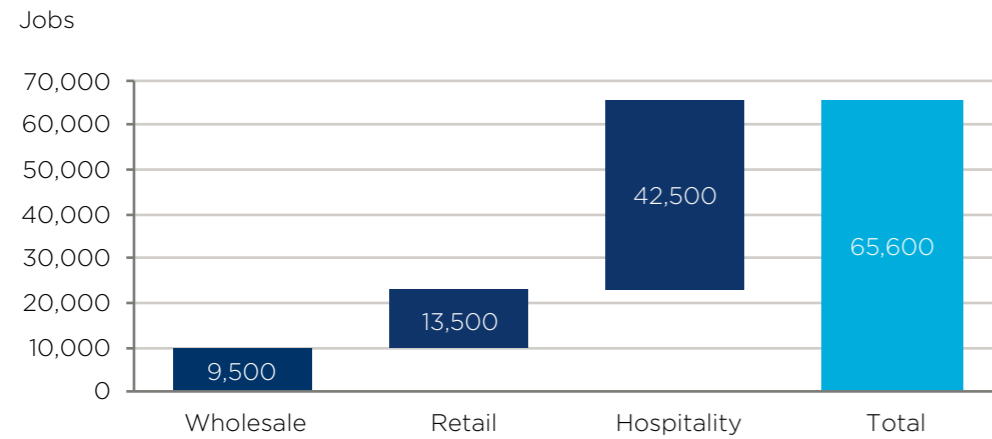
which supported 42,500 jobs in Vietnam’s hospitality sector in 2022, 13,500 in the retail sector, and 9,500 in wholesale (see Fig. 21).

Fig. 20: Distribution of IWS contribution to GDP in Vietnam by channel, 2022



Source: Oxford Economics. APISWA. IWSR. Figures may not sum due to rounding.

Fig. 21: Distribution of jobs supported by IWS in Vietnam by channel, 2022



Source: Oxford Economics. APISWA. IWSR. Figures may not sum due to rounding.

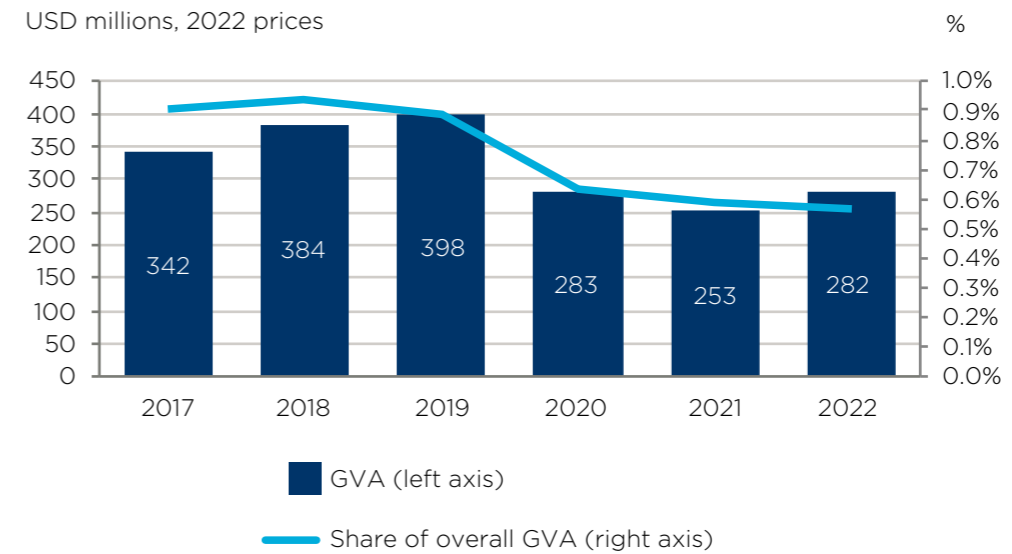
4.2.2 The evolution of international wine and spirits in Vietnam

Whilst the contribution to GDP from the sale and distribution of IWS grew steadily between 2017 and 2019, the pandemic reversed the trend, illustrating the dependence of the IWS economic footprint on tourism and social interaction. The IWS contribution to Vietnam GDP fell from USD 398 million (9.3 trillion dong) in 2019, to USD 283 million (6.6 trillion dong) in 2020 (see Fig. 22). It subsequently began to recover in 2022, but still had not reached pre-pandemic levels.

Just as the IWS economic footprint shrank in 2020, so did the number of Vietnamese jobs it supported.

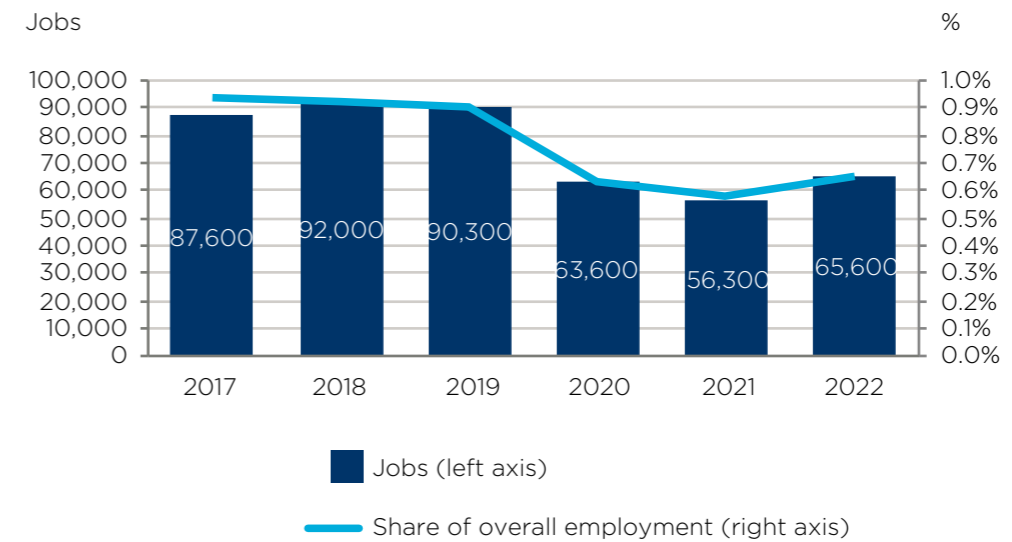
The total jobs footprint of downstream IWS sales in Vietnam remained below 2019 levels in 2022, but notably increased as a proportion of the total wholesale, retail, and hospitality workforce that year (see Fig. 23).

Fig. 22: IWS share of the hospitality, retail, and wholesale industry GDP contribution in Vietnam, 2017-2022



Source: Oxford Economics. APISWA. IWSR.

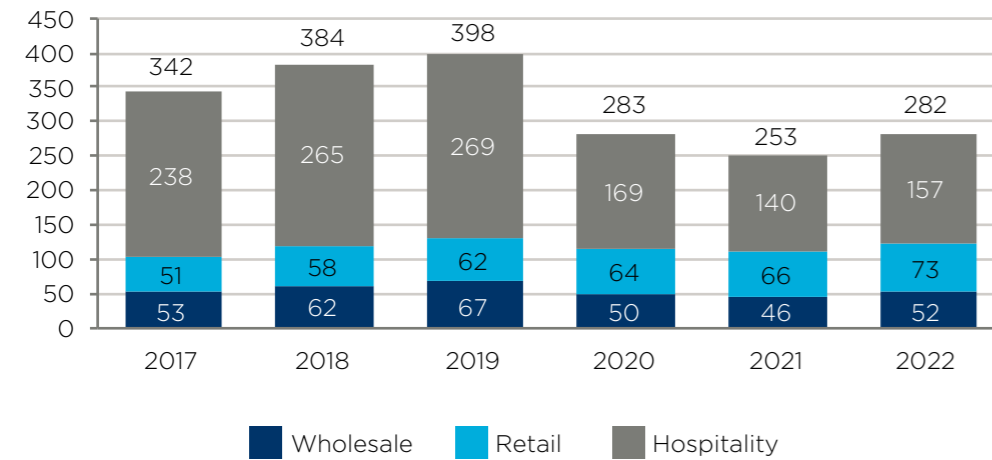
Fig. 23: IWS share of the hospitality, retail, and wholesale industry's employment in Vietnam, 2017-2022



Source: Oxford Economics. APISWA. IWSR.

Fig. 24: IWS contribution to GDP in Vietnam by channel, 2017-2022

USD millions, 2022 prices



Source: Oxford Economics. APISWA. IWSR. Figures may not sum due to rounding.

The hospitality sector's majority share of the IWS economic footprint, ranging from 67% to 70% of the total pre-pandemic, fell during the pandemic period.

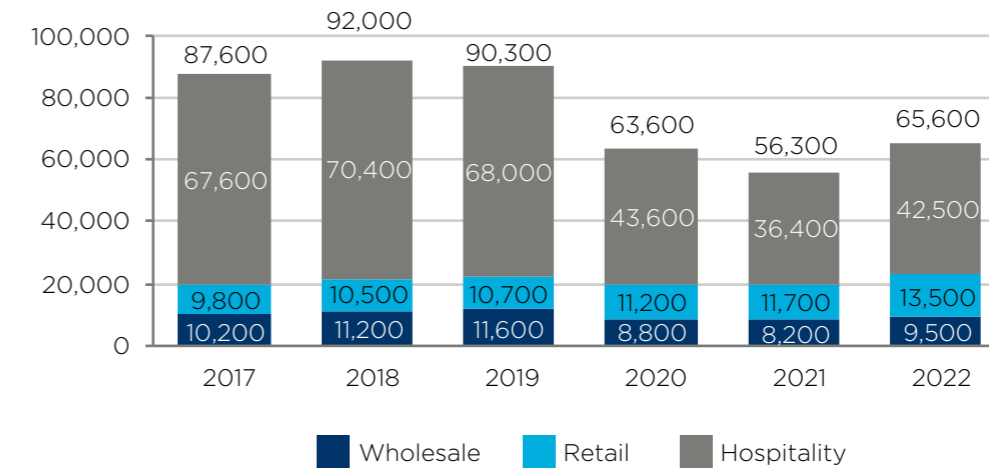
Between 2019 and 2020, the hospitality share of the total IWS footprint fell from 67% to 60%, while retail share increased from 16% to 23%, reflecting the transition towards a greater market in retail. The value added to GDP by IWS downstream activity in the Vietnamese retail and wholesale sectors had nearly recovered to 2019 levels by 2022, amounting to USD 125 million (2.9 trillion dong), whilst the hospitality footprint remained at 42% below pre-Covid-19 levels (see Fig. 24).

The jobs supported by IWS sales and distribution fell across all channels in 2020, but to a lesser extent in the wholesale and retail sectors.

The hospitality sector's share of the IWS employment footprint supported by IWS fell from 75% to 69% between 2019 and 2022, while the wholesale and retail sectors' share grew (see Fig. 25).

Fig. 25: Jobs supported by IWS in Vietnam by channel, 2017-2022

Jobs

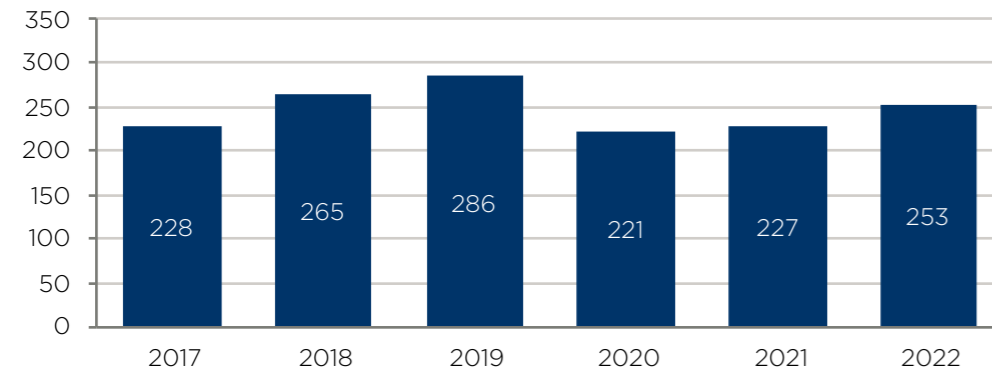


Source: Oxford Economics. APISWA. IWSR. Figures may not sum due to rounding.

Alongside these impacts, a total of USD 253 million (5.9 trillion dong) in tax revenue was generated by IWS sales and distribution (see Fig. 26). This includes excise, import, and value added taxes, which formed the significant majority of the overall tax revenue collected, as well as the corporation and income taxes generated by companies and their employees. In 2022, tax revenue was worth the equivalent of 31% of total IWS retail value in Vietnam.

Fig. 26: IWS contribution to taxes in Vietnam, 2017-2022

USD millions, 2022 prices



Source: Oxford Economics, APISWA, IWSR.





5. CONCLUSION

Our analysis of the Thai and Vietnamese alcohol markets has shown that, despite their relatively small market share, international wine and spirit sales deliver a sizeable economic contribution in the form of GDP, tax revenues, and jobs. This impact prevails despite high relative tax burdens, relatively strict regulatory constraints, and competition from a large illicit market.

The outlook for IWS in Southeast Asia is positive, and it is reasonable to expect its economic and employment footprint to grow in the years to come. Tourism spending in the region is rebounding; we forecast total international visitor arrivals to surpass 2019 levels by 2025.²⁹ Alongside rising disposable incomes and an expansion in the middle class share of consumers, we expect to see growth in the demand for IWS and premium experiences. If this demand can be adequately met in Southeast Asian economies, it will lead to a recovery of the levels of jobs and GDP supported by IWS sales and distribution prior to the pandemic, and further growth.

This report has identified that capitalising on the 'premiumisation' trend is key for local entrepreneurs, investors, and skilled workers to gain the most from the hospitality and tourism revival in the years to come. Premium alcohol products are an important component of this trend. And the economic gains could be further amplified with effective government policies to develop the ecosystem around international and domestic wine and spirits within the domestic economy.

²⁹ According to forecasts by Tourism Economics, a subsidiary of Oxford Economics.

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