



Doing Business in South East Asia

BY ORISSA INTERNATIONAL

*Those who do not know the lay of the land cannot maneuver their forces.
Those who do not use local guides cannot take advantage of the ground.*

Sun Tzu, The Art of War



About Orissa International

- Established in 1997, Orissa International is headquartered in Singapore, with offices in Malaysia, Indonesia, Thailand, Vietnam and the Philippines. We have a team of 30 trade and research consultants across 6 offices.
- Boutique consultancy providing international trade advisory services to companies and export agencies seeking to export or do business in South East Asia
- A strong track record in guiding companies with their initial entry into a new market. Over 15 export promotion agencies from around the world refer their companies to us for trade advisory services. Over 1000 individual client references with companies from around the world selling a variety of products and services, both industrial and commercial
- Government export promotion agencies from around the world refer companies to us. We work with the US states of Pennsylvania, Virginia, Iowa, Ohio, Swiss Global Enterprise, Invest Northern Ireland, amongst others.





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Overview of the Growing Markets of South East Asia



The ASEAN Story



- Sizeable GDP
- Large Demographics
- Robust Trade
- Steady FDI Inflow
- Significant Banking Assets
- Political Stability
- Good Governance

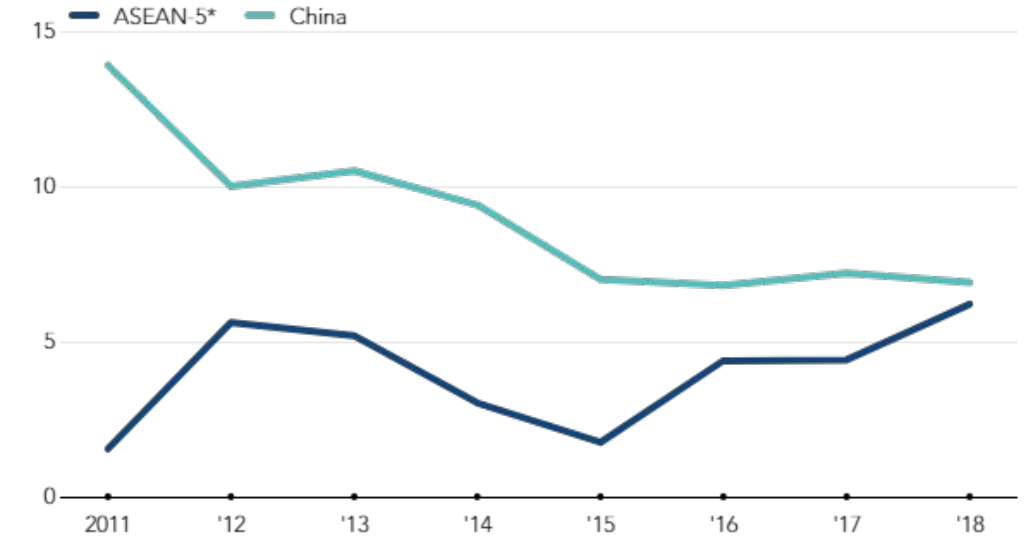
South East Asia – 5th Largest Economy in the World



Rank	Country	GDP 2018 (Current USD)
1	US	US\$ 20.49 trillion
2	China	US\$ 13.61 trillion
3	Japan	US\$ 4.97 trillion
4	Germany	US\$ 4.00 trillion
5	UK	US\$ 2.81 trillion
6	France	US\$ 2.78 trillion
7	India	US\$ 2.72 trillion
8	Italy	US\$ 2.07 trillion
9	Brazil	US\$ 1.87 trillion
10	Canada	US\$ 1.71 trillion
16	Indonesia	US\$ 1.04 trillion
	World	US\$ 85.80 trillion

**ASEAN GDP:
US\$ 2.97 trillion**

Southeast Asia's industrial growth has caught up with China's
(Year-on-year change in manufacturing production index, percent)



Source: Japan Center for Economic Research

*Indonesia, Malaysia, the Philippines, Singapore and Thailand. (Jan-Jun 2018 data)

Source: The World Bank



Buoyant Growth, Economies & Demographics

- Key Markets: Singapore, Malaysia, Indonesia, Thailand, Vietnam, the Philippines
- Population: over **650 million**
- GDP: **US\$ 2.97 trillion** – 5th largest economy in the world
- Robust growth of 5.1% in 2018; forecast to grow by 4.9-5.0% in 2019/2020
- FDI inflows improved by 5.3% to reach US\$ 151.2 billion in 2018
- Trade in goods in 2018 increased by 8.7% year-on-year
- Trade in services in 2018 expanded by 10.6% year-on-year
- Urban Hubs: 50 large cities with populations over 500,000
- Regional integration to form a common market, the ASEAN Economic Community (AEC)

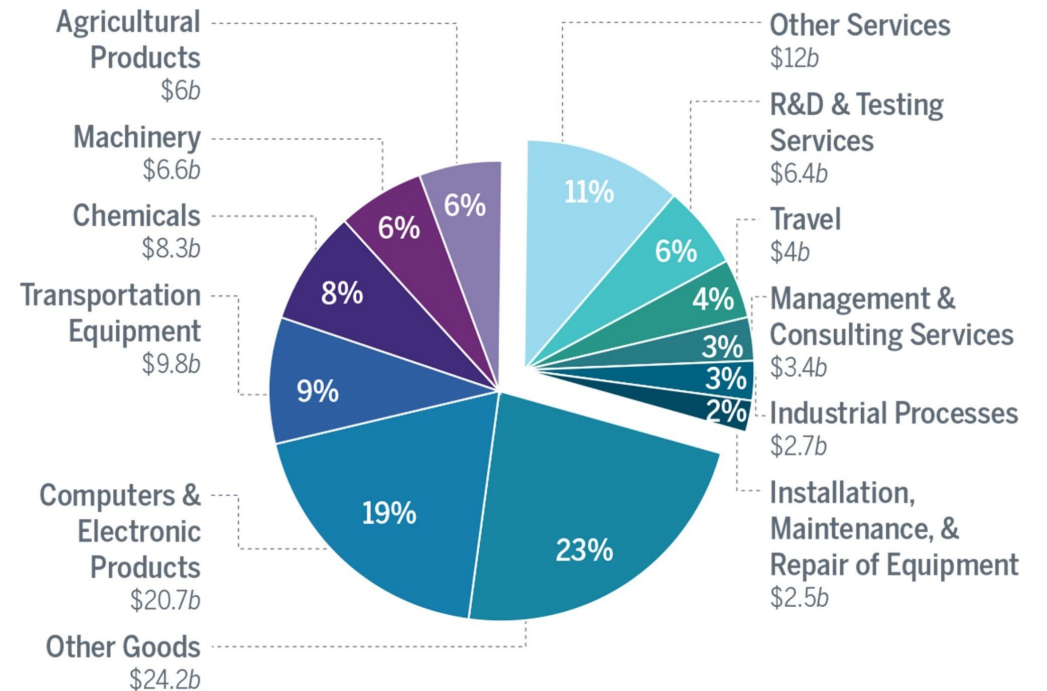


US Export Markets in South East Asia

Country	Export Value (2018)	2017- 2018 Growth
Singapore	US\$ 32.75 billion	10.4%
Malaysia	US\$ 13.01 billion	1.0%
Thailand	US\$ 12.45 billion	12.9%
Vietnam	US\$ 12.03 billion	18.9%
Philippines	US\$ 8.72 billion	3.2%
Indonesia	US\$ 8.17 billion	19.1%
Cambodia	US\$ 0.45 billion	11.4%
Brunei	US\$ 0.27 billion	119.5%
Myanmar	US\$ 0.26 billion	23.6%
Laos	US\$ 0.02 billion	-37.7%

US\$ 85.76 billion

COMPOSITION OF US GOODS & SERVICES EXPORTS TO ASEAN



NOTE: Services data not available for Cambodia, Laos, and Myanmar.
Source: Estimated by the Trade Partnership (Washington, DC), 2017 data

- Total value of US exports of goods to ASEAN in 2018: USD 86.2 billion
- As a region, ASEAN is the US' fourth largest export market

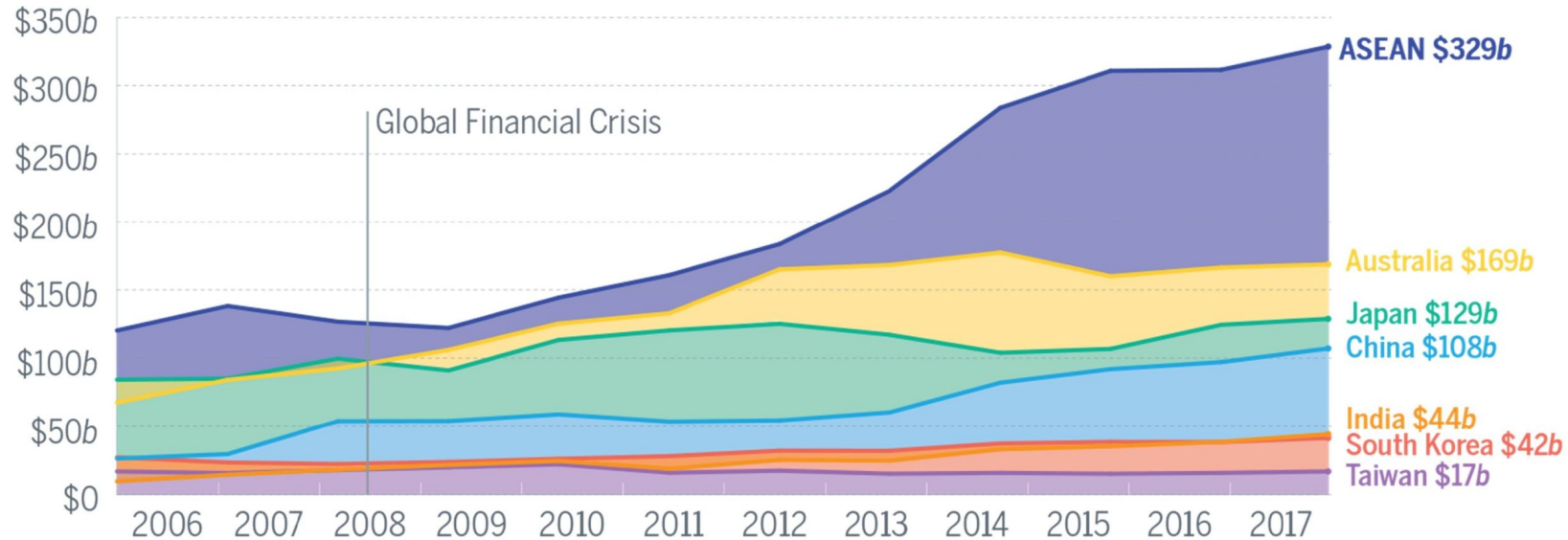
Sources:
USICT

US-ASEAN Business Council



US Investment in South East Asia

US DIRECT INVESTMENT POSITION IN THE INDO-PACIFIC



Source: US Bureau of Economic Analysis (BEA) Direct Investment Position on a Historical-Cost Basis

- In 2017, ASEAN received almost US\$ 329 billion in investment from the US (more than China, India, Japan, and South Korea combined)
- US FDI in ASEAN has increased by an average of 10% per year in the past 10 years
- US FDI in ASEAN now accounts for over one third of US investment into the Indo-Pacific to date.

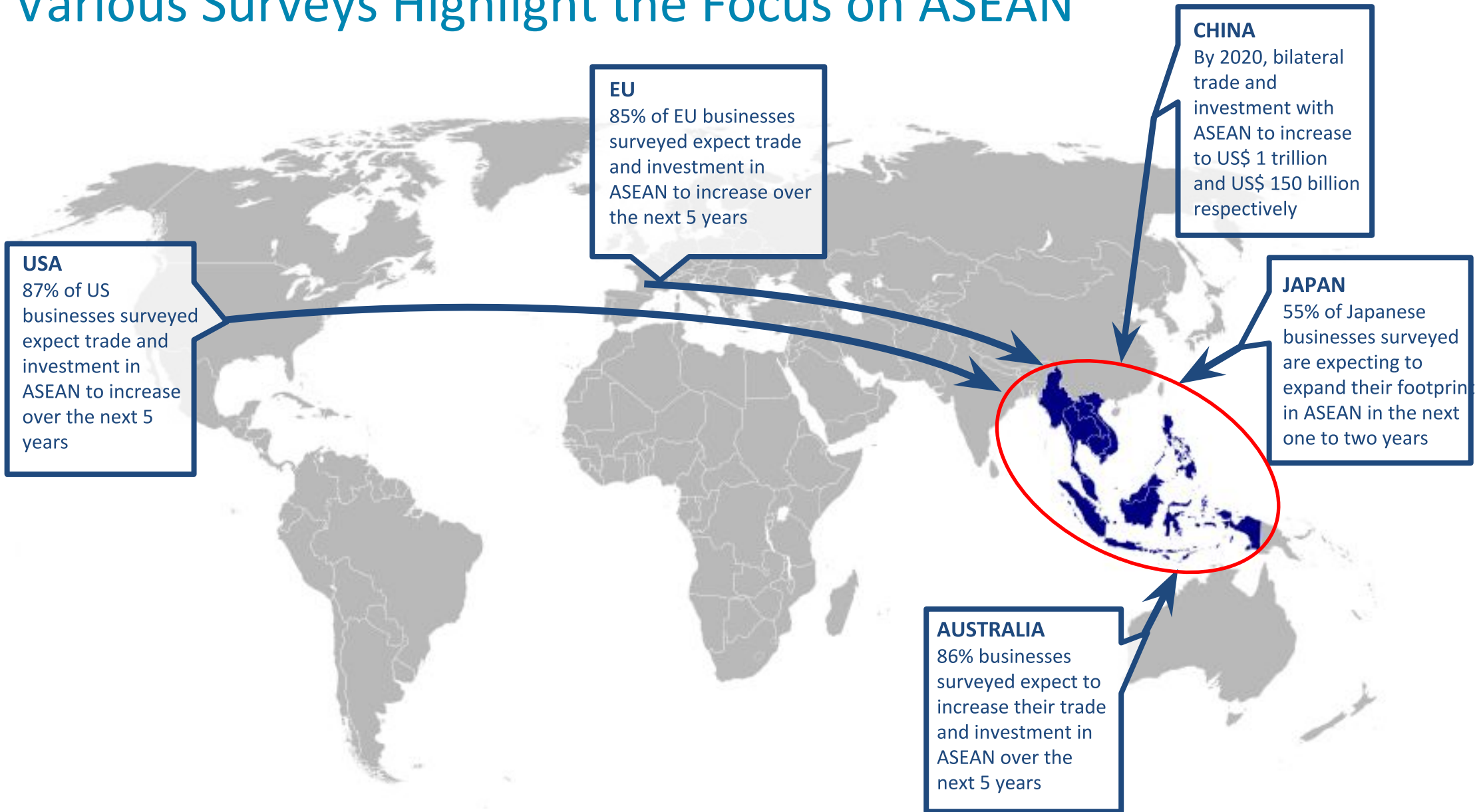


Why South East Asia?





Various Surveys Highlight the Focus on ASEAN



Sources:
EY - Rediscover ASEAN, a growth story of 10 countries



What's Happening in South East Asia

- **Impact of the US-China Trade War:** Shift of contract manufacturing to countries such as Malaysia, Vietnam and Thailand. Increased FDI - the trade war is driving more capital into the region. About one-third of more than 430 American companies in China are considering production sites abroad amid the tensions.
- **E-commerce:** Online platforms growing in popularity due to the lack of access to retail stores and limited product selection in ASEAN markets such as Indonesia. Online e-commerce platforms are expected to be worth US\$88 billion by 2025. Growing demand for payment solutions, fraud detection, digital marketing services, as well as physical infrastructure such as distribution warehouses, data centers and logistics.
- **Digitalization:** This is a major trend and innovation driver across the region, in both public and private sectors. South East Asia's digital economy is projected to be worth more than US\$200 billion by 2025, a 400% increase from 2017's US\$50 billion.
- **Infrastructure:** Demand for infrastructure is booming. ADB estimates ASEAN's annual infrastructure investment needs stand at US\$ 184 billion. China has pledged to spur a radical transformation of the region by enhancing interconnectivity through its Belt & Road Initiative (BRI). And Chinese firms are now involved in building new railways, roads and ports across the region.





Impact of US-China Trade War

- UBS Group found in a November survey that around 37 per cent of 200 export manufacturers said they had transferred production in the past year, while another 33 per cent plan to do so in the next six to 12 months.
- Ricoh Co will move all production of US-bound multi-function printers from Shenzhen to Thailand.
- Taiwan's Kenda Rubber Industrial is investing in Vietnam
- Big consumer brands Samsonite International SA, Macy's Inc and Fossil Group Inc have all said on recent calls with analysts that they are continuing to move production and sourcing out of China.
- Cisco – “We still have some manufacturing happening in China, but we have greatly, greatly reduced our exposure working with our supply chain and our suppliers”
- Communication equipment producer Sierra Wireless Inc has almost completed moving some production to Vietnam
- Even Chinese firms are moving to dodge the tariffs. China-based Jason Furniture (Hangzhou) Co revealed plans to build factories overseas in its annual report last month, and Xilinmen Furniture Co started to build a production base in Thailand.





How to Differentiate the Markets in South East Asia?



- **Singapore:** Regarded as a hub in the region with strong commercial and cultural ties to countries in the region; excellent tax status and ease of doing business; good infrastructure and connectivity; strong R&D; strong financial center; higher costs; tight labor market
- **Malaysia:** Pro-business policies; investor friendly and good infrastructure; lower labor costs and larger labor pool (relative to Singapore); rich in energy and natural resources; growing manufacturing sector
- **Indonesia:** 4th largest population in the world; strong economy which is increasingly opening up sectors to foreign investment; booming infrastructure needs; large tier 2 cities; corruption and bureaucracy
- **Thailand:** Still on investor's radar; stable and resilient economy despite perceived political instability; hub for Indochina; very industrialized; rising consumerism; heavily export-dependent
- **Vietnam:** Economy on a strong growth trajectory; leader in attracting manufacturing investment; large Chinese, Japanese, Korean, Taiwanese investments; sustained economic reforms; industrialization and urbanization; young and skilled labor force; maturing consumer market
- **Philippines:** Newly industrialized country; world's 10th fastest growing economy; infrastructure-led growth; strong BPO capabilities and outsourcing of support functions ; English-speaking population; competitive domestic wages and highly educated workforce



Key Sectors in South East Asia for Pennsylvania Companies



Manufacturing



- Manufacturing is set to play a critical role in South East Asia's growth, with individual ASEAN countries possessing their own niche and offering different opportunities for US companies.
- **Singapore:** Has a strong ecosystem that enables companies to adopt technology that drive favorable production outcome. Faces land constraints and a tight labor market.
- **Thailand:** Has a developed automotive and precision engineering manufacturing cluster. Companies investing in business activities related to the robotics and automation industries and technologies, including conceptual design solutions, engineering design, system integration, and manufacturing are eligible for various incentives.
- **Malaysia:** Manufacturing sector forecast to expand 4.7% in 2019, supported by export-oriented industries, and expansion in electrical and electronics as well as chemicals & chemical product subsectors.
- **Vietnam** has emerged as a key alternative export manufacturing base to China, especially in electronics, textile & garments and furniture. Vietnam's manufacturing sector estimated to account for 25% of GDP. Labor costs in Vietnam are 50% of those in China and 40% of Thailand and Philippines.
- **Indonesia,** with its large consumer market and labor force, is suitable for companies looking to adopt an in-market manufacturing approach.



MedTech



- Demand for healthcare is growing in ASEAN, driven by a growing and ageing population, rising levels of chronic disease, and a more educated and increasingly affluent middle class, government expenditure on universal healthcare scheme in many markets
- Private players investing in the modernization of hospitals and infrastructure owing to increasing healthcare demand across ASEAN and the rise of medical tourism in the region.
- **Singapore:** Strong R&D infrastructure; at the forefront of technological innovation for medical devices; global medtech companies have established operations and R&D facilities in the country; has a well-established biomedical manufacturing industry.
- **Malaysia:** Is investing in the medical equipment sector. Has 200 medical device companies (30 MNCs; 50 LLC and 120 SMEs). Medical tourism is growing, attracting patients from Indonesia and the Middle East.
- **Indonesia:** Has 73 major private hospitals, 42 of them located in Jakarta. More expected to be developed in Tier 2 cities (Makassar, Pekanbaru and Balikpapan). Opportunities for the strategic positioning of medical technologies by emphasizing their cost-effectiveness, as well as focusing on patient comfort and wellbeing in the higher-end market.
- **Thailand:** Produces low-tech devices as syringes, test kits, and surgical gloves. Has become a popular medical tourist destination and has a strong demand for medical devices.



CleanTech

- **Singapore:** By 2060, demand for water is set to double to 800 million gallons a day and Singapore aims to expand existing water purifying capacities to have 85% of its total water needs to be met by desalinated water (30%) and high-grade reclaimed water (55%).
- **Indonesia:** Water sanitation plants in Indonesia are incapable of fulfilling the needs of its population across thousands of islands. Water management is in the growth stage, and Indonesia is investing in clean water and water treatment, with several projects planned in the areas of Sumatra, Kalimantan and Papua.
- **Malaysia:** The government plans to ensure water supply sustainability, especially in water-stressed areas, by constructing new treatment plants or upgrading existing ones. Focus will be given to states that have a water supply reserve margin of less than 10% such as Kedah, Selangor, and Negeri Sembilan.
- **Thailand:** Thai government launched a USD 28 billion water resource management strategy, which is to be implemented between 2015 and 2026, at three distinct levels. The government is prioritizing water source management, water storage solutions, water consumption, and waste water management
- **Vietnam and Philippines:** A lack of clean water is a pressing environmental concerns. Both countries plans to invest into new water and wastewater treatment plants.



ICT



- **Singapore:** 10-year ICT Masterplan known as Infocomm Media 2025 backing the development of big data and analytics; IoT; future communications; cybersecurity; intensive media; cognitive computing and advanced robotics.
- **Indonesia:** Has identified ICT as a key focus with national broadband connectivity as a crucial lever for growth. Cornerstone ICT infrastructure project is the Palapa Ring, a 35,000-km undersea fibre-optic cable network providing high-speed broadband connectivity across the country.
- **Thailand:** Establishing digital parks for SMEs, and creating digital innovative start-up networks. Working closely with local and foreign companies on its efforts to build digital communities aimed at promoting all industrial sectors to use digital technologies that will increase productivity.
- **Vietnam:** A new ICT master plan; Plans to develop 3 new high-tech parks in Hanoi, Da Nang City and Ho Chi Minh City. Strong focus on training of HR in telecommunication and IT, linking training and scientific research with the operations and the needs of ICT enterprises.
- **Malaysia and Philippines:** Harnessing ICT to strengthen and improve infrastructure for all citizens as well as enhancing government operations and online services.



Hardwoods



- Total exports of US hardwood products to ASEAN reached **US\$400 million in 2018**, a nearly 10% growth from 2017, according to the American Hardwood Export Council (AHEC).
- Market driver:
 - Demand in the export market for furniture.
 - Wage increase in China pushing some wood products manufacturing from China to lower-cost labor countries such as Vietnam.
 - Economic growth leading to increased demand for woods for construction, interiors, and furniture manufacturing for domestic purposes.
- **Vietnam:** 3rd largest market in the world for US hardwoods, after China and Canada. US-China trade war brought many suppliers to Vietnam that used to serve China only.
- **Indonesia, Malaysia and Thailand:** Ranks 10th to 12th as an important market for US hardwoods.
- **Philippines:** Import of US hardwood in 2018 was outstanding - increasing to 67% from its 2017 imports, although from a small base of US\$3.28 million. Main category imported is hardwood veneer.



Education



- The US is still one of the top destinations for international students from ASEAN despite the downward trend in new international student enrollment in the US for the last 3 years.
- Pennsylvania is one the top US states where ASEAN students go, together with California, New York, Texas, Massachusetts and Illinois.
- There were 58,111 ASEAN students in the US for AY 2017-2018, up 3.6% from the previous AY.
- Top programs in the US that ASEAN students take up are:
 - STEM
 - Business Management
- **Vietnam, Indonesia and Malaysia:** Within the top 25 of US international students' places of origin



Questions on the SE Asian market?

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