

Investing in ASEAN

Association of Southeast Asian Nations

2014 | 2015



• one vision • one identity • one community •

| Brunei Darussalam | Cambodia | Indonesia | Lao PDR | Malaysia |



| Myanmar | Philippines | Singapore | Thailand | Vietnam |



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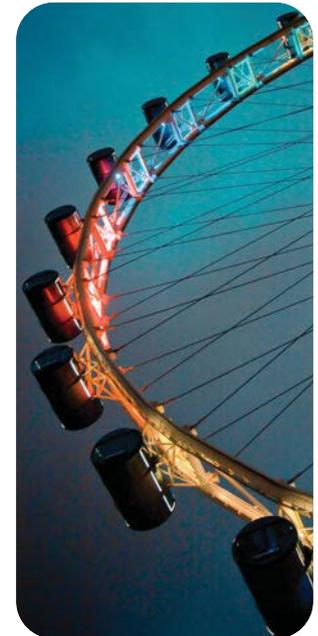
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Introduction: Promise of new era draws foreign investment



2015 will be the most significant since the inception of the Association of Southeast Asian Nations when the ASEAN Economic Community (AEC) is due to come into being at the end of the year.

The AEC will initiate a single market, comprised of the ten member nations, 48 years after the Association was first agreed by its founder members - Indonesia, Malaysia, Philippines, Singapore and Thailand.

ASEAN membership has seen the economies of these countries and those of Brunei Darussalam, Vietnam, Lao PDR, Myanmar and Cambodia who joined later, expand and consistently exceed average global GDP growth in recent years. Almost all of the ten ASEAN economies are expected to achieve growth rates of 5% or above in 2014.

This growth and the promise of the AEC, are generating a wide range of opportunities for business and investment. ASEAN continues to work to remove trade barriers between member states. Tariffs on goods are now

close to zero in many sectors for trade between Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand.

The single market will provide an unrestricted flow of goods, services, investment, skilled labour and a freer flow of capital between the members. Many benefits are promised, including access to a larger market and a reduction in trade barriers. This is an incentive to global companies setting up in the area, as well as local enterprises.

While more liberalisation is being negotiated, there is a growing development of trade flows within the Region itself. Intra-regional trade with Indonesia, Singapore and Thailand in particular is increasing and other markets are also expanding.

According to Philippines' Finance Minister, Cesar V Purisima, the growth of inter-ASEAN trade has outpaced the growth of world trade in the past three years. "That just shows the benefits of a more connected, more

harmonised ASEAN, which, if it were a single country, would have the third largest population and a GDP of more than US\$2 trillion," he says.

Companies in the Region, particularly those of Singapore, Malaysia and Thailand are going international by expanding first across ASEAN borders and then to the rest of Asia and beyond to Europe and the US.

ASEAN is firmly set to be at the crossroads of global business in the twenty first century. Singapore is the fourth highest ranked country in the McKinsey Global Institute's Connectedness Index, which among other measures tracks inflows and outflows of goods, services and finance. Malaysia in 18th place and Thailand in 36th, also rank in the top 50 most connected countries in the Index.

Some of Asia's largest Free Trade Export Development Areas are located in the ASEAN area. These include the Batam Free Trade Zone developed by Singapore and Indonesia, Thailand's Southern Regional Industrial Estate, Indonesia's Tanjung Emas Export Processing Zone, the Port Klang Free Zone in Malaysia, Vietnam's Tan Thuan Export Processing Zone and the Thilawa Special Economic Zone being developed in Myanmar.

The availability of manufacturing and logistical facilities in the Region, in addition to competitive cost structures, are increasingly drawing the attention of investors and multinationals southward from China to the ten dynamic ASEAN economies.



Analysis by Bank of America Merrill Lynch, drawing on national statistics, suggests that in 2013 Foreign Direct Investment (FDI) flows into ASEAN's largest economies of Indonesia, Thailand, Malaysia, Singapore and the Philippines surpassed those going into China. According to the Bank, FDI inflows into these five countries rose by 7% to US\$128 billion, US\$4 billion more than went into mainland China, an indication of ASEAN's growing importance in the global economy.

For investors, it is also a question of future potential. Even though all the members involved are at different stages of development, they all share immense growth potential and comprise a major global hub of manufacturing and trade.

In the long term, ASEAN could be the world's fourth largest single market by 2030, and with lower manufacturing costs than Japan and China. The Jakarta based Economic Research Institute for ASEAN and East Asia estimates that the combined GDP of ASEAN members could more than double from its present level to US\$4.5 trillion by 2030.

ASEAN's economic vision is ambitious and stretches beyond 2015. In addition to its own integration, it is the group's policy to push ahead with the integration of its many different Free Trade Agreements into one over arching accord. The goal is to establish by 2015, an umbrella trade deal known as the Regional Comprehensive Economic Partnership (RCEP) with Australia, China, India, Japan, South Korea and New Zealand.

The round of talks with RCEP which began in May 2013, aims to reach an accord that will create an integrated market across the Asia-Pacific of some 3.4 billion people with a combined GDP of US\$21.4 trillion.

The attractiveness of ASEAN for foreign investment will be further enhanced by formation of the Trans Pacific Partnership Free Trade Pact. This is being negotiated by Brunei Darussalam, Malaysia, Singapore and Vietnam with Pacific Rim countries which comprise the US, Canada, Chile, Peru, Mexico, Australia and New Zealand.

By developing economic ties, interdependence in the Region is increasing and the risk of conflict has diminished. ASEAN has not

focused solely on its economic and social development role but also acts as a political stabiliser, through its network of dialogues on issues ranging from maritime security, health and climate change.

ASEAN executed much influence to spur political change and reform in Myanmar. The process of change now underway is testimony to ASEAN's effective, but little noticed soft power. Myanmar now increasingly open to regional and international investment is likely to emerge as another big winner as a result of the AEC and the many opportunities for increased trade that it will encourage.

With its policy of quiet, cautious and "preventive diplomacy", ASEAN has managed to achieve peace and stability. Slowly but steadily, its members are integrating their economies and institutions, making the group a respected political force in the Region," says Willem Blankert, former EU Special Advisor for Relations with ASEAN.

Within a group of nations of such differing ethnicities, cultures, languages, religions and political histories, each step towards integration has involved lengthy discussion and is likely to continue to do so.

Not every detail may have been addressed by the end of 2015, but the evolving AEC is a powerful declaration of intent and promises to boost investment as well as increase prosperity in Southeast Asia. Further integration of the member countries will also make the Region a more powerful engine in the global economy.



H.E. Le Luong Minh: Secretary-General of ASEAN



H.E. Le Luong Minh,
Secretary-General, ASEAN

ASEAN remains on track towards the ASEAN Economic Community (AEC). We have been unwavering in our commitment to develop ASEAN as a single market and production base that is at the same time highly competitive, equitable and outward looking. As of mid-August 2014, ASEAN has implemented 82.1% of the 229 prioritised key deliverables by focusing on priority areas and measures that potentially have the most impact in achieving the AEC.

The latest ASEAN statistics showed that in 2013, the Region recorded real Gross Domestic Product (GDP) growth of 5.1%, with international merchandise trade and Foreign Direct Investment (FDI) posting an increase of 1.4% and 7.1%, respectively.

In terms of nominal GDP, ASEAN GDP increased from US\$2.3 trillion in 2012 to US\$2.4 trillion in 2013, with the per capita GDP reaching US\$3,837 in 2013 from US\$3,761 in 2012.

All these achievements are the results of the individual and collective efforts of our ASEAN Member States, reflecting our commitment and resolve to achieve the AEC in 2015.

For many years now, ASEAN has been undertaking various initiatives to promote ASEAN as a single investment destination. With the ASEAN Comprehensive Investment Agreement (ACIA), covering the four pillars

of liberalisation, protection, facilitation and promotion, we aim to increase ASEAN's stature to attract more investments in the Region.

To have greater awareness and ensure broad stakeholder support, we are also actively undertaking key promotional measures, which include: a website, an updated compendium of investment rules and regulations of Member States and three publications namely the ASEAN Investment Report 2013, ACIA Guidebook for Investors and the Handbook on ACIA for the Investment Promotion Agencies.

Forming part of ASEAN's grand plan to create a single market and production base and a single investment area, our initiatives, especially under ACIA, are all designed to provide greater transparency, instill confidence and support greater industrial complementation and specialisation among ASEAN Member States. These should, in turn, not only generate more opportunities and redound to the benefit of the ASEAN business sector, but also to the rest of our Community as well.

Working more closely and together with the private sector, ASEAN will pursue the enhancement of the investment climate of the Region, building an ASEAN Community that is competitive, fully integrated and networked into the global economy.



US-ASEAN Business Council



Alexander Feldman, President,
US-ASEAN Business Council

As the US-ASEAN Business Council celebrates 30 years working to advance the business relationship between the United States and Southeast Asia, I can honestly say the relationship has never been stronger than it is right now. Every year, trade and opportunities continue to grow. US-ASEAN bilateral trade in goods and services continues to expand, passing the US\$200 billion mark in 2012. The ASEAN Nations together make up America's 4th largest export market and 5th largest trading partner, supporting over 560,000 jobs here in the US.

U.S. companies continue to grow their business in ASEAN. ASEAN hosts over US\$190 billion in US Foreign Direct Investment (FDI), the largest US commitment in Asia. US investment in ASEAN is larger than US investment in the BRIC countries (Brazil, Russia, India, and China) combined. As the business environment evolves, more opportunities will continue to be discovered.

The ASEAN nations are strongly focused on creating investment friendly business environments, and responding to the needs of investors both large and small. In August 2014, the Council completed our annual participation in the ASEAN Economic Ministers Meeting, where the Ministers take the time to engage with companies, exchange ideas, and form real

partnerships aimed at improving the economic environment. Numerous engagements throughout the year in each ASEAN country help create a mutually beneficial climate of cooperation in the Region.

ASEAN and its members have thought deeply about their economic future, and put into place plans designed to sustain and support this environment of growth. The ASEAN Economic Community, an ambitious effort due to take effect in 2015, will create a single market of over 620 million consumers, linked by the ASEAN Free Trade Area and the ASEAN Single Window, to create a free flow of goods and services. The ASEAN Connectivity Masterplan will create and develop cross-border linkages helping to bring regions and countries together and narrow the gaps in economic development.

As ASEAN grows and comes together, opportunities exist across a broad variety of sectors. ASEAN needs billions of dollars in infrastructure investment; not just traditional roads and bridges, but broadband access, education, and healthcare networks. ASEAN is building its financial framework, and creating a greater system of business to business linkages. Growing incomes create opportunities for export. I encourage you to take the time to learn what ASEAN can offer you.



EU-ASEAN Business Council



Francois Guibert, Chairman,
EU-ASEAN Business Council

With the implementation date for the ASEAN Economic Community (AEC) coming increasingly close, now is a very opportune time for the international business community to take a closer, and more serious look at ASEAN as a dynamic and rapidly developing region for trade and investment. European businesses are well placed to take advantage.

The trade relationship between the EU and ASEAN is extremely important to both parties and it is an undeniable fact that trade and investment between Europe and ASEAN is strong and growing. As such, it is the view of the EU-ASEAN Business Council (EU-ABC) that Ministers, Senior Officials, Multi-national Corporations and Businessmen in both regions should pay more attention to the development and enhancement of trade relations between these two complimentary blocs.

As the recognised voice for European Business within ASEAN, the EU-ABC works to improve the trading environment both between the EU and ASEAN and within ASEAN for its members, through interaction with the relevant stakeholders and advocating for the liberalisation and opening up of the trading environment in a constructive and inclusive way. This is why we generally welcome the intention behind the AEC and why we collaborate with ASEAN as it moves to implement the final building blocks of the AEC. We also

support the establishment of Free Trade Agreements (FTA) between the EU and various ASEAN Member States and encourage all parties to move forward on those as quickly as possible (and, hopefully, eventually an EU-ASEAN FTA).

Well over 10,000 European businesses have a presence in ASEAN, many using the Region as their base for all of their Asia operations and the EU is ASEAN's largest investor, accounting for around 20% of inward Foreign Direct Investment (FDI) in ASEAN in 2012. But this investment is not all one way. Indeed, ASEAN's FDI to the EU has doubled in recent years now standing just below €90 billion.

Additionally, ASEAN is the European Union's third largest trading partner outside of Europe, with trade in goods and services totalling some €235 billion in 2012 and the EU is ASEAN's 3rd largest trading partner after China and Japan, accounting for around 13% of ASEAN trade. What is more, this trading relationship has been growing at a considerable rate, with imports from ASEAN to the EU increasing by 9.1% between 2009 and 2013, and the trade in goods in the opposite direction rising by nearly 13%, demonstrating a clear interdependence between the two regions.

EU-ABC stands ready to lend support to both its Members and to ASEAN in what promises to be an exciting and important year for Southeast Asia.



UK-ASEAN Business Council



Kevan Watts, Chairman,
UK-ASEAN Business Council

It is clear that economic power in the world is shifting east. The IMF predicts that Southeast Asia's economy will grow by 5.4% in 2015. Because of this predicted growth, 'business as usual' for UK companies is not an option - according to a recent report produced by Oxford Analytica for Prudential.

The report suggests that the UK faces an important choice in its trade and investment strategies: focus on maintaining the status of its current partnerships, primarily with slower growing EU partners; or increase the pace of its shift towards the fast rising emerging markets. The report predicts the future dominance of Asia to the extent that by 2050 it will have an estimated 50% of world trade, compared with 20% today.

Total UK exports to the six largest ASEAN economies - Indonesia, Thailand, Malaysia, Singapore, Philippines, and Vietnam are equivalent to over three times the UK's exports to Brazil, twice India's, and 50% more than Japan's. UK goods exports to ASEAN are rising more rapidly than British exports globally and UK services exports to ASEAN exceed those to either mainland China or Japan.

Although a region of ten diverse markets, the roadmap towards economic integration - the ASEAN Economic

Community (AEC) will emerge at the end of 2015. The AEC will create opportunities for even greater trade and investment to the benefit of both ASEAN and the UK. The UK is also playing a key role in building 21st century networks by shaping the next generation of global trade through EU Free Trade Agreements with ASEAN member states, the first of which has been signed with Singapore. These agreements are important to help drive UK exports and also encourage Foreign Direct Investment into the UK from Southeast Asia.

The UK is well placed to play a key role in what is being dubbed the 'Asian Century'. It has a strong trading relationship with ASEAN, but more UK companies need to position themselves to take advantage of the predicted increase in the level of opportunities in ASEAN over the coming decades.

The UK-ASEAN Business Council's (UKABC) key role is to bang the drum about ASEAN and encourage UK companies to consider, explore and then invest in ASEAN's ten incredibly diverse, high growth markets. Through the UKABC's signposting of in depth information, relevant events, visits to the markets and local delivery partners, UK companies are in a better position to make informed choices about their investment/export strategies in this region.



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Integration and collaboration - How businesses can capitalise on ASEAN's growth story

Simon Constantinides, Regional Head of Global Trade and Receivables Finance, Asia Pacific, HSBC



Simon Constantinides

Simon Constantinides, HSBC's Regional Head of Global Trade and Receivables Finance for Asia Pacific, explains why ASEAN based companies, as well as those further afield, are well-positioned to capitalise on the opportunities made possible by regional trade flows and the unique resources of each member state.

The distraction of China's growth has seen much of the world overlook one of the greatest trading opportunities of the post-global financial crisis economy: ASEAN.

The Region has exceptional potential, as collectively the ten members of the Association of Southeast Asian Nations (ASEAN) comprise a market of more than 600 million people with a combined GDP of some US\$2.1 trillion¹. In addition, the Region offers sustainable economic growth, low manufacturing costs and a rising middle class who are hungry for the consumer experience.

A decade ago, the majority of Western companies that came to Asia identified China as the preferred option when setting up manufacturing facilities. They were encouraged by the nation's competitive wages, developing infrastructure and the vast opportunities presented by its domestic market. However, this is beginning to change as Southeast Asian markets become more accessible and increasingly cost-competitive.

In 2013, Foreign Direct Investment (FDI) into China increased by almost 10% year-on-year, reaching US\$117.6 billion². However, FDI into just the top five ASEAN economies³ for the same period overtook this figure for the first time in 2013 with a 7% jump year-on-year to US\$128.4 billion⁴.

ASEAN trade, past to present

Since the Association's formation in 1967, economic growth throughout the Region has been exponential.



For instance, in 1975 manufactured goods made up around 18% of ASEAN exports. Yet by 1991 its share was around 63%⁵. Between 2010 and 2013, the Association's GDP grew by more than 27%⁶. Trade with China and India, which rose from a total of just under US\$42 billion in 2000 to more than US\$391 billion in 2012⁷, contributed greatly to this rise.

A key factor behind ASEAN's success is its diversity. Looking across the various member states, there are frontier markets like Cambodia, Laos and Myanmar that are largely untouched by foreign investors, but which manufacture low value goods such as agri-commodities and export them elsewhere; there is Vietnam, which has now become a hub for textiles, garments and footwear; there is Malaysia and Indonesia, both with a huge commodities base and, in the case of the former, has become very strong on the technology front; and there is Singapore, which houses high value chain industries - including pharmaceuticals, IT

and chemicals - and acts as the Region's financial hub. As such, ASEAN boasts all stages of the value chain, which in turn, has made it a highly competitive trading bloc. Furthermore, each member state has built up a competent labour force in their respective sectors.

Stemming from this, the trading opportunities for businesses from all corners of the Region are staggering. Not only can they look to trade with counterparties from neighbouring ASEAN states, but they can also capitalise on trade flows that carry goods to China, India and the rest of the world.

Indeed, the burgeoning growth of trade volumes between each member state has given rise to the proposed ASEAN Economic Community (AEC), which is due to commence in 2015. Among many other goals, the AEC aims to encourage inter-regional trade and investment, free movement of capital, and freer movement of skilled labour. Furthermore, it is hoped that the community's formation will boost the Region's competitiveness within the global economy and thus expand on the trade and investment opportunities currently presented to the Region.

In Indonesia, for instance, producers of commodities and other low value goods could capitalise on the trade routes that carry coal from the archipelago to Japan and South Korea, which is eventually used to make steel. From the beginning to the end of its journey, the coal will pass through various ports. The movement of this coal is heavily reliant upon

people and infrastructure, which could be used to help shift other commodities and manufactured goods along the same route.

Likewise, Malaysia's particular expertise in manufacturing high-tech goods could encourage other industries that involve similar skill sets. This too provides opportunities for various manufacturers from other ASEAN states.

Trade facilitation

A key challenge associated with inter-regional trade, is that member states are at vastly different levels of development and market sophistication. With regard to labour, some markets are less open to foreign workers than countries like Singapore. This is particularly challenging when companies are looking to upskill their staff, yet do not have the management in place to transfer knowledge and expertise. In the financial services industry, for instance, there are certain markets where it is very hard to find skilled workers, which has had a detrimental impact on the sophistication of banking services offered in such places. The same can be said for IT and other high value chain industries, which means that unless certain countries modify their labour laws, these places will be unable to rise further up the value chain.

Infrastructure, too, plays a significant role in the facilitation of trade and investment, as without ports, railways, highways and airports, commodities, manufactured goods and people are simply unable to move elsewhere. Across ASEAN there are examples of where



infrastructure development has significantly led to GDP growth. Singapore is a fine example of this. However, there are countries where connectivity remains a big challenge. In Indonesia, infrastructure development cannot keep pace with the nation's burgeoning economy, which causes bottlenecks in the supply chain. In addition, transportation costs are among the highest in Asia, which impacts the efficiency and profitability of trade. Frontier markets such as Cambodia, Laos and Myanmar are attractive to businesses because of their low wage workforces, but the infrastructure needed to transport goods from these economies are greatly underdeveloped. In the wake of the Thai floods of 2011, companies have learnt that having just one plant in a particular

destination exposes them to production risks. Corporations are therefore back to operating in multiple locations or are using several suppliers for the same goods.

Regulatory transparency and consistency of financial services are other areas required to facilitate trade. With regard to the former, markets need reporting systems and processes in order to guide companies on what they need to do to make trade and investment easy and hassle free. Furthermore, ASEAN's markets must enforce strict rule of law and bring their local regulations in line with one another. Without these, businesses cannot trade effectively throughout the Region. Banks too must play their part in enabling businesses to achieve their growth ambitions. Apart from performing in a transactional capacity, they must also act as a voice for their customers when speaking to regulatory authorities. Banks must also ensure that they are governed to the highest of standards.

Collaboration and future growth

All the above challenges can be overcome, irrespective of how large

they may appear today. Nevertheless, it will take much collaboration between importers, exporters, services providers and government agencies to remove these hindrances.

In addition, the introduction of the AEC will also go some way to alleviating these challenges. With each member state promoting the free flow of goods and services, investment and capital, and skilled labour, they will be removing many of the barriers that stand in the way of inter-regional trade.

What is clear is that opportunities for ASEAN based businesses are in abundance, and that these will grow further with the advent of the AEC. While vast openings are being created, almost 50% of global GDP is derived from international trade, creating jobs and sustainable businesses and improving communities, companies will need to approach these new opportunities with some caution. A trade bank willing and able to work with regulators in order to make international trade and investment easier, and fully aware of the many pitfalls associated with particular economies, is an essential partner.

¹ <http://investasean.asean.org/index.php/page/view/about-the-asean-region/view/707/newsid/932/integrated-asean.html>

² <http://www.industryweek.com/finance/foreign-direct-investment-china-rebounds-53-2013>

³ The Asean-5: Indonesia, Malaysia, Thailand, Philippines and Singapore

⁴ <http://focus-asean.com/foreign-direct-investments-china-focus-asean-2>

⁵ <http://www.asean.org/communities/asean-economic-community/item/industry-focus>

⁶ http://www.asean.org/images/resources/Statistics/2014/SelectedKeyIndicatorAsOfApril/Summary%20table_as%20of%2030Apr14_upload.pdf

⁷ <http://www.asean.org/images/resources/Statistics/2014/ACIF%202013.PDF>

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Corridors and connections

Baker & McKenzie

The rise of emerging markets is well known. But less widely appreciated are the deepening connections between them. As the flows of trade, investment, and ideas between emerging markets grow, what does it mean for corporate strategy?

Patterns of globalisation change constantly. With each successive era, economic corridors emerge and disappear, trade and investment flows rise and fall, and cultural connections wax and wane.

A little over two thousand years ago, the world witnessed the first such corridors appearing. Merchants, monks and adventurers from China forged new trade routes into India, Central Asia, the Middle East, and beyond. Silk and jade were exchanged for spices, gold and horses. Language, philosophy, ideas and technology spread as people grew ever more connected. The lands that lay along these Silk Roads saw their prosperity fuelled by growing trade and cultural exchange.

Today, the world is once again seeing the rapid emergence of new economic corridors as the world economy undergoes profound change. The pace of this change is faster than anything that humans have witnessed before. And the implications for business will be sweeping.

These new economic corridors and connections are founded on three mega-trends:

- The inexorable rise of emerging markets;
- The growing connections and links between the world's emerging markets as they grow richer;

- And the central role that Asia is playing in this new landscape of deepening connectivity.

Consider three seemingly unrelated data points from the year 2010. In Latin America that year, Chinese banks doubled their lending to US\$37 billion - so providing more financing to the continent than the World Bank and the Inter-American Development Bank combined¹. Over in Africa, 2010 witnessed the region's biggest ever acquisition when Bharti Enterprises of India paid US\$10.7 billion for the African operations of Zain, a Kuwaiti telecoms group. Meanwhile in Thailand, tourist arrivals from the Middle East grew by 17.5% to reach 560,000, many of them seeking healthcare from the country's growing medical tourism industry².

On the surface, these data points seem unconnected. And yet, together they point to a significant shift in the pattern of global economic activity. Together, they point to a set of rapidly deepening links between the world's emerging markets. Where once the countries of the emerging world barely spoke to each other, today they are connecting and integrating at breakneck speed. And sitting at the heart of all these connections is the continent of Asia.

Companies have long been aware of the rise of emerging markets. Indeed, many now refer to them as "High-growth" markets. But few have recognised the significance of deepening links between these nations. As companies plan for the future, these connections and Asia's central role in the emerging market universe are of critical importance.

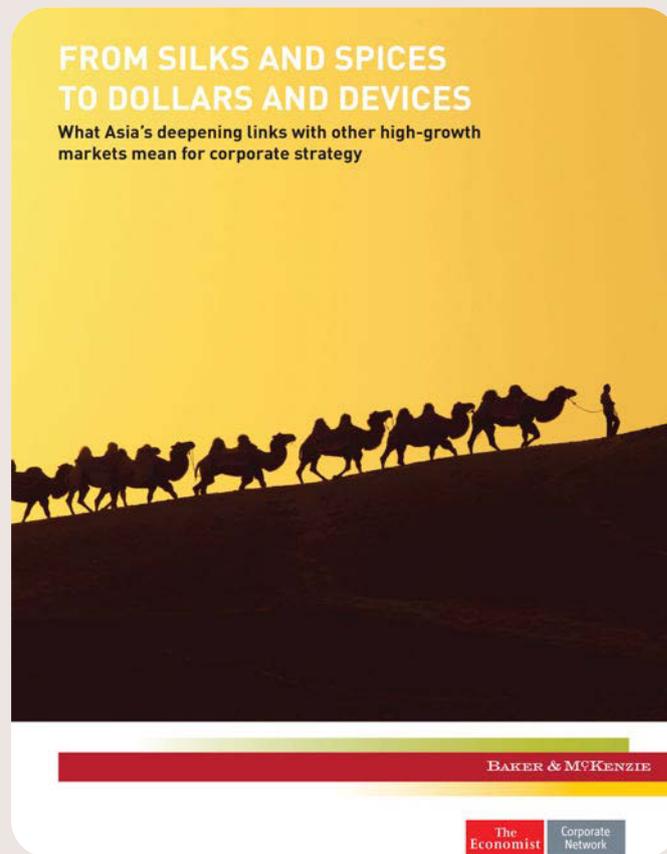
The purpose of this report is to explore what these new economic corridors mean for business, and how companies are responding.

Emerging or high-growth?

The term “emerging markets” refers to countries at a relatively lower level of economic and institutional development compared to rich countries such as the US or Germany. But in recent years it has become fashionable to refer to emerging markets as “high-growth markets”. In part this is to avoid giving offense, but mostly it is about recognising that economic growth in the emerging world is generally higher than in the developed world.

Shane Tedjarati, President of global high-growth regions at Honeywell, a US technology group, changed the term emerging markets to high-growth at his company for two reasons. “The term ‘emerging’ somehow suggested that these markets will be important in the future rather than now. But the fact is that they already drive 50% of the growth at Honeywell,” he says. “The second reason for the change is that inside our company there is a nuanced, subtle difference when you talk about emerging versus high-growth, when someone talks about an emerging market they can put it as a second or third or fourth priority. But when we’re beating the drum every day, telling people these are high-growth, you get them to pay attention and resource them appropriately”.

- **Emerging markets/high-growth markets:** The countries of Asia (ex-Japan), Oceania (ex-Australia and New Zealand), Africa, the Middle East, Central and Eastern Europe, South and Central America and the Caribbean.



- **Developed/mature markets:** The countries of North America, Western Europe, Japan, and Australia and New Zealand.
- **North-North trade:** The trade that occurs between developed nations.
- **North-South trade:** The trade that occurs between developed nations and emerging countries.
- **South-South trade:** The trade that occurs between emerging countries.



Demographics are attractive, with emerging markets having young, rapidly expanding workforces. Urbanisation is another powerful force.



The rise of emerging markets

The poorer parts of the world are catching up with their richer peers and this catch-up looks set to continue

After many decades of under-performance, the emerging world began a remarkable journey around 2003 when growth rates picked up and overtook those in the developed world. The reasons behind this turnaround vary. A series of debt crises during the 1990s prompted some markets to introduce economic reforms. The rapid emergence of China was important, especially for commodity exporters. A period of low interest rates in the US lowered financing costs globally. Many countries transitioned successfully to democracy.

The result was a set of conditions that allowed the emerging world to begin catching up with the rich world. During the past ten years, the share of the world economy made up by emerging markets has almost doubled from 23% to 40%.

Most observers expect this catch-up to continue. While the emerging world makes up 40% of global GDP, it accounts for 85% of the global population. This imbalance suggests big potential for the emerging world to grow faster than developed markets for many more years.

Demographics are attractive, with emerging markets having young, rapidly expanding workforces. Urbanisation is another powerful force. In India, 69% of people still live in rural areas. As they migrate to towns, swapping farms for factories, their incomes rise.

The middle class is expanding, providing giant new pools of spending power and creating the conditions for entrepreneurship and innovation

to thrive and for governance to improve. The Brookings Institute, a think tank in the US, calculates the global middle class will rise from 1.9 billion in 2009 to 4.9 billion by 2030. The extra three billion consumers will be found entirely in emerging markets.

Unsurprisingly, companies around the world are switching the focus of their investment. In 2012, the value of FDI that went into emerging markets exceeded the amount put into mature markets for the first time ever.

Deepening connectivity between emerging markets

As emerging markets get richer, patterns of globalisation are changing. The fastest growing economic corridors today are the ones springing up between different parts of the emerging world

Looking at globalisation over recent decades, several distinct phases are clear. At the end of World War II in 1945, the global economy was not only damaged, but deeply divided. From this low point, the Western nations began to promote global integration as a way of ensuring peace, and the 1950s, '60s and '70s saw a flourishing of cross-border trade and investment.

However, most of these new economic connections were between rich world neighbours. It was about Europe and North America deepening their relationships with each other. It wasn't until the 1980s and 1990s that the emerging world got involved in a serious way.

Trade barriers in the emerging world began to fall. At the same time, communications, IT and transport technology improved markedly, so opening up new economic corridors connecting the rich world with the

emerging world. While the economic linkages that grew up after World War II centred on North-North relationships, these new connections were aligned on a North-South axis.

Part of the story was about the West seeking energy and raw materials, but just as significant were new global supply chains accessing cheap labour. As these North-South connections grew, they fuelled economic growth in emerging markets, lifting their wealth and incomes. Emerging markets began to offer not just production opportunities, but market opportunities too.

This, in turn, has led to a third phase of globalisation in the post-1945 era, in which emerging markets are now building connections among themselves. These deepening South-South connections show up in many ways. Take exports. The share of global trade that occurs between emerging markets (South-South trade) rose from 11.7% in 1995 to 25.1% in 2012.

Or consider flows of Foreign Direct Investment (FDI), which includes mergers and acquisitions. Globally, most FDI going into emerging markets still comes from companies in mature countries. In 2012, they contributed 56% of all FDI inflows to the emerging world.

However, in some regions it is now emerging countries that are the biggest investors. In the Middle East and Africa, for example, 70% of the FDI in 2012 came from companies based in other emerging markets. It's tempting to think that these investments are focused on natural resources. But this is not true. In Africa, less than 20% of FDI went into commodities. In the Middle East, the figure was less than 1%.

This picture of deepening connectivity between emerging markets has only just begun. In the years ahead, the value of trade and investment that flows along these new corridors will continue to rise. So too will the flow of ideas and innovation and people.

Of course, many obstacles must be overcome. Trade and investment barriers - such as tariff rates and foreign ownership restrictions - remain large. But this suggests big potential for connectivity to rise as the barriers are dismantled. Consider the progress being made by the Association of Southeast Asian Nations (ASEAN). Not only are trade and investment barriers coming down within the ten nation bloc, but ASEAN is also setting up free trade agreements with its neighbours, such as China and India.

A further barrier to emerging market connectivity is the weak state of infrastructure such as ports and roads. But again, these deficiencies are likely to be addressed. One of the most intriguing infrastructure gaps is the digital divide. Cisco, a US telecoms equipment group, reckons another three billion people will connect to the internet in the next decade - all of them in emerging markets.

"If you think about the possibilities for digital connectivity between emerging markets, it's going to be a huge opportunity for value creation," says Wim Elfrink, Cisco's Chief Globalisation Officer.

As incomes in the emerging world continue to rise, as infrastructure gets built, as consumers become digitally connected, and as trade barriers continue to fall, the momentum behind South-South connectivity will build and grow.

Asia's centrality to emerging market connectivity

New economic corridors between emerging markets are rising in many places, but Asia has rapidly taken a central role in this growing web of interconnectivity

Within this landscape of deepening connectivity, not all regions of the emerging world are equal. The most important part is Asia (ex-Japan), thanks largely to its sheer scale.

Emerging Asia is home to 54% of the world's population, and made up 20.4% of the global economy in 2013. By contrast, all the other emerging markets combined, accounted for only 31% of the global population, and 19.5% of the global economy. What's more, Asia is growing faster than other regions, so its dominance will continue to rise for some time.

Looking at trade between emerging markets, Asia has long been the dominant region. Indeed, in 2013 three quarters of all South-South exports went to Asian destinations. Partly this is because many countries in Asia, notably China, are short on commodities and so must import oil, iron ore and food. Partly too, it is due to the changing character of global manufacturing.

In recent decades, production chains have fragmented. Rather than make a product entirely in one country, manufacturing processes have been broken up into ever smaller parts, with each located in the country where it can be done most cost-effectively. This fragmentation of manufacturing has been particularly acute in Asia, and now distorts the region's dominance of South-South trade because components flow across Asia's borders many times before reaching their final destination.

Nonetheless, neither of these factors diminishes Asia's importance to South-South trade. With commodities, it means that Asia's rising demand has become a major engine for commodity producers such as Brazil. And the fact that Asia's cross-border production networks have become so deeply integrated, means the region is now the dominant centre of global manufacturing.

Asia's dominance shows up just as clearly in flows of FDI. In 2012, Asia (ex-Japan) accounted for two thirds of all the FDI originating from emerging market companies. This rising wall of money is washing into other emerging markets, making Asian companies the dominant investors in this South-South story.

¹ McKinsey Global Institute

² Thailand Ministry of Tourism

From silks and spices to dollars and devices: What Asia's deepening links with other high-growth markets mean for corporate strategy is an Economist Corporate Network (ECN) report, sponsored by Baker & McKenzie. The ECN performed the research, and wrote the report independently. The findings and views expressed in this report are those of the ECN alone and do not necessarily reflect the views of the sponsor.

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The Myanmar frontier: Making it work

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Jovis Seet



Frank Debets

Overview

As multinationals look to escape the slow-growth constraints of the developed world, ‘frontier markets’ such as Myanmar hold great promise. The opportunities are obvious. Apart from a relatively untapped, fast-growing consumer market, Myanmar is rich in gas, oil and minerals; and it is undeveloped in major industry sectors.

As a newly opened economy, Myanmar has shown significant progress over the last two years. The World Bank East Asia Pacific Economic Update revealed Myanmar’s real growth in 2012/2013 to have reached 7.3% with an expected increase to 7.5% in 2013/2014¹. Among the main drivers of growth are foreign investment and trade, largely as a result of its efforts to

reduce the social-political barriers to do business there and the passing of new laws to further encourage foreign interest.

Meanwhile, Myanmar remains a frontier, bearing both prospects and risks with many regulations surrounding foreign investment and trade yet to be tested and its infrastructure yet to be developed.

On foreign investment

The introduction of the Myanmar Foreign Investment Law (MFIL) in November 2012 improved conditions for foreign investors across various sectors. In the last three years (April 2011–2014) foreign investment into the country reached over US\$10 billion, with more than 700 foreign enterprises already given the go-ahead to operate in the country².

Key sectors for foreign investment

Currently, the major sectors for foreign investment are:

Sector	Amount invested in US\$ million (April 2011-2014)	Percentage in total foreign investment (April 2011-2014)
Infrastructure		
- Power	4,754.7	45.5%
- Transport and communication	1,353.5	12.9%
Manufacturing	2,322.0	22.2%
Hotel and tourism	793.1	7.6%
Oil & gas	556.9	5.3%

Source: Directorate of Investment and Company Administration, Ministry of National Planning and Economic Development, Myanmar, 30 June 2014.

The largest sector for foreign investment is currently infrastructure (roads, power plants, telecoms, airports, and other logistics) at 58.4% of Myanmar's total foreign investment received from April 2011-2014.

Company	Country
Infrastructure	
China Communication Construction (CCC)	China
China Rail Construction Corporation (CRCC)	China
China State Construction Engineering Corporation	China
Hyundai Engineering & Construction	Korea
Ooredoo	Qatar
Shimizu Corporation	Japan
Telenor	Norway
Manufacturing	
Carlsberg	Denmark
Coca Cola Company	US
Fraser and Neave (FNN)	Singapore
Heineken	Netherlands
Mitsubishi Motor	Japan
PT Hanjaya Mandala Sampoerna Tbk	Indonesia
Siam Cement Group (SCG)	Thailand
Tata Motors	India
Unilever PLC	UK
Tourism and Hospitality	
All Nippon Airways (ANA)	Japan
Best Western	US
Keppel Land	Singapore
Pan Pacific Hotel Group	Singapore

Meanwhile, the oil & gas sector is also expected to grow with the opening of new fields. The international players in each of the key sectors are set out below:

Company	Country
Tourism and Hospitality	
Shangri-La Asia	Hong Kong
Yoma Strategic Holdings	Singapore
Oil & Gas	
Chevron	US
China National Petroleum corporate (CNPC)	China
China National Offshore Oil Corporation (CNOOC)	China
Daewoo International Corporation	Korea
Eni	Italy
Essar Global	India
Petronas Carigali Sdn Bhd	Malaysia
PTT Exploration and Production Public Company (PTTEP)	Thailand
Statoil	Norway
Total SA	France
Royal Dutch Shell	UK-Netherlands
Real Estate development	
Bouygues Construction	Singapore
Fragrant Property	Thailand
Mitsubishi Corporation and Estate	Japan
Shine Group	Vietnam
Yoma Strategic Holdings	Singapore

Investment challenges and risks to consider

While measures are taken to develop and strengthen Myanmar's legal framework, regulatory restrictions or inflexibilities persist for foreign investors. For example, payments made in a foreign currency are not permitted, the export of any currency or foreign exchange must be approved by the Central Bank of Myanmar (CBM), and foreign ownership of land and immovable property is also expressly prohibited.

For now, the Myanmar currency, Kyat, remains vulnerable to volatile foreign exchange movement due to low international reserves (this is expected to increase along with rising foreign capital inflow), current account deficit resulting from higher imports, and increased fiscal deficit due to weaker than expected revenue performance³.

Despite the risk and challenges, the pace of foreign investment by multinationals continues to pour in, leading companies to compete for limited resources such as talent, office space and aging infrastructure. At the same time, this also indicates the confidence foreign businesses have in the growth potential of the country.

On international trade

Between 2010 and 2015, exports are forecasted to double from US\$7.9 billion to US\$15.1 billion⁴. Trade is facilitated by the removal of many US and European trade sanctions and the relaxation of some import and foreign exchange restrictions, followed by exemptions and incentives introduced by the MFIL.

Being a member of ASEAN, Myanmar both offers and enjoys preferential import duty rates with nine other ASEAN countries as well as Australia, China, India, Japan, Korea, and New Zealand. Furthermore, the



Photo: Foo Chee Kim

reinstatement of trade preferences to Myanmar under the European Union's Generalized System for Preferences for least-developed countries will provide Myanmar with duty and quota free access to the EU market for all its exports (except for ammunition and arms).

Import tax exemptions and incentives

Exemptions and incentives have been made available to companies registered under the MFIL and which have obtained permits from the Myanmar Investment Commission (MIC). These companies may, at the discretion of the MIC, be given relief from customs duty on certain machinery, equipment, instruments, machinery components, spare parts and materials used during the period of construction or expansion, and on raw materials for the first three years of commercial production. Furthermore, if investors expand their business within certain approved

time frames, they may enjoy exemptions and/or relief from customs duty or other internal taxes on items imported in connection with the business expansion.

Other exemptions and incentives include the suspension or exemption of import duties and taxes on raw materials used to produce goods for export for eligible manufacturing companies established in Myanmar.

The customs and international trade regulatory landscape

Myanmar's customs environment has yet to mature. Current regulations do not seem to exist, or are not widely known, on common customs topics such as classification of goods and duty drawback. There are also overlapping responsibilities of various Ministries and Departments which leads to confusion as to what type of approvals may or may not be required. Uncertainty also exists around the treatment of technical customs topics, such as classification and valuation. Furthermore, there are also many anecdotal instances of arbitrary treatments imposed by Customs officials to secure clearance of goods.

Action is being taken by the Myanmar Government to improve the import/export trading environment. It is currently drafting regulations for the implementation of the Customs and Tariff of Myanmar Law, passed in 2012.

Looking ahead

Continuing economic and political reforms will be necessary to draw and retain long term foreign investments and trade. Though still at its infancy, the MFIL has begun tackling important issues such as foreign ownership and land leasing rules. Meanwhile, efforts are underway to improve business regulations such as enhancing investor protection, and to develop fair and transparent terms for private sector investments which serve the public's interest⁵.

Also gaining widespread attention is Myanmar's upcoming Special Economic Zones introduced as part of the Government's economic reform efforts. These areas are currently being developed in Dawei, Kyaukpyu and Tilawa. Once operational, they should also offer favourable regulatory environments which often include customs duty exemptions.

Myanmar's overall economic outlook remains positive in the near future, as we look forward to further socio-political progress, and the development of the necessary regulations as well as infrastructure (i.e. banking, telecoms and transportation) to improve the ease of doing business there. Meanwhile, its long term outlook weighs, to a large extent, on the outcome of the 2015 election and its Government's ability to focus and carry through the country's reforms and economic agenda.

¹ Preserving Stability and Promoting Growth, World Bank East Asia Pacific Economic Update April 2014, World Bank, April 2014.

² Directorate of Investment and Company Administration, Ministry of National Planning and Economic Development, Myanmar, June 2014

³ Preserving Stability and Promoting Growth, World Bank East Asia Pacific Economic Update April 2014, World Bank, April 2014.

⁴ Myanmar Economic Monitor, The World Bank Group, October 2013

⁵ UK awards new grant to regulate public-private partnerships, The Myanmar Times, March 2014

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The long road ahead: Implementing the Asian Economic Community (AEC)

William Greenlee & Adam McBeth, DFDL



William Greenlee

Myanmar's political and economic transition from a military dictatorship to the last economic frontier in Asia has been the subject of wide interest in the international business community. Investors were spurred to action in 2012 with the passage of the ground breaking Foreign Investment Law (FIL), which some would say marked the official entry of Myanmar into the world economy. As a country rich in natural resources and with an estimated population of over 60 million people, it is understandable why Myanmar has quickly become a prime target for foreign investment.

According to the Directorate of Investment and Company Administration (DICA), Myanmar attracted US\$4.1 billion of Foreign Direct Investment (FDI) during the fiscal year ending 31 March 2014. This is up threefold from the previous fiscal year, where Myanmar received only US\$1.42 billion in FDI and is nearly double the annual average FDI amount received since 1988. This upward trend is projected to increase year over year. A 2013 report released by the McKinsey Global Institute projected that Myanmar would see upwards of US\$100 billion in FDI over the next two decades, while at the same time, quadrupling its Gross Domestic Product (GDP) over that period.



Adam McBeth

Despite the continuing reform efforts by the Government and the staggering increase in FDI, some investors are beginning to grow restless and demand faster progress. Still underdeveloped legal and regulatory regimes impose a variety of stumbling blocks on new investors to Myanmar, frustrations which would be eased with greater reforms. The next two years will be vital in assessing Myanmar's reform efforts. Coupled with the need to assuage the consternation of foreign investors demanding progress, Myanmar has numerous treaty obligations as a member of the Association of Southeast Asian Nations (ASEAN) with which it must comply. To this end, the Minister of National Planning and Economic Development announced in May 2014 that Myanmar would take all necessary steps to implement the ASEAN Economic Community (AEC) by the start of 2015. It appears to be full speed ahead in Myanmar's efforts to once again become a regional economic power as it had once been.

Myanmar's integration into a position of leadership in ASEAN

Despite the recent global economic downturn suffered by much of the Western World, the ASEAN Region has continued to grow at a rapid pace. As a whole, the GDP

of ASEAN grew by 5.7% in 2012 and 5% in 2013. Myanmar however outpaced the rest of ASEAN with its GDP estimated to have grown by 6% in 2012 and 6.8% in 2013.

Ever since it was announced that starting in 2014 Myanmar would hold the ASEAN chairmanship for the first time, Myanmar's role with ASEAN has been highlighted. Coupled with its accelerating GDP growth, Myanmar is poised to be among the foremost leaders driving the economic engine of ASEAN.

As the march towards ASEAN integration continues, Myanmar will be responsible for delivering key targets and a clear vision that will guide ASEAN during this critical time.

There has been some progress in issuing new laws that encourage foreign investment however there is still a long way to go. The Government continues to work toward this end with Ministries drafting laws, which Parliament will reportedly review and hopefully pass up to 51 this session. Ready or not, Myanmar is obligated to make significant changes within less than two years.

Obligation to implement AEC

In 2007, all ASEAN member states took the bold step of adopting the binding AEC Blueprint, under which all member nations are obliged to take various steps in order to establish AEC by the end of 2015. The overarching goals of AEC are to transform ASEAN into: (1) a single market and production base, (2) a highly competitive economic Region, (3) a Region of equitable economic development, and (4) a Region fully integrated into the global economy.



AEC areas of cooperation include the development of human resources and capacity building, recognition of professional qualifications, closer consultation on macroeconomic and financial policies, trade financing measures, enhanced infrastructure and communications connectivity, development of electronic transactions and integrating industries across the Region to promote regional sourcing and enhancing private sector involvement to establish AEC.

AEC is intended to transform ASEAN into a Region that comprises the following core elements: (1) free flow of goods, (2) free flow of services, (3) free flow of investment, (4) free flow of capital, and (5) free flow of skilled labour.



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Coupled with its accelerating GDP growth, Myanmar is poised to be among the foremost leaders driving the economic engine of ASEAN.



ASEAN Comprehensive Investment Agreement

One important aspect of achieving the aforementioned goals upon which AEC will be built is the allowance of the free flow of investment. This is to occur through the implementation of ASEAN Comprehensive Investment Agreement (ACIA) by the end of 2015. The ACIA is similar in many respects to a bilateral investment treaty.

The stated aim of ACIA is to create “a liberal, facilitative, transparent and competitive investment environment in ASEAN”. ACIA is founded on four basic pillars: (1) investment protection, (2) facilitation and cooperation, (3) promotion and awareness, and (4) liberalisation. ACIA applies to laws and regulations adopted by any ASEAN member state if related to: (1) investors of a different ASEAN member state, or (2) any investments made by an investor from a different ASEAN member state after 29 March 2012. ACIA will initially liberalise five business sectors, including cross-border investment in: manufacturing, agriculture, fisheries, forestry, mining, and quarrying.

ACIA embodies international principles of good governance designed to enhance the individual investment climates of ASEAN member states in order to attract greater amounts of FDI. ACIA offers protection for all ASEAN investors and their investments in other ASEAN member states. Investments are defined to include every kind of asset, owned or controlled by an investor. ACIA states that covered assets include, but are not limited to: moveable and immovable property and property rights, shares of a company, intellectual property rights, and contractual rights.

ACIA contains a number of provisions related directly to protecting investors from ASEAN member states and their investments in other member states. These protections include “ensuring fairness” which prohibits member states from making arbitrary decisions and/or discriminating against an investor from another member state in any way. Further, if a host country decides to take legal action against an investor that investor must be given a full and fair opportunity to defend against any charge of wrongdoing using all legal recourse available to domestic investors. Additionally host nations must ensure protection and security for all investments made by a member of another ASEAN member state. In cases of strife, including armed conflict or similar events, the host ASEAN member state is required to compensate the investor from the other ASEAN member state for any loss or damage to the investment. ASEAN member states must also prevent unlawful expropriation, allow for the free transfer of funds without delay, and must grant entry and work authorisation to key personnel of the investor. Lastly, ACIA provides that when an investor suffers a loss or damage due to a breach of ACIA by a host nation then that investor is guaranteed the right to access dispute settlement mechanisms, including the use of local courts or international arbitration.

Further, ACIA adopts non-discrimination principles including “national treatment” and “most-favoured nation treatment” for all ASEAN member states. Under these principles all ASEAN member states agree not to treat investors from another member state any less favorably than domestic investors. ACIA additionally states that ASEAN member

countries will refrain from imposing any performance requirements or production quotas on any investors from another member state.

Regarding Article 9 of ACIA, the individual ASEAN member states have been instructed to submit a list of reserved matters for areas where there will be temporarily non-conforming measures and regulations applicable to the five sectors sought to be liberalised under ACIA. While ASEAN members are permitted to make reservations regarding laws and regulations that are not in conformity with ACIA, the member states have also committed to steadily reduce or eliminate the reservations moving forward.

ASEAN member countries, under ACIA, have reserved to their citizens certain activities in sectors covered for liberalisation. These sectors include: manufacturing, agriculture, fishery, forestry, mining, quarrying and are permitted to reserve certain activities to their citizens. Myanmar has made reservations in the foregoing sectors and will additionally retain the prohibition on the ability of foreign persons to transfer ownership of immovable property as well as the company incorporation procedures for a foreign invested company.

World Trade Organisation (WTO) implications

Under ACIA, a country that is a WTO member is not automatically given the same benefits as an ASEAN member. Despite the WTO stating that all members be given most favoured nation status, this does not appear to always be the case. ASEAN countries will receive higher benefits and lower tariff rates than non-ASEAN WTO members.

Current situation and the road forward

Myanmar is not currently in compliance with many of the provisions of ACIA. Bringing Myanmar into complete compliance by 2015, will be a significant task and will likely extend beyond the initial deadline

contained in ACIA. Myanmar has pledged to implement AEC on the original schedule. However, it is possible that a number of the benefits provided for in ACIA may have to be delayed and adopted in time. U Kan Zaw, the Minister of National Planning and Economic Development, recently stated 50% - 60% of the needed reforms were complete but that much more needed to be done.

There are several key issues that will need to be addressed for Myanmar to be compliant with ACIA. Prominent examples of these issues include the 2012 Foreign Exchange Management Law (FEML), which mandates that foreign investors receive approval from the Central Bank of Myanmar prior to making capital account remittances abroad (e.g. the payment of a dividend). Meanwhile, ACIA calls for the free flow of capital in and out of Myanmar to other ASEAN member countries.

Notification No 11/2013 issued by the Ministry of National Planning and Economic Development (the FIL Rules) pursuant to authority granted under the FIL prescribes certain areas in which foreign investment is not permitted. Schedule 4 to the FIL Rules provides that a number of fishing activities are reserved to Myanmar citizens, whereas ACIA lists this as a sector where cross-border investment is to be liberalised. Similarly small scale mining activities are currently reserved for Myanmar citizens despite the ACIA goal of liberalising mining investments for all ASEAN member states.

Reforming incongruous laws is a monumental challenge, one the Government has said it will achieve and does appear to be focused on. In the end the Government may also choose to exempt investors from ASEAN member countries from such incongruous laws. Regardless of the final outcome, much work lies ahead while AEC Blueprint deadline looms.

Legal regime of ASEAN

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Overview for business lawyers: Myanmar and Thailand

This paper discusses some of the challenges for foreigners to do business in the private sector in ASEAN member countries, in the context of Foreign Direct Investment (FDI) in Myanmar and Thailand. Myanmar and Thailand will not meet 2015 and other deadlines for full implementation of AEC, but regional integration will continue. The AEC is playing a major role in continuing integration of ASEAN and other Pacific economies.

ASEAN Integration will help break down some of the remaining barriers to entry, but both countries already present greater opportunities for FDI than certain ASEAN agreements appear to contemplate. In fact, there is a disconnect between schedules of restrictions under ASEAN Framework on Services and ASEAN Comprehensive Investment Agreement, and policy and legal regimes on the ground. It is important that business lawyers see this difference.

The distinct character of each ASEAN member needs to be understood, in order to see and realise opportunities for FDI. We often refer to the cross cultural differences which give rise to some of the challenges:

- The English, French, Dutch and Spanish left different footprints on legal systems in different member countries. All ASEAN member countries have some colonial history, with the exception of Thailand.

- Different languages, religions, levels of education, upward mobility, and wealth gaps.
- Economic development gap between founding members and Cambodia, Myanmar, Lao PDR and Vietnam (CLMV).
- Different levels of isolation. Why the “distance” between most Myanmar and Thai; could it be the 38 wars over four centuries, still reflected in primary school textbooks?

The Core Elements or idealistic objectives of ASEAN Integration are:

1. Free flow of goods
2. Free flow of services
3. Free flow of investment
4. Free flow of capital
5. Free flow of skilled labour

Principal ASEAN Agreements

The key legal agreements (among others) include:

1. **ASEAN Trade in Goods Agreement (ATIGA)**. Governs the ASEAN Free Trade Area for intra-ASEAN trade in goods (effective May 2010). Thailand has cancelled all import tariffs for goods originating in ASEAN since 2010. However, non-tariff barriers remain. Other ASEAN countries are expected to cancel import tariffs in 2015.

2. ASEAN Framework Agreement on Services (AFAS). Governs intra-ASEAN trade in services (effective September 1998). Each member country has a schedule of specific commitments (horizontal commitments and service sector commitments) in respect of opening up service sectors, currently known as the 8th Package adopted in 2012. Financial services liberalisation has been postponed until 2020.

Myanmar's schedules include references to the Foreign Investment Law 1988, which has been superseded by the Foreign Investment Law 2012, Foreign Investment Rules 2013, Myanmar Special Economic Zone Law 2014 (MSEZL) and Myanmar Investment Commission (MIC), which recently issued MIC notification nos. 49 and 50/2014 which are proving successful in attracting new services businesses.

Thailand's schedules mention (under horizontal commitments) allowing 51% and 70% foreign ownership in some sectors, provisions not found in existing Thai law.

- 5 priority integration service sectors, increase in equity participation: 51% by 2008, 70% by 2010 and logistics 51% by 2010 and 70% by 2013.
- All services across national borders in ASEAN: 70% foreign equity participation by 2015.
- Flow of skilled labour: starting with architectural services, accountancy services, surveying, medical and dental practitioners.

3. ASEAN Comprehensive Investment Agreement (ACIA). Governs intra-ASEAN investment (effective April 2012). Liberalization of the following sections is contemplated: manufacturing, agriculture, fishery, forestry, mining and quarrying, services incidental to the above, and other sectors to be mutually agreed. There are a number of sectors of the economy which do not fall within these six sectors. There are uncertainties as to which Government regulator in each ASEAN member



makes decisions on approved investments. ASEAN members each have a schedule of "investment reservations" in the Schedule of ACIA.

Myanmar's reservations. 11 sectors are listed as restricted to foreigners. The FIL 1988 is frequently cited as legislative grounds, but it was repealed by FIL 2012 and FIR 2013, and some restrictions were relaxed in MIC notification nos. 49 and 50/2014.

Thailand's reservations. 25 sectors are listed as restricted to foreigners. The Foreign Business Operation Act (FBOA) was cited as grounds for restrictions in 17 sectors. The Working of Aliens Act applies to all sectors and expressly prohibits 19 occupations to foreigners. There are some proposed amendments to the FBOA being proposed to the Government, but none are reported to be specifically ASEAN related. To our knowledge, no amendment to the work permit rules is being proposed.

In August 2014, ASEAN Economic Ministers signed the Protocol to Amend the ACIA, to allow ASEAN Member States to amend their respective reservation lists in an expedient manner to better comply with the commitments under the ACIA to promote the free flow of investment.

ASEAN member countries are on different time frames for compliance. Myanmar is in group CLMV. Thailand is in group of six.

In August 2014, there were a number of meetings in NPT, 12th AEC Council Meeting, 46th ASEAN Economic Ministers' Meeting and related meetings. There were a number of key outcomes to promote cooperation among ASEAN members, e.g.

- ASEAN Public Private Partnership (PPP) Framework.
- ASEAN Qualification Referencing Framework (AQRf).
- Elements Paper for the Upgrade of ACFTA.
- Vision of AEC after 2015 (Post 2015 Vision).
- Regional Comprehensive Economic Partnership (RCEP), ASEAN jointly with India, China, Korea, Japan, Australia and New Zealand.
- ASEAN-Republic of Korea Free Trade Framework.

The US-ASEAN Business Council brought a focus on training and offering policy recommendations to support SMEs in ASEAN. SMEs account for more than 96% of all enterprises, and for between 50 to 95% of all employment in many ASEAN members states. See report released in August 2014, "Beyond AEC 2015 Policy Recommendations for ASEAN SME Competitiveness," that provides recommendations for creating an improved environment for small business development in ASEAN.

Specific restrictions on foreign investment in Myanmar and Thailand

• **Foreign investment legislation.** Each ASEAN member country has certain laws to provide incentives for legislation in specific sectors, including tax incentives, guarantees, and relaxation on ceilings on foreign ownership.

Myanmar: Myanmar has its Foreign Investment Law 2012, Citizens Investment Law 2013, and Myanmar SEZ Law 2014. The first two laws are administered by the Myanmar Investment Commission, which has

granted promotion to a number of foreign investors. There are a number of draft laws and notifications under consideration, some with the support of the International Monetary Fund (IMF), the International Finance Corporation (IFC), Asia Development Bank (ADB) and other international organisations.

Thailand: Investment Promotion Act provides for promotion of both domestic and foreign investment, and is well administered by the Board of Investment (BOI). The BOI recently adopted a policy to promote outbound investment (not limited to ASEAN members), but its success will depend upon restrictions on Thai FDI in each target ASEAN member.

• Ceilings on foreign ownership of businesses

Myanmar: The State-Owned Enterprise Act (1989) provided that 12 activities could only be undertaken by a State-owned economic enterprise. Foreign Investment Rules and MIC notification 1/2013 provided details on terms and restrictions on making certain kinds of foreign investments. In August 2014, new MIC notifications nos. 49/2014 and 50/2014 were enacted, relaxing certain restrictions on foreign ownership.

Thailand: 17 laws and policies place ceilings on foreign ownership in specific businesses. FBOA includes restrictions on 43 businesses. The BOI may grant exemptions from restrictions in a number of categories of business. Under the AFAS, foreigners from other ASEAN members are allowed to hold majority shares in a number of service businesses, but no amendment to the FBOA has been proposed to allow this.

• **Work permits and visas.** Under the AEC Blueprint regarding free flow of skilled labour, ASEAN countries have signed a Mutual Recognition Arrangement for eight occupations to work in other ASEAN countries.

Myanmar: Myanmar is the language of the courts. Currently there is no work permit law; foreigners who work in Myanmar enter on a variety of visas. There are references to "stay permits" but few foreigners obtain one.

Thailand: Working of Aliens Act, requires foreigners to obtain work permits to work (broadly defined) in Thailand. It bars work permits for foreigners in 19 occupations. Under the AFAS and ACIA, foreigners from other ASEAN members should be allowed to work in Thailand, but no amendment to the law has been proposed to facilitate this.

- **Language of contracts**

Myanmar: In practice, contracts are signed in Myanmar or English. A Myanmar translation is required if introduced as evidence in a court.

Thailand: Thai is the language of the courts. However, most contracts may be signed in English or other foreign language, with Thai translation only required if introduced as evidence in a court.

- **Governing law**

Myanmar: Myanmar law is the common choice of governing law, especially with state contracts. Myanmar courts will not accept jurisdiction over a contract governed by foreign law, but will consider a foreign court judgment.

Thailand: Generally, parties to the contract may select the governing law. In a Thai court, the foreign law must be proven as matter of fact. A Thai court will not enforce a foreign judgment.

- **Dispute settlement**

Myanmar: The Arbitration Act 1944 is currently in force, and does not recognise foreign arbitration awards. Myanmar acceded to the NY Convention in 2013, and a draft new arbitration law (based on the UNCITRAL Model Law) is under review. Upon enactment, both foreign and domestic arbitration awards would be enforceable by Myanmar courts.

Thailand: the Arbitration Act provides for enforcement of both domestic and foreign arbitration awards. However, the Thai Government has a policy against using arbitration for dispute settlement in state contracts.

- **Bilateral Investment Agreements**

Myanmar has BITs with four ASEAN countries: Lao PDR, Philippines, Thailand, and Vietnam

Thailand has BITs with six ASEAN countries: Cambodia, Indonesia, Lao PDR, Myanmar, Philippines, and Vietnam

- **Double tax treaties**

Myanmar has DTTs with five ASEAN countries: Lao PDR, Malaysia, Singapore, Thailand, and Vietnam

Thailand has DTTs with seven ASEAN countries: all except Brunei Darussalam and Cambodia

- **Specific sector initiatives**

Businesses in Thailand have taken initiatives to support the Thai Government in achieving its AEC commitments, including the automotive industry, Thai Bankers Association, etc. Certain Thai regulators have also taken initiatives, including the Bank of Thailand and Board of Investment.

- **Other regional economic developments**

There are a number of free trade initiatives which include ASEAN:

- ASEAN + 3
- Free-trade agreement negotiation framework between ASEAN and China
- Regional Comprehensive Economic Partnership (RCEP), 16 countries
- Trans-Pacific Partnership (TPP), 12 countries

-
- A new website set up in July 2014 to list laws of 10 ASEAN countries: <http://asean-law.senate.go.th/>
 - ASEAN: <http://www.asean.org/>
 - US-ASEAN BUSINESS COUNCIL: www.usasean.org
 - Thailand Board of Investment: <http://www.boi.go.th/>
 - "The AEC 2015 and Thailand's Scorecard", 17 June 2014, Cynthia Pornavalai, Tilleke & Gibbins: <http://www.tilleke.com/>
 - "A Looming Challenge: Myanmar obligated to comply with ACIA by 2014", April 2014, William Greenlee and Huy Luu, DFDL: www.dfdl.com
 - "ASEAN Economic Community 2014: Potential, Reality and Getting Involved", 26 August 2014, Vriens & Partners: <http://www.vrienspartners.com/>
 - "Beyond AEC 2015 Policy Recommendations for ASEAN SME Competitiveness", August 2014, <https://www.usasean.org/regions/asean/resources>



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Challenges for investors to and from frontier markets

Richard Dailly, Managing Director, Southeast Asia, Kroll



Richard Dailly

The most recent stages of globalisation are making many of the traditional investment flow models obsolete. Frontier markets, such as Myanmar, Papua New Guinea and Lao PDR can be problematic for foreign investors, albeit in different ways. They present an interesting level playing field both for foreign investors, who may not understand the Region, and local corporates vying to attract professional, well managed, and high quality investment.

For example, the changes which have taken place in Myanmar in the last two years have been exceptional and without precedent. Two years ago, Myanmar was considered at best challenging, and at worst, off-limits to many international investors. As of 2014, it is one of the key investment destinations in Southeast Asia. If projections are accurate, then within a relatively short period, Myanmar with its many natural resources, its geo-political importance, access to the Indian Ocean, and large young population, is set to become a significant economy in the Region.

Nonetheless, years of underinvestment and non-transparency, still leave potential investors with significant challenges before entering into business relationships in Myanmar. Most investors are reliant on researching available regulatory and corporate documentation, online information and the media as part of their pre-investment due diligence process. These checks are difficult, if not impossible in Myanmar. Even apparently simple tasks, such as understanding local naming conventions, can present real problems for foreigners. A further problem is the language: unlike Thai or Vietnamese, for instance, the Burmese language script is often not supported by mainstream computer software packages, so even reading Burmese text becomes problematic. Further, the relatively young media culture in the country often means that the only voice to be heard in the international community, is that of the NGO community, who are often closely allied with the few independent media outlets which exist – and may even share staff. This has created its own

challenges, namely skewed and biased reporting. The repetition of allegations online, then creates its own perception of truth: reports by NGOs which may have been poorly researched, inaccurate and misrepresentative of certain issues, become repeated and accepted as the mainstream “accepted wisdom”.

So the challenges for investors into frontier markets such as Myanmar are well known and manifold. Many of the same challenges are also true of Papua New Guinea, Lao PDR and Cambodia.

But what of the corporates from these countries, who are themselves trying to attract investment? All too frequently, for the reasons spelled out above, they feel that they have been misrepresented, and have been treated unfairly in traditional and online media. They frequently claim that the “accepted wisdom” is one-sided, inaccurate and wrong. Corporates from frontier markets are looking to be treated fairly on a level playing field.

Kroll can have a role to play in these situations. As an independent company, with a forty year reputation for fairness and accuracy, Kroll has a role in explaining to investors, bankers and regulators, the context behind the often sensationalised stories that develop in markets like Myanmar. Kroll has the experience in helping outsiders who are unfamiliar with a region, remove the filter of distorted reporting, and to help institutions, investors and regulators look upon frontier markets in a more balanced way, taking into consideration history and culture.



Further, many corporates from these frontier countries are themselves unable to distinguish between the genuine investors from developed markets, and charlatans. Kroll is increasingly witnessing scenarios which reverse the traditional due diligence model. Kroll has found that the emerging markets corporates, who are themselves the usual subject of such investigations, are requesting Kroll’s services to undertake vetting, background checking and enhanced due diligence on foreign investors. With Kroll’s global network, it is straightforward for Kroll to undertake research in the developed markets on behalf of local companies.

Kroll has always maintained that risk works both ways. There is certainly risk to a foreign investor looking to expand into frontier markets, but there is also a risk to businesses in frontier markets attracting the attention of investors.



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Immigration in ASEAN: Planning for the challenges

Christina Karl, Managing Director, Berry Appleman & Leiden Asia Pacific Pte Ltd



Christina Karl

The ASEAN countries have made great efforts in recent years to attract foreign investors to continue the economic growth of the Region. Immigration regulations and procedures remain some of the biggest challenges facing foreign companies who are looking to expand their operations into ASEAN. The immigration processes in the majority of ASEAN countries, Singapore being one notable exception, are for the most part complicated and lengthy. Companies looking to open branch offices or send employees to support customer contracts must be aware of the timing and requirements in each country in order to plan business goals and projects effectively:

Sponsor Issues - Every ASEAN country requires that a the sponsor company of a foreign national's work

permit be registered to conduct business with the appropriate Government Agency. This means that in order for a foreign company to send its executives or specialists to work in an ASEAN country, it must either make a substantial capital investment or find a customer company willing to bear the obligations related to sponsoring its assignee. While many countries allow the foreign assignee's payroll to be kept in the home country, the local company work permit sponsor still faces potential liability under the respective country's foreign employment laws. This can strain delicate business relationships and foreign companies that are not willing or able to invest the resources necessary to start a branch office or subsidiary, can have great difficulty finding a local company willing to sponsor their

assignees' work permits. This leaves many foreign companies struggling to find a compliant way to meet customer contract and other business obligations.

Complexity of Process: Documents - The immigration processes in most ASEAN countries are document intensive. Examples of the requirements in the more document intensive countries include, tax and insurance documentation, local company organisation charts, training plans for local employees and images of local office or factory sites, in addition to the usual business registration documents. Document requirements for the assignee must also be considered with some countries requiring police clearances or verification of education certificates which can take weeks to obtain.

Complexity of Process: Number of Steps - The levels of Government approvals required in order to obtain a work permit for can also add to the complexity of the process. For example, several countries require that approval be obtained for the foreign national's proposed position - either by the local labour authority or industry ministry or both, depending on the nature of the position and the industry of the sponsoring company. This step is usually one of the requirements, even before the foreign national can apply for the entry visa. Levels of complexity are also added depending on:

- whether the work permit or visa also allows the foreign national to stay in the country, or if a separate residence permit is required
- whether a separate re-entry permit is required
- if there are separate in-country registration requirements with local police or immigration or tax authorities

Length of Process - Processing times for a work permit in most ASEAN countries falls between two to four months. Only in Singapore can a company expect to have a chance to obtain work authorisation for its foreign assignee in less than 30 days, although the new job advertisement requirement that was recently implemented, may add to that time. The Philippines and Indonesia have some of the longest

processing times with a minimum of three to four months before a foreign national can complete their work authorisation process. Depending on the complexities of the case, work authorisation in Indonesia, in particular, can take up to six months. Timing concerns include when during the immigration process the foreign national is legally allowed to start work. In most cases, the foreign national must complete in-country processes and physically hold their work and/or residence permit before they can legally start work. This can mean delays in-country of a few days to a few weeks depending on the authorities and processes involved.

The ASEAN countries have responded to the changing business needs of global companies by updating their immigration regulations to try and attract the most desirable, educated and experienced expatriate workers. Vietnam, for example, has continued to revise its immigration regulations to clearly define categories of work permits available to foreign executives and specialists. Even with the changes, however, most ASEAN countries are still struggling to find the balance between keeping the door open for the educated and experienced foreign workers needed by the foreign branch offices and investor projects, maintaining opportunities for their own skilled workers and enforcing immigration regulations to prevent overstays and misuse of visas. Finding the balance point for these important immigration concerns will definitely be a crucial part of the continued economic growth of ASEAN countries.

About Berry Appleman & Leiden

Founded in 1980, Berry Appleman & Leiden provides comprehensive global immigration services from offices in Singapore, Shanghai, Geneva, London, Rio de Janeiro, São Paulo, Sydney and the United States. BAL manages global visa matters and customised application approaches for work permits, business visas, and residence permits in more than 100 countries. BAL offers centralised management with regional and local support for the complete spectrum of global immigration matters. www.balglobal.com

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Every day, governments, companies and millions of people rely on us to protect the integrity and value of their currency, personal identity, products and brands. Contributing to the development of a world more secure for the citizens is SICPA's business purpose; we enable governments to protect tax revenues and deliver associated policy objectives by providing unique and secure authentication and traceability solutions.



Enabling trust



Building national capabilities and facilitating trade through secure regional supply chains

Philippe Amon, Chairman & CEO, SICPA

2015 and the implementation of the ASEAN Economic Community is just around the corner. It represents a great opportunity for Member States but also a challenge. It puts a spotlight on trade in the Region and the importance of ensuring improved transparency and predictability of the trade supply chain.

Fraud and illicit trade in all their forms remain a complex and serious threat to well-being in the ASEAN Region. They reduce Government revenues, weaken the rule of law and the impact of Government policies, damage the interests of manufacturers and consumers alike and put at risk public health. Fraud and illicit activity undermine confidence in the safe international trade which is essential for the economic growth and development of the Region. It seems, in an ever more connected world, that the magnitude of the threat can only grow as the ever-expanding array of illicit actors and networks converge.

But there is much that can be done, this largely asymmetric threat demands a concerted response through enhanced cooperation and sharing of best practice. Improving national capabilities through taking advantage of the latest technology, offers an important way forward. Crucially, robust national systems can be linked across borders to build an interoperable regional network, indeed it is important that they are designed with this objective in mind.

Making high risk low risk

SICPA is at the forefront of those in the private sector investing in developing up-to-date tools for governments, so they can meet these challenges now and in the future. We are aligned with initiatives to facilitate trade being promoted by international organisations such as the World Trade Organisation (WTO) and World Customs Organisation (WCO). We believe we have much to offer to support approaches based on Authorised Economic Operators (AEO). In particular our secure technologies based on the SICPATRACE® platform provide the means for otherwise high risk goods (be they excisable products such as tobacco and alcohol, medicines, sensitive spare parts or strategic controlled goods etc.) to be treated similarly to lower risk products, but without compromising on security. This accelerates cross-border movements thus promoting legitimate trade and is a win-win-win for governments, manufacturers and consumers.

Our approach builds on our long experience in providing security inks and security features to protect banknotes and in working in partnership with governments. SICPA has developed a modern tool box which can be implemented in a modular way, interoperable by design but also adapted to take account of national needs. At the core of the approach is secure track and trace which provides transparency and control for

governments across the length of complex supply chains, which criminals are so adept at exploiting.

Digital technology is crucial but needs to be complemented by material based security

Secure track and trace is based on marking legitimate products securely, so as to guarantee authenticity and gives each item a unique identity, so that it can be monitored through its life cycle from manufacturer to consumer. Digital technology is essential for monitoring and for the full exploitation of data, but to protect against the vulnerabilities of cyberspace, secure marking needs to use material based features such as high security inks.

At every stage of the supply chain control programme based on this technology there are benefits. At the beginning, they include production control which tackles the mis- or under-declaration which result in tax losses. There are further tax and public health related gains from preventing diversion frauds, adulteration and illicit activities such as repackaging. At inspection stages there are tools to counter corruption. Business intelligence, risk profiling and reporting modules exploiting 'Big data' ensure best use of enforcement resource. Real-time information of evidential quality improves enforcers' 'hit rates' for seizures and prosecutions. At the border reliable data allows for efficient and swift processing and information exchange.

Implementation requires a holistic approach and expertise

SICPA knows from its experiences across the globe that implementing a successful track and trace system requires a holistic approach and proven expertise. It needs to address the needs of all stakeholders. Permissive legislation needs to be in place. A good system is non-intrusive and has minimal impact on production processes - it copes with difficult industrial environments. The integrity of data capture is crucial – it has to be error free and acceptable to all supply chain



actors. It requires a fully reliable and secured system of aggregation so that e.g. a bulk package does not require unpacking when it is inspected. Checks by the authorities need to be quick and easy, compatible with trade facilitation schemes based on AEO and contain anti-corruption safeguards.

The cost of illicit trade is high. The benefits of combating it are significant. The technology now exists to do so successfully. It is a tool par excellence of good governance. We stand ready to support governments in ASEAN to make it happen!

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Further investment needed to develop oil & gas resources

Southeast Asia's fast expanding economies and growing populations mean a rising consumption of energy resources, especially oil & gas. Indonesia, the largest ASEAN oil producer with 918,000 barrels per day (bpd) in 2012, was once a leading member of OPEC, but became a net importer of crude oil in 2004.

However, in some countries oil & gas revenues are still the bulwark of their economies, notably in Brunei Darussalam where hydrocarbon exports account for 85% of the Sultanate's GDP.

Southeast Asia's proven reserves of oil, representing what is currently economic to produce, amount to 13 billion barrels, which at present levels of production would sustain output for the next 14 years.

As a result, the International Energy Agency (IEA) says that Southeast Asia could become the world's fourth largest oil importer by 2035. The IEA suggests that a decline in mature fields and limited new projects could lead oil production across the Region to fall by almost one third in this period.

The situation varies across the Region though. Brunei Darussalam and Malaysia are net exporters of oil. Malaysia is ASEAN's second largest oil producer with an output of 670,000 bpd in 2012. Nevertheless while ASEAN's existing oilfields are being depleted, there remain relatively large and unexplored areas thought to hold considerable resources, particularly in deep waters offshore. (*BP Statistical Review of World Energy 2014*)

At the end of 2012, Malaysia's proven oil reserves were four billion barrels. These are located mainly offshore of Peninsular Malaysia, Sarawak and Sabah.

Vietnam's focus is also offshore to secure oil supplies for a growing domestic market and to limit imports. The country has proven reserves of 4.4 billion barrels. Oil production was 360,000 bpd in 2012, though its largest fields at Bach Ho, Rong and Rong Se are in decline. The most promising areas for exploration are the Cuu Long, Nam Con Son and the Malay basin, offshore in southern Vietnam.

While not an oil producer, Singapore is very active downstream in oil trading and refining. Its refinery industry accounts for 5% of GDP and produces 1.3 million bpd of products, well above domestic needs. This leaves large quantities of gasoline and fuel oil to be sold elsewhere in the Region, particularly to Malaysia, China and Australia.

Energy security and future oil supplies is a priority for countries in the Region, however, the outlook in the respect of gas is more optimistic. ASEAN's proven gas reserves at the beginning of 2013, mostly located in Indonesia and Malaysia, were around 7.5 trillion cubic metres (tcm), representing 3.5% of total world reserves.

Indonesia's gas production has been increasing, reaching 81 billion cubic metres (bcm) in 2011. There is substantial scope to develop production further. It's proven gas reserves are just over three tcm, with the country's largest production areas located in Sumatra and East



Kalimantan. The largest undeveloped prospect is in the offshore East Natura block, which holds about 1.3 tcm of reserves.

Myanmar's current production comes from fields in the Andaman Sea, which mainly supplies Thailand. Production is also increasing at the offshore Shwe field in the same area.

The latter is the primary source of gas, feeding the Myanmar-China pipeline commissioned in 2013. The pipeline has a capacity to transfer 12 bcm a year under a 30 year agreement. However, as Myanmar develops it is likely that more of its gas will be needed by domestic industries and for generating electricity.

Brunei Darussalam's gas output has been sustained at 12-13 bcm a year. Southwest Ampa is its largest gas producing field, though future

prospects are thought to hinge on exploration in the deep waters of the Baram Delta. Most of the Sultanate's gas production feeds the Brunei Liquefied Natural Gas (LNG) liquefaction plant, from where it exports to Japan and Korea under long term contracts.

Malaysia, with proven reserves of 2.4 tcm, has an annual production of 56 bcm, the second largest in ASEAN. Production from offshore Peninsula Malaysia, including the Thailand-Malaysia Joint Development Area, is helping to meet rapidly increasing demand from domestic users.

Gas production in Vietnam has grown steadily over the last ten years, reaching nine bcm a year. The Lan Tay field in the Nam Con Son basin, provides almost two thirds of the country's total output. New developments in the latter are projected to boost Vietnam's total output in the short term. Prospects are also promising in the largely unexplored Song Hon basin and other areas in the South China Sea. (IEA)

Thailand's gas and its oil deposits are located mostly offshore in the Gulf of Thailand. Production at 28 bcm a year has increased in recent years, as new output has come on-stream from the Joint Development Area shared with Malaysia.

The Region's gas resources could also receive a major boost from unconventional sources. A study into exploiting shale gas deposits in



The Region had almost 90 bcm annual LNG liquefaction capacity in 2013; accounting for a quarter of the world's total, with production principally located in Indonesia, Malaysia, and Brunei Darussalam.



North Sumatra has been made by five companies and around 70 proposals to drill exploration wells have been submitted for approval, the IEA says. There are expectations that commercial shale gas production could begin in 2018. Exploration activity is also underway for methane recovery from coalfields in Indonesia.

However, the costs of developing energy resources in the Region are prodigious. According to the IEA around US\$205 billion is needed for oil supply infrastructure, mainly for upstream development and for new refineries. Gas requires the larger sum of US\$460 billion, reflecting the increasingly high costs of development and the need for expanded transmission and distribution infrastructure.

ASEAN could become hub for global LNG trade

Southeast Asia is one of the world's main suppliers of LNG. This product, which has been reduced to one 600th of its original volume, through a liquefaction conversion process at cryogenic temperatures into liquid form, is ideally suited for shipment over long distances where no pipelines exist.

The Region had almost 90 bcm annual LNG liquefaction capacity in 2013; accounting for a quarter of the world's total, with production principally located in Indonesia, Malaysia, and Brunei Darussalam.

Malaysia ranks as the world's second largest LNG exporter after Qatar, supplying Japan, South Korea and China as its main customers.

Production from offshore Sarawak, feeds an LNG liquefaction terminal with eight processing units at Bintulu.

Brunei Darussalam was the first country in ASEAN to export LNG starting in 1972, and is still an important exporter. Malaysia and Indonesia were also early pioneers and are important global exporters.

Indonesia is a significant exporter of LNG to Japan, South Korea and China. The country's three LNG liquefaction plants at Botang, Arun and Tangguh, have a combined capacity of 45 bcm a year. In 2012, Indonesia ranked as the world's fifth largest LNG exporter. Two more liquefaction plants are also being built on the island of Sulawesi at Sengkang and Donggi-Senoro.

Promising areas of development include West Papua and Sulawesi. The prospect of Floating LNG (FLNG) facilities are increasingly seen as the way to open up offshore locations in remote areas, such as the Arafura Sea in East Indonesia where an FLNG project is planned.

The region has immense untapped natural gas resources, much of which is located in deep-water offshore areas and a long way from centres of demand. While the prospects are challenging, investment in natural gas development is set to grow substantially for years to come. Anticipating this, Singapore and Malaysia have plans to become hubs for both regional and global LNG trade in the future.

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ASEAN Oil & Gas: Turning a vision into reality

Established in September 2009, by a management team with decades of experience and a proven track record, KrisEnergy Ltd. was borne from a vision to build a sustainable and best-in-class upstream oil & gas company, solely focused on high-potential geological basins in Southeast Asia.

Five years on, KrisEnergy's portfolio comprises 19 contract areas¹ across various stages of exploration, appraisal, development and production, in five countries – Bangladesh, Cambodia, Indonesia, Thailand and Vietnam – and a net production of approximately 8,000 barrels of oil equivalent per day (boepd). We became a publicly listed company in Singapore in July 2013 with a market capitalisation of over US\$1 billion.

These early days mark only the beginning of KrisEnergy's evolution. New oil & gas projects coming on stream from 2015 onwards, will increase production and reserves, and a raft of exploration wells in the

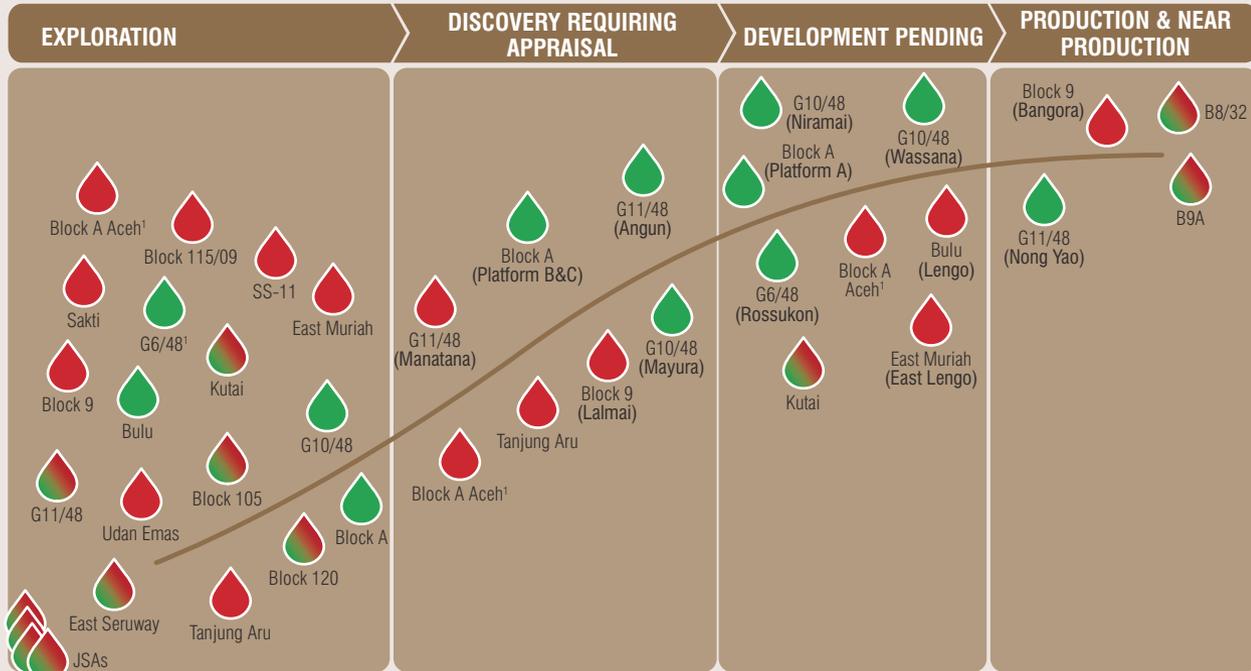
coming years have the potential to be transformational. Business development activities run in parallel with operations and provide organic growth, as well as multimillion dollar mergers & acquisition (M&A) opportunities.

Tried and tested

The upstream industry carries inherent risks at each stage of a project's lifecycle whether it is exploration drilling, development execution, reservoir performance or equipment and services availability, among others. Key to building an exploration and production (E&P) company is the continuous mitigation of such risks.

Our strategy begins with a regional focus, where we have extensive technical knowledge through our highly experienced technical team. KrisEnergy's interest area stretches from the Surma Basin in Bangladesh in the west to the Papuan Basin in the east, and from offshore southern

Portfolio building across the E&P lifecycle



LEAST MATURE ASSETS

● Oil
 ● Gas
 ● *Oil & Gas

MOST MATURE ASSETS

*Drop size is not indicative of reserve/resource potential

China in the north to Indonesia in the south. Although this vast area spans numerous national boundaries, the geology is similar across much of the map, with the exception of the far eastern flank.

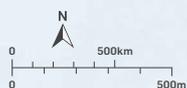
Our positioning in multiple countries spreads our exposure to different political and fiscal regimes and regulatory frameworks. We maintain a rigorous and disciplined selection process in our assessment of potential asset targets, whether it is via direct government award or through acquisition, and we aim for a balance between oil & gas, the latter being under long term supply contracts in Asia and more stable in pricing than volatile spot oil markets.

This business model was tried and tested previously in Pearl Energy, an upstream oil & gas company established in 2002 by the same KrisEnergy management and acquired by a Middle East entity in 2008.

Continuous pipeline

Our operations include all facets of the E&P lifecycle from identifying leads and prospects to discovery and commercialisation. Our offices in Bangkok in Thailand, Dhaka in Bangladesh, Ho Chi Minh City in Vietnam, Jakarta in Indonesia, Phnom Penh in Cambodia² and Singapore, undertake technical work in-house and liaise with the host governments, regulatory authorities and local communities.

DISCOVERING HIDDEN VALUE SINCE 2009



- Production and near production
- Development pending
- Discovery requiring appraisal
- Exploration
- ★ KrisEnergy regional office

**KrisEnergy
2014**



A leading Asian upstream oil and gas company, KrisEnergy's portfolio strategy aims to spread opportunities and risks across multiple prospects, basins and countries as well as across the upstream lifecycle from exploration and appraisal to development and production.

www.krisenergy.com





From 2015 until early 2018, our production is set to rise steadily, as our existing development projects come on stream.



Our producing assets provide cash flow with which we appraise and develop our discoveries. We continually add exploration blocks, both moderate and high risk, to the portfolio and once we are successful, the asset moves into the appraisal stage and subsequently into development. This pipeline of independent projects, provides a continuous flow of opportunities to grow our reserves and resources and increases oil & gas production and cash flow. Where possible, we prefer to operate licences, thereby overseeing work programmes and associated budgets. KrisEnergy operates 12² of the 19 assets.

Our 8,000 boepd of net production derives from two licences in the Gulf of Thailand and one onshore gas field in Bangladesh. This production provides annual revenues of US\$75-90 million, depending on oil & gas prices, which translates into a yearly EBITDAX of US\$30-40 million. EBITDAX, or earnings before income tax, depreciation, amortisation and exploration expense, is used as an indicator of free cash flow for E&P companies.

From 2015 until early 2018, our production is set to rise steadily, as our existing development projects come on stream. Oil is anticipated to flow from the Nong Yao field in G11/48 in the Gulf of Thailand in mid

2015 followed by the Wassana oil field in the neighbouring G10/48 block in the second half of the year. These fields will have a peak production capacity of 15,000 bpd and 10,000 bpd respectively.

Thereafter we anticipate gas development projects, in four production sharing contracts (PSC) in Indonesia. Gas has become an increasingly important resource in Southeast Asia in the last 15 years supported by development of the regional pipeline infrastructure and industrial growth. Our gas projects are within the Bulu and adjacent East Muriah PSCs offshore East Java, Kutai PSC offshore East Kalimantan, as well as the Block A Aceh PSC¹ onshore Sumatra.

Plans are also afoot to develop two further oil fields: the Rossukon discovery in G6/48 in the Gulf of Thailand for which we will undertake an appraisal drilling campaign in 2015; and the Apsara area in Block A offshore Cambodia, which will be the first commercial oil production for the Royal Kingdom of Cambodia.

As KrisEnergy approaches its sixth year of operations, we believe we have the building blocks to deliver a business of real scale in the heart of energy-hungry Asia, where the economic outlook is for robust medium-term growth.

¹ KrisEnergy's acquisition of a 41.67% working interest in Block A Aceh is pending government approvals.

² Transfer of operatorship for Cambodia Block A is pending government acknowledgement.

Manufacturing moves up the value added chain

Southeast Asia's manufacturing industry plays a significant role in international trade and is a major contributor to the ASEAN economies. In Indonesia, Thailand, Singapore, Philippines, Malaysia and Vietnam the percentage of manufacturing to GDP is 20% and above, and in Cambodia it is approaching this level.

Southeast Asia has experienced a strong Compound Annual Growth Rate (CAGR) in terms of its manufacturing output over the last decade and now accounts for almost 4% of global manufacturing output. This growth has been funded by both domestic companies and foreign investors.

There is now a growing emphasis on developing more value added production, which means Southeast Asia's role in global trade is likely to remain significant, in spite of potential slowdowns in pivotal economies such as China, the US and in the Eurozone.

Any concern about fragility in export markets, is balanced by expectations of increased intra-ASEAN trade following the implementation of the Region's Economic Community in 2015. Foreign companies are showing that they share this confidence. ASEAN surpassed China in terms of Foreign Direct Investment (FDI) inflow in 2013, with the manufacturing sector receiving a large amount of the funds.

More than 30% of all FDI that was directed to ASEAN countries between 2005 and 2010, went into manufacturing ventures and analysts believe this focus is likely to continue. (*blog: frontiersstrategygroup.com*)

Japan is one of the top investors in the Region, reflecting investments by more than 6,000 of its companies valued at US\$122 billion. Almost two thirds of these investments are in Singapore, Malaysia and Thailand. A report by Tokyo based NLI Research Institute says that more Small and

Medium Enterprises (SMEs) are moving into ASEAN countries, particularly components and service firms.

There are a number of reasons why foreign manufacturing companies are attracted to the Region and they do not all hinge on low labour costs. Singapore's Corporate Tax rate of 17%, for instance, is the lowest of any ASEAN country.

However, there are other considerations. Singapore occupies seventh place in a Global Innovation Index published by the UN's World Intellectual Property Organisation in conjunction with Cornell University and Institut European d'Administration des Affaires (INSEAD).

At ninth place in a world rankings list of 38 countries, Singapore is also the highest ranked ASEAN State in the 2013 Global Manufacturing Competitiveness Index, published by Deloitte Touche Tohmatsu and the US Council on Competitiveness.

The Deloitte Index measures, among other criteria, a country's macro-economic situation, financial and tax system, level of infrastructure, supplier networks, as well as the degree of talent driven innovation.

The Index also places Thailand in 11th place, Malaysia in 13th while Indonesia and Vietnam occupy 17th and 18th places respectively. Looking five years, ahead Deloitte's report forecasts that both these latter countries will move further upwards in the Index to be ranked 11th and 10th respectively.

Malaysia is seeking to develop its economy through its Economic Transformation Programme, which seeks to encourage innovation based



expansion, a route that is also favoured in Singapore as both countries strive to move further along the value added production chain.

The manufacturing sector generates about 25% of Malaysia's GDP with output valued at US\$69 billion in 2013, up 10.9% over 2012. The main industries comprise electrical and electronic components including high-end consumer electronic goods, photovoltaic cell modules and Information Communication and Technology (ICT) products. These areas of production make up 32.9% of Malaysia's total exports, which also include machinery, appliances, optical and scientific equipment, chemical and petroleum products.

Malaysia was ranked as the world's best manufacturing destination by international property agent Cushman and Wakefield in its 2014 Manufacturing Index. Thailand was listed in fourth place and Indonesia ranked eighth. The Index assesses countries in terms of labour and building costs, availability of trained workers, corporate risks, logistics



Southeast Asia's manufacturing industry plays a significant role in international trade and is a major contributor to the ASEAN economies.



and their business environment. Malaysia is also ranked highly in the World Bank's most recent Ease of Doing Business Report, having jumped six places making the country the second highest ranked ASEAN country after Singapore. Thailand came in at 18th place.

Manufacturing constituted 33% of Thailand's GDP in 2013, the highest percentage in Southeast Asia. Valued at US\$120 billion, manufacturing output included electronic goods, computers and ICT products, components, garments, automobiles and motor cycles. The country has been a manufacturing hub in the Region for US and Japanese companies for more than 20 years.

One of the principal drivers of Thailand's development as a manufacturing hub has been the emergence of its motor vehicle industry. A report by the Tokyo based NLI Research Institute says that five ASEAN countries produced around 5.3 million cars in 2013.

Most of this production came from Thailand, which turned out 2.5 million units followed by Indonesia with 1.2 million cars and Malaysia with 601,000.

With the highest level of automobile production in the Region, Thailand is described as "Asia's Detroit". Output from European, US, Asian and

Thai companies covers all aspects of production from parts and materials, manufacturing to final assembly. Other ASEAN countries are also keen to focus on car, truck and motorcycle production.

Some 14 companies, including global giants such as GM and Ford, are involved in car production and another seven companies produce motor cycles. In total these companies and joint ventures, employ around 100,000 workers. An additional 250,000 people are employed by an estimated 635 companies, in the auto parts supply chain and a further 175,000 are estimated to work in smaller scale manufacturing operations serving the country's car industry.

Despite political uncertainty, the country's open market orientated economy, continues to be attractive to outside investors. In an analysis of emerging markets' prospects in the next two years, Bloomberg recently ranked Thailand as the fifth most promising market globally and the second in Southeast Asia after Malaysia. The Philippines was placed 16th, while Indonesia was ranked 18th most promising. (*Dezan Shira*)

While Thailand's manufacturing sector is concentrated around the capital area of Bangkok, a number of development zones throughout the country are being created to decentralise the sector. This process has been given added urgency due to the floods that have affected many

parts of the country, especially production in Bangkok and surrounding provinces in recent years.

Assembly of cars and production of automobile parts also constitutes one of Indonesia's main industries and is taking a growing share of inward investment. This includes investments of US\$250 million from Nissan and US\$800 million from Suzuki, US\$246 million from Daihatsu and US\$100 million from Chrysler, all to build production plants.

India's Tata Motors has said it has plans to establish Indonesia as its manufacturing and distribution base in Southeast Asia, involving local assembly and car components production.

Automobile industries also look likely to grow in less developed parts of the Region. The Philippines and Vietnam have assembly operations, which they are keen to extend. The two countries produced 52,000 and 41,000 cars respectively in 2013, to serve their local markets which will expand as incomes rise.

Suzuki Motor Corporation has said that it plans to build a factory in Myanmar by 2015, which would be able to produce up to 30,000 cars a year. Mitsubishi Motors has also expressed an intention to develop after-sales service centres, while Toyota is also thought to be considering vehicle manufacturing in the country.

As foreign manufacturers of cars, electronics, garments and other goods consider where to invest in Asia, a key consideration remains production costs. A relocation of production from areas where labour costs are rising, for example China, is benefiting ASEAN countries.

As a result, Taiwan based Foxconn, the world's largest contract manufacturer of electronic products, including the iPhone, is considering a reported US\$1 billion investment in Indonesia, to manufacture mobile phones, e-book readers, tablets and smart TVs.

In addition to welcoming foreign export manufacturers, Indonesia also wants more firms to address the domestic market. According to Indonesia's Ministry of Industry, for example, the current import level of 70 million mobile phones, can be drastically reduced with domestic production. As a consequence, the Government is providing tax breaks to encourage local firms to supply the mobile market and subsequently go on to produce other items, such as smart phones and tablets for sale in Indonesia.

The World Bank says that both Indonesia and the Philippines "have the endowments to emerge as assemblers of final products and not just of intermediate items. However, this would require deeper structural reforms, including bringing down their trading costs through more effective infrastructure investment and trade facilitation reforms, further liberalisation of their foreign investment regime and avoiding loss of competitiveness through sustained appreciation of their currencies". (*World Bank: East Asia-Pacific Economic Update April 2014*)

ASEAN countries also need to move on from existing manufacturing models, to produce more sophisticated high value goods ranging, for example, from electronics products and advanced components, to a new generation of low emission "green" vehicles and high-tech precision engineering equipment.

According to the Organisation for Economic Cooperation and Development (OECD) “Middle income ASEAN countries will need, over time to foster the progressive transformation of their manufacturing industries, towards more sophisticated and demanding activities with higher productivity and greater dependence on technology”.

In Malaysia and notably Singapore, the process is already gaining traction with manufacturing operations being upgraded to those with more value added production needs. In 2012, 39% of Malaysian goods’ exports were in high skill and technology intensive manufactured products, whereas the corresponding figure for Indonesia was 11%. (*icaew/ Economic Insight-South East Asia*)

Singapore’s advanced infrastructure and high quality human resources have drawn more than 30 of the world’s leading life sciences companies to make the island their regional hubs. GlaxoSmithKline, Abbott, MSD (Merck), Novartis, Pfizer and Sanofi Aventis have invested more than US\$4 billion, making the island a global manufacturing base for a range of active pharmaceutical ingredients and biological and nutritional products.

Development of human capital and innovation capacity are critical in order to move up the value chain into higher productivity manufacturing and service activities. Strengthening schools and other educational establishments, as well as research and development facilities are vital to this process.

Singapore has one engineering student for every 81 inhabitants, while the ratio in Malaysia is one for every 121 inhabitants. In other parts of



Southeast Asia the ratio is one engineering student to every 300 inhabitants according to UNESCO. (*icaew.com/economic insight/southeastasia*)

Southeast Asia can no longer be viewed as a low cost manufacturing region. The quality and sophistication of its output is steadily increasing. In Singapore, manufacturing accounts for 21% of GDP, a higher level than in the US or UK, and yet its labour costs are significantly higher than other ASEAN nations.

An average wage for a Singaporean working in the manufacturing industry was US\$3,375 a month in the third quarter of 2013, against US\$850 in Malaysia and US\$350 in Thailand, according to Dezan Shira Consultants. Its manufacturing sector remains highly competitive and reflects a growing knowledge based economy which other ASEAN members are now on the road to emulating. (*ASEAN Briefing 5/8/14*)

Diageo: Growing responsibly across Southeast Asia

Diageo is the world's leading premium drinks business with an outstanding collection of beverage alcohol brands across spirits, beer and wine categories. These brands include Johnnie Walker, Smirnoff, Cîroc and Ketel One vodkas, Baileys, Tanqueray and Guinness. Diageo's products are sold in more than 180 countries, employing 27,000 talented people worldwide. The company is listed on both the New York Stock Exchange (DEO) and the London Stock Exchange.

Diageo is the number one international spirits business in Southeast Asia. We have grown to become the leading Scotch player: Thailand is the fourth top market for Johnnie Walker globally and Vietnam is one of the world's biggest markets for super deluxe whisky. Indonesia is the fifth largest market for Guinness globally.

We have a number of joint ventures and distribution partnerships across the Region which provides us with deep local insights and access to strong commercial channels. For example, in January 2011 we entered into a strategic partnership agreement with Halico, the leading vodka company in Vietnam.

Diageo is ideally positioned to capture the exciting opportunities for growth. The underlying economic fundamentals are strong and regional

demographics are in our favour with over 100 million consumers in Southeast Asia expected to enter legal drinking age over the next ten years. With only 11% share, international spirits can only grow as part of the total beverage alcohol market, presenting significant opportunities for Diageo as the leading player in this category.

Diageo strives to earn respect and trust as a sustainable and valuable contributor to society. Our approach to strong corporate governance, and ethical and responsible business practices are critical to building trust and respect among our stakeholders. This approach coupled with our deeply-embedded values facilitates our licence to operate, secures our supply of raw materials, generates business efficiencies, and motivates our people.

Our company's success relies on our ability to make a positive contribution in the societies within which we operate. We are focused on three key areas: our contribution to the role of alcohol in society; socio-economic development; and water management.

As a leading alcohol business, we take seriously our role in ensuring our products are enjoyed responsibly, by legal age consumers who choose to drink. We have long standing partnerships in Malaysia, Indonesia,

Singapore, Thailand and Vietnam to raise awareness of alcohol misuse and to help address pertinent issues in the Region such as drinking and driving and underage drinking.

Johnnie Walker has placed responsible drinking at the heart of its eight year partnership with Vodafone McLaren Mercedes and in 2013 launched a global free ride home programme as part of its Join the Pact responsible drinking campaign.

In Singapore, Johnnie Walker partnered with SMRT Corporation Ltd - Singapore's mass transit provider - to give away 10,000km of safe rides home and the chance to be driven home by Johnnie Walker Global Responsible Drinking Ambassador Mika Häkkinen. The country wide campaign encouraged consumers to make a pledge not to drink and drive. More than one million consumers around the world have already signed a pledge never to drink and drive. The new safe rides home programme seeks to attract an additional one million personal commitments.

On socio-economic development, Diageo's Plan W initiative seeks to empower women through learning across Asia Pacific. One billion women will enter the global economy during the coming decade, but many will not have received proper education or the opportunity to develop professional skills. We therefore believe that empowering women will make a positive impact on society. For instance, addressing the inequality gap in our supply chain will support growth and increase



Singapore's SMRT CEO, Desmond Kuek, launches #Imnotdriving campaign to support Johnnie Walker pact to never drink and drive

available talent, while education and skills training to improve gender equality, will lift people out of poverty and contribute to a community's economic performance.

Diageo is proud to be leading the industry when it comes to women's empowerment. We are the first alcohol beverage company to sign the UN's Women's Empowerment Principles to promote gender equality in the workplace, marketplace and community. 44% of our Board is female, the second highest in the FTSE100 and 40% of the global executive team are women. In 2012, we won the Opportunity Now Female FTSE 100 Award.



Arthur Guinness Fund in Indonesia supports cooperatives like that of Karya Manunggal to develop social enterprise skills

Plan W seeks to do more. Our objectives with the initiative are to improve gender equality in our workplaces, improve service standards in the hospitality industry, grow skills in the communities in which we operate, and raise awareness among our consumers. Since launching the programme in December 2012, Plan W has empowered close to 60,000 women through learning, indirectly benefiting almost 300,000 community and family members.

As a partner to the travel and tourism industry, our ambition is to play a role in developing the talent and skills pipeline, by proactively including women, to meet the growing needs of our customers. Asia Pacific will benefit from the expected growth in the travel and tourism industry over the next ten years, with women representing two thirds of this labour force. The inaugural Women in Tourism and Hospitality Conference launched by Diageo in March 2014, convened subject matter experts, key stakeholders and over 200 delegates, inspired new ways of working to address talent and diversity needs in the sector. The

Women's Empowerment Journalism Awards rewarded and recognised excellence in reportage of women's issues and the work of journalists who are raising awareness of women's rights.

In Sri Lanka, the tourism industry is one of the fastest growing industries, but it continues to experience a shortage of skilled employees. In partnership with Plan W, CARE International therefore developed a multi stakeholder programme to increase youth employability through skills and knowledge enhancement, actively encouraging women to consider the hospitality sector as a viable and rewarding career path. The programme trains young adults in the four key hospitality disciplines, including housekeeping, culinary, food and beverage, and restaurant management, as well as key life skills to prepare students to successfully meet the challenges of the working environment. Graduates receive an accredited National Vocational Qualification. All 87 graduates from the first intake were employed in our partner Jetwing's newest hotel in their local community.

In Vietnam, our partnership with the Centre for Social Initiative Promotion trains women in social enterprise and works with university students to develop social enterprises to improve their community. Over 1,500 women received social enterprise training in the first year. In Indonesia, Diageo's Arthur Guinness Fund, in partnership with the British Council continues to grow community based social enterprise through training, such as Pelangi Nusantara which supports more than 100 women to produce products using recycled fabric from local textile factories.

Diageo is committed to growing responsibly across Southeast Asia and our footprint, enduring partnerships, and local expertise gives us the scale and agility to take advantage of its opportunities.

For more information please visit: www.diageo.com or contact Wilson DelSocorro, Corporate Relations Director SEA at Wilson.DelSocorro@diageo.com



RMA is a global company which employs over 8,000 people and has an operational presence in over 21 countries.

Headquartered in Bangkok, Thailand, RMA provides customer-driven, tailored solutions in automotive, infrastructure, engineering, financial services, and hospitality sectors for customers in emerging markets through to fully developed markets.

For over 25 years, RMA has provided unequalled service in these areas, bringing innovation, integrity and enduring partnerships to support the needs of its clients worldwide.

INTEGRATED SOLUTIONS:



AUTOMOTIVE



INFRASTRUCTURE



ENGINEERING



HOSPITALITY



FINANCIAL SERVICES

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Emerging market specialist

RMA increases ASEAN presence

Developing sound business relationships that stand the test of time is a difficult task for any company seeking to enter the lucrative, though challenging markets of Southeast Asia. It is a process requiring commitment, attention to local conditions, building relationships and above all patience.

RMA's progress from a medium scale pharmaceutical distributor in ASEAN markets to a diversified and fast expanding global group underlines how sound this strategy has proven. The company has steadily built up expertise in vehicle distribution and modification as well as a reputation for engineering and more recently, in hospitality business areas throughout the Region and beyond.

A growing reputation for automotive distribution as well as for high quality modifications for vehicles deployed in remoter areas, gave the company the foundation to diversify its representations, that as well as vehicle manufacturers, now includes numerous engineering global brands including 3M, SDMO, Land Rover and Jaguar.

It is successful implementation of projects in demanding environments which lack infrastructure, that has helped establish RMA's reputation as a reliable operator for such companies in post-conflict areas and emerging economies.

The Group started life as a result of the acquisition in 1986 of the US company Rochester Midland's regional pharmaceutical distribution

office in Bangkok. This created Rochester Midland Asia and RMA as it is known today.

The company grew rapidly in its first decade, opening offices in Cambodia, Lao PDR, Vietnam, Indonesia and most recently Myanmar. The five divisions of RMA Group are: Automotive (wholesales & retail distribution and modification/assembly), Infrastructure (heavy equipment & power generation), Engineering Solutions (M&E, construction, oil & gas services, urban planning), Hospitality (food franchise management, airport restaurant management, hotel) and Financial Services. The automotive business remains a core activity and a strong relationship with the Ford Motor Company, provided the basis for cooperation with other leading car and specialist vehicle manufacturers including Jaguar Land Rover, General Motors, Mazda, and many more.

In Indonesia, the company serves customers from offices in Jakarta, offering products and services to the mining, oil & gas sectors as well as the Government and for Non-Governmental Organisations (NGOs) in the country.

The company has a highly successful record as distributor and supplier of tailor-made vehicles. This includes modifying vehicles for specific industrial uses such as mining and fitting out trucks and four-wheel drive vehicles for deployment in demanding environments, which would

rapidly wear out standard vehicles. This expertise has made RMA a valued supplier to aid agencies and Governments, highlighted by the provision of more than 40,000 modified vehicles to Afghanistan's security forces.

According to Kevin Whitcraft, RMA Group's Chief Executive Officer, "a major emphasis is placed on support networks, investment in systems, people and technologies to meet customer after-sales requirements. RMA's supply chain capabilities and support mechanisms are every bit as important as the quality and reliability of the products sold", he says.

The fast growing Group has a turnover of US\$1 billion a year and is supported by an operational presence in 21 countries. Backed by distribution hubs located at Laem Chabang in Thailand and in Dubai at Jebel Ali Free Zone, the company's activities are expanding and continued growth in automotive and hospitality operations means RMA Group now employs over 8,000 people.

Headquartered in Bangkok, the heart of the company and the bulk of its business is still in Southeast Asia. The Group's automotive activities are centred at Laem Chabang. An academy is also located at Laem Chabang Port and Free Zone where Thai personnel and trainees from other parts of Southeast Asia receive technical and soft skills training. (Refer to www.rmaacademy.com for more information).

Placing local staff, who are properly trained, to take up positions of responsibility and management is a core aim for RMA and an essential element in growing the Group's business in the Region.

This strategy is reflected in the Group's recent move into Myanmar. Since announcing the entry of the Ford brand to Myanmar in April 2013, the company has stressed a commitment to investing in training resources



and bringing in technical experts to provide skills training for employee technicians, sales and service personnel. A showroom, service centre and spare parts storage facility has been set up in Myanmar for Ford by Capital Automotive Limited, a joint venture between RMA Group and Capital Diamond Star Group, a Myanmar conglomerate.

Myanmar is going to need an increasing number of skilled workers in many sectors, not least, in the automotive sector. Most vehicles are bought second hand and are more than ten years old, lacking warranties or regular servicing. Ford is among a number of US companies which are entering the country after the suspension of economic sanctions.

Myanmar, with a population of 60 million, could see demand for new cars and other consumer items grow rapidly as foreign investment accelerates and the economy expands.

RMA's long experience of automotive expertise is being leveraged by working with Ford to provide first class training resources. This includes



Building on the business model successfully applied in neighbouring countries, the company now sees Myanmar as one of its brightest opportunities in the ASEAN Region.



sending technician apprentices to an immersion programme at Laem Chabang. The academy's courses cover a wide range of services and skills, from routine servicing of vehicles to more sophisticated repair requirements. Courses in electronics and other more technical areas are also provided.

In Myanmar, RMA's business development is still at an early stage. The Group is in a position to engage in all types of construction, power generation and mining, as well as support for Government agencies and international aid organisations, in their development activities in the country.

RMA diversified its operations in Thailand, Vietnam and Cambodia with the acquisition of the Comin Group of Companies in 2011, reinforcing an ability to provide mechanical and electrical installations and power distribution networks, as well as heating and air conditioning systems and water treatment plants. In addition, they also provide information and communication technologies, particularly for security requirements.

Other RMA Group companies include Urban Solutions in the Netherlands, which provides advice, consulting services for urban planning and engineering projects. The UAE based Marsol Investments provides specialist services to oil & gas companies, while Foreign Correspondents Club of Cambodia operates restaurants and hotels in Phnom Penh and Siem Reap.

The Group is also developing food and beverage franchises across Southeast Asia, selling popular international brands such as The Pizza Company, Svensen's ice cream, Dairy Queen, Costa Coffee and Subway. The Group manages a growing number of restaurants on a concession basis in cities and at international airports in the Region, including Phnom Penh and Singapore.

Hospitality is a fast developing area for RMA including Myanmar. Building on the business model successfully applied in neighbouring countries, the company now sees Myanmar as one of its brightest opportunities in the ASEAN Region.



“The Government is taking things step by step to foreign investment and is working closely with foreign embassies on ways to foster investment and growth after opening up an economy closed to investors for the best part of 50 years,” says Dale Jones, Country Manager for the Group in Myanmar.

He believes that the ASEAN Economic Community will bring many opportunities for the Group. “Our home is in ASEAN and we are present in most of the Region including Thailand, Cambodia, Lao PDR, Indonesia, Singapore as well as Myanmar.

There are of course infrastructure problems throughout the Region and these are seen most acutely in Myanmar. However, problems are also accompanied by opportunities. Our traditional focus on emerging markets and post-conflict areas means we are well placed”.

Myanmar presents a big challenge for companies seeking to advance from just a representative office presence, to involvement in major developments. Jones says they will have to compete with other foreign businesses to recruit local staff with the necessary skill sets to advance projects. He also says that this problem, though is being eased to some extent as Myanmar nationals begin to move home from jobs elsewhere in the ASEAN Region where they have picked up vocational qualifications.

There are also numerous hurdles to overcome to obtain permits and licences and a lot of patience is required. Foreign investors have to find their own resources and tackle regulations that are rapidly changing in a country where the state has a controlling role in most sectors of the economy.

RMA has linked up with two local companies - Capital Diamond Star Group and MK Group. “Partnering with local firms helps to develop and maintain good relationships with Government and business officials and provides excellent insight into the market and local consumers. While the Group has been very fortunate in finding high quality local partners to work with, it is not an easy process finding those with the requisite experience and who share the same ideas and where synergies can be found”, Jones says.

RMA is also involved in numerous community projects in the Region. In Myanmar the company is also sponsoring a new school with Ford and its local partner, which opened in July 2014.

“We plan to make ongoing investments that help support the country’s economic and social development, which includes professional skills training and career development for our employees. As business grows, we expect demand for more qualified workers and technicians to increase and more careers to be hatched,” says Kevin Whitcraft. “These types of meaningful contributions will help drive the tremendous potential and opportunity in Myanmar”.

Spending on infrastructure accelerates

Sound infrastructure is vital for the long term growth and competitiveness of emerging economies. In Southeast Asia, improvements to connectivity and energy supplies are helping to improve the standard of living of its people and making countries in the Region increasingly attractive to investors. Expanding economies and populations are demanding an even greater focus on development.

Recognising this, governments in the Region are providing investment in transportation and power supply networks, alongside a raft of improvements to bolster their economies, help rural communities and to serve the growing needs of their fast expanding cities. The task is enormous and this is reflected in projected investment costs.

The Region will need to spend US\$950 billion on infrastructure by 2020, to see that its economies grow and develop, according to Stephen Groff, Regional Vice President of the Manila based Asian Development Bank

(ADB). The need to deliver transport projects is doubly important given that 120,000 people are moving into Asia's cities on a daily basis. Within Southeast Asia, the urban population is predicted to double by 2020, Groff says. (*WSJ 29/5/14 World Economic Forum on East Asia*)

Improvements to water supplies, sewage networks, energy and other basic utilities can no longer be delayed, even though the costs of constructing power stations and transmission networks are huge. The Philippines Institution for Development Studies estimates that it will require an investment of US\$48 billion by ASEAN countries if the Region is to achieve universal access to electricity supplies by 2030.

New railways, highways, ports, airports, power stations, dams and hydro schemes all feature in this promised overhaul. The Philippines aims to spend 5.2% of GDP on infrastructure projects by 2016, compared to 2.2% in 2013. In November 2013, Indonesia announced plans for 56

major new projects at an estimated cost of US\$35 billion for implementation between 2014 and 2017.

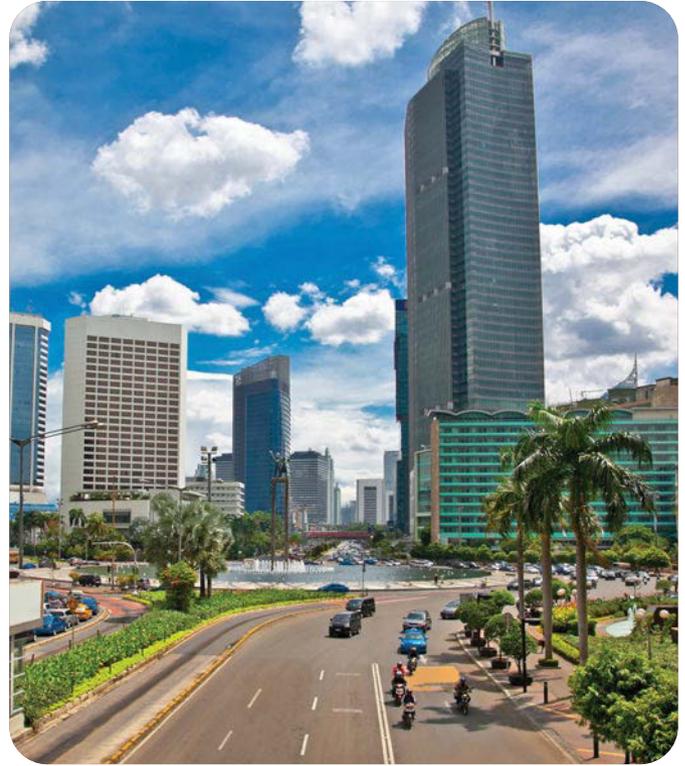
Among the projects are eight seaports, two airports, eight railways, five power stations and 11 waste water treatment plants, as well as new railway and roads.

The developments include an extension of the country's main Soekarna-Hatta International Airport in Jakarta, a US\$1.3 billion development of Cilamaya Port in Jakarta, the new Kertajati International Airport and Jatigede Dam, both in West Java.

In addition, work on a 440MW power station project in North Sumatra at Pangkalan Susu has begun. Construction of the initial sections of a new 2,700km Trans-Sumatra toll road project was also due to start in October 2014.

Development work has also begun on a new port at Kuala Tanjung in North Sumatra, to boost coal and palm oil exports and on a new airport in West Java, between Jakarta and Bandung, to relieve current pressure on the capital's main international airport.

"Indonesia's economy has improved and its sovereign rating has been upgraded to investment grade, making infrastructure investments more attractive to investors and lenders," says Sobana Venkataraman, Principal Investment Officer for the International Finance Corporation (IFC), World Bank affiliate.



Indonesia has also eased regulations to make the infrastructure sector more investor friendly, such as an amending law on Private Public Partnerships (PPP) and passing a new Land Acquisition Law, says the IFC.

The country's largest projects are proving attractive to investors. China Railway Construction Corporation has agreed to invest in the 30km Sunda Strait Bridge project, designed to link the islands of Sumatra and Java. A consortium, that includes Japan's J-Power and Itochu Corporation, has also been selected to build a new 2,000MW power plant in Java, expected to supply electricity to eight million people by 2016. (*Bloomberg 4/10/13*)



ASEAN's massive infrastructure overhaul is underway and due to build up considerable momentum. The long term potential for investors is also huge.



In 2014, Thailand's Interim Government approved a US\$75 billion masterplan to upgrade the country's transport infrastructure over the next eight years. The plan includes development of dual track railway lines, to enable goods and materials to be transported faster and more economically across the country. Elevated Mass Rapid Transit (MRT) systems are also to be extended in Bangkok and the capacity of ports and airports expanded. Meanwhile further consideration is being given to proposals for a nationwide high speed rail network.

The more advanced parts of the Region are also moving ahead on major expenditure. Singapore continues to develop its main international airport at Changi. In 2013, the island's Land Transport Authority also announced it would expand current MRT projects to double the length of the network to 360km by 2030, by building two entirely new lines.

Malaysia has prioritised investment in infrastructure, believing that upgrading existing transport links and building new roads and railways will help propel the country's economy to Developed Nation status by 2020. The largest project undertaken in Malaysia involves development of a "wheel and spoke" railway system around Kuala Lumpur, to include several new interconnecting stations. A high speed railway is also being discussed to connect the capital with Singapore City.

Myanmar also has a focus on transport development. Under its Framework for Economic and Social Reform, the Government has said it will improve the quality of railway sections that connect important

economic centres in the country, such as between Yangon, Mandalay and Myitkyitna and Bego to Mawlamyine. (*KPMG: Infrastructure in Myanmar. kpmg.com/MM/en*)

The development of new Free Trade Zones is also a priority. The largest projects are located at Dawei in the south with Thai investors, at Kyaukphyu in the west with Chinese investment and at Thilawa with Japanese assistance near Yangon.

International assistance and long term loans on preferential terms will help accelerate improvements for ASEAN's less developed members. Japan has agreed a soft loan of US\$135 million to Cambodia, to help develop the country's electricity grid and for road improvements. The loan helps, though it is estimated that the country needs at least US\$16 billion of infrastructure investment in power plants, hydropower dams and railways.

All governments in the Region have huge demands on national budgets. Given the large capital expenditures required for major infrastructure, there are growing moves to mobilise private capital and external resources to help fill the Region's funding gap. Looking to bridge the gap between what is spent and what is needed for infrastructure projects, governments across the Region are turning to PPPs.

There is evidence of growing involvement by private sector investors and developers in infrastructure development. In 2013, BTS Group Holdings,

the operator of Bangkok's Sky Train, raised US\$2.1 billion in an Initial Public Offering (IPO) to fund expansion of the system.

A number of foreign companies have expressed interest in development of Vietnam's urban transit rail systems, particularly in Ho Chi Minh City. Two projects have already secured funding from ADB, European Investment Bank and the Spanish Government.

Since launching its PPP scheme in late 2010, the Philippine's Government has awarded projects to the value of US\$1.4 billion, with many more scheduled. Among the most urgently awaited projects are a subway system and a new airport to serve Manila. The local San Miguel Corporation has expressed interest in the estimated US\$10 billion venture.

In 2014, Japan's Hitachi Infrastructure Systems set up in Singapore, to address information and control equipment needs for power and transportation infrastructure developments in the Region. Singapore's Economic Development Board welcoming the move, noted that the island is regarded as an Asian hub from which to develop, finance and execute projects.

2014 has also seen the Singapore Government Agency, International Enterprise (IE) and ADB launch an initiative to progress PPP infrastructure development within ASEAN countries.

IE's Deputy Chief Executive Officer, Chua Taik Him, says that "Singapore based companies have an established track record implementing PPP projects. Singapore also has a strong financial sector with comprehensive capabilities to support infrastructure financing".

The two bodies intend to work with governments in the Region to structure PPP projects, tapping into ADB's regional operations and outreach to ASEAN member countries. It also aims to explore ASEAN's capital markets to finance or refinance these PPP projects.

In 2012, the ADB set up the ASEAN Infrastructure Fund (AIF). The AIF, which is co-financed and administered by the ADB began lending at the end of 2013, with Indonesia the first to receive a loan. This was valued at US\$25 million to finance expansion of electricity transmission networks between Java and Bali, as part of an overall US\$410 million project.

In 2014, the AIF announced that Vietnam would receive a US\$100 million loan towards a planned US\$380 million power project. It represents the largest sum yet to be agreed by the Fund for a single project.

The AIF is planning to raise its US\$500 million capital with a bond issue to take place between 2016 and 2017, with regional banks as possible investors, according to Bambang Brodjonegoro, the Fund's Chairman.

The Fund is preparing for credit rating analyses that will support a successful bond sale which could attract the central banks of China, Japan, South Korea, and other countries, Brodjonegoro says. The availability of greater capital will allow the AIF to also lend to the private sector or state-owned enterprises undertaking PPPs. (*Reuters 23/5/14*)

Whatever the funding mechanisms chosen, ASEAN's massive infrastructure overhaul is underway and due to build up considerable momentum. The long term potential for investors is also huge in areas such as high-speed rail and energy.

Both Vietnam and Malaysia are considering development of nuclear power as an option while the Philippines has the potential to draw on very large proven geothermal resources. Some countries in the Region have the potential to develop natural resources to provide for both their domestic power needs and a surplus for export to neighbouring countries, with Cambodia and Lao PDR, for example, keen to develop renewable energy via their hydropower resources.

Railway projects promise huge regional benefits

The case for railway development within, and between ASEAN countries with land borders is clear cut. A move to haulage for both freight and passenger traffic will meet economic, social and environmental requirements by lessening the need for trucks and buses to transport goods, commodities and people over both long and short distances.

Given the complexities and investment costs involved, the process of expanding rail haulage is long term but is beginning, and as Southeast Asia's GDP growth continues to be robust, development of transport infrastructure is a growing priority. Prospects for better mainline rail links are also improving with many projects now underway, or in the planning stage, including high speed networks.

It is, however going to take massive investment and commitment to move traffic from roads. Nevertheless the Region's attitudes are changing. Zaldy Ilham Masita, President of the Indonesian Logistical Association, says he identifies an increasing shift from using trucks to trains. "We expect that the completion of the Jakarta-Surabaya double track railway would make the train the logistical backbone in Java". (*Jakarta Globe 18/3/14*)

Myanmar, which is opening up to foreign investment, needs to modernise fast in order to fulfil its potential. This means renovating and

extending the country's outdated 5,844km rail network. There is growing demand to develop efficient transportation networks between the rural hinterland and principal urban centres of Yangon and Mandalay. It currently takes almost twice as long to travel by train between Yangon and the capital Naypyidaw than by road.

Improvements will require track renewal, replacement of sleepers and upgrading of signalling and communications systems, in addition to new rolling stock, passenger cars and locomotives. (*Asian Development Bank*)

Myanmar's Government is committed to improve the quality of rail sections, especially those connecting important economic centres such as Yangon-Mandalay-Myitkyina and Bago-Mawlamyine. Japan International Cooperation Agency (JICA) has completed a feasibility study on the proposed US\$1.7 billion modernisation of the Yangon-Mandalay link, a major attempt towards developing the network.

There are also plans to establish a link between India and Myanmar, which will join Assam in India with Kalay in Myanmar. A survey team from India's state owned engineering consultancy RITES has conducted a feasibility study for the 250km track proposal. India has pledged a US\$500 million credit line to Myanmar, including US\$155 million for development of railway infrastructure.

While a railway revival is beginning to take place in Myanmar, Thailand and Vietnam are also implementing significant projects. In addition, major enhancements to urban systems are underway in busy metropolitan conurbations in Malaysia, Singapore and the Philippines.

The US\$5.2 billion electrification and double tracking of the 329km railway linking Ipoh in Perak State with Padang Besar in the north of Peninsular Malaysia, is one of the country's largest ever infrastructure projects.

Another strategic Malaysian rail project involves development of two north-east-south-west radial lines and a circular line forming a wheel and spoke system around Kuala Lumpur and the surrounding Klang Valley region. Four major interchange stations are part of the plan. In addition, a monorail project in Putrajaya, 25km from Kuala Lumpur and the development of an east coast rail route are being considered. A high speed link between the capital and Singapore City is also proposed. *(IFSEC SE Asia 3-5 2014)*

Such long term capital intensive projects are often beyond national budgets. As a result, increasingly, the Public Private Partnership (PPP) model is seen as the most viable means of reviving long dormant transportation ventures throughout the Region. Development of major transport infrastructure ventures in partnership with the private sector are already well established in Malaysia and Singapore.

Singapore is working on a number of new Mass Rapid Transport (MRT) projects including two new lines and extensions to existing track. The underground 30km long Thomson Line and the Eastern Region Line will add 48km to the network.

Singapore is also upgrading older parts of its rail network. In 2013, the Land Transport Authority announced further development of the MRT network, that aims to expand the system to 360km by 2030, doubling the existing length.

Indonesia meanwhile, is pressing ahead with a range of railway projects designed to stimulate the export of bulk commodities such as coal.



South Korea's Hyundai Engineering and Construction Company has signed a memorandum with Russia's RZDstroy to build a US\$1.6 billion railway in East Kalimantan (Borneo) to carry coal from mines in the centre of the island to the coast 192km away. *(Yonhap news agency)*

A number of urban mass transit ventures are planned in conjunction with the private sector, including a link between central Jakarta and the capital's Soekarno-Hatta International Airport.

Investment in urban transportation needs is also being prioritised in Thailand, with six new mass transit systems proposed or being built in Greater Bangkok. The plan is to provide the capital with 410km of electric railway by 2020. Other proposals include construction of a light railway system in the southern Thai resort of Phuket, to connect the city's international airport with tourist destinations. A monorail system has also been proposed for Chiang Mai in the north of the country.



Southeast Asia is becoming a focus market for rail industry suppliers as long awaited proposals for new rail and mass transit projects move nearer to the implementation phase in several countries.



In Vietnam, Japan's Hitachi is working on a 20km urban railway line in Ho Chi Minh City, designed to connect the centre of the metropolis with Suoi Tien, a major bus terminal in the northeast of the city. The project calls for both underground and elevated track. The company will also maintain the system for five years after the US\$657 million project is completed in 2016. The project is one of a number of urban railway ventures underway or planned in both Ho Chi Minh City and the capital Hanoi. (*Hitachi and International Railway Journal*)

The PPP model also features strongly in plans by the Philippines Government to develop railway and mass transit projects. Canada's CPCS Transcom is working on a feasibility study in the Philippines for a 900km line running from Cagayan to Sorsogon on the country's main island of Luzon. The estimated US\$2.5 billion project is also expected to be developed as a PPP venture. Studies are also being carried out for a 90km airport express link to Manila's international airport.

Thai railway projects include 767km of double tracking of existing routes as well as construction of new lines to connect major provinces in the

centre, north and northeast of the country. The latter would provide direct connections between regions rather than routing through the capital.

Other proposals call for a 105km stretch of track from Sisophon to Siem Reap, a 239km connection between Siem Reap to Skun through Kampong Thom. In addition, a 273km long track is proposed to run from Snuol to the border with Lao PDR and passing through Kratie Province and Thala Borivat in Stung Treng Province. (www.opendevelopmentcambodia.net)

The various projects will improve links between Thailand and its ASEAN neighbours. A medium term goal is also intended to take the strain off Thai roads and improve logistic efficiency by increasing the share of rail in freight transport from less than 2% to 8% by 2020. (*Australia Unlimited 13/11/13*)

Vietnam's Ministry of Transport announced a draft plan in August 2013, to build a broad gauge railway connecting Hanoi and Ho Chi Minh City. According to Deputy Transport Minister, Nguyen Ngoc Dong, the plan has three components. First is to upgrade the existing gauge railway, second to build a wider broad gauge double track line to accommodate

container traffic and third, two express sections that could accommodate high speed traffic. The estimated investment cost has been put at US\$8 billion. (www.think-railways.com)

It currently takes between 29-33 hours to cover the 1,726km between Hanoi and Ho Chi Minh City on a one metre gauge, single track route dating back 100 years. Journey times were even longer just a decade ago when they averaged 72 hours. Fewer stops and realignment to the track has helped reduce travelling times to current levels but the railway needs further modernisation.

Cambodia and Lao PDR face even greater development challenges, with the latter possessing only 4km of track. Although Cambodia's land area covers about 181,035km², the country has only two railway lines with a total combined length of little more than 600km.

These mainly comprise a 336km connection between Phnom Penh and Poi Pet on the Thai border and a 266km line running from the capital to the seaport at Sihanouk Ville.

The Korean International Cooperation Agency (KOICA) has completed a 30 year plan for the Cambodian Government for a systematic development of a national rail network. The Government has also granted a 30 year concession to the Australian based Toll Holdings, as part of plans to rehabilitate the entire rail network. One of the present aims is to repair the system to international standards and also restore a missing link between Sisaphon and Poipet.

In parallel with these initiatives, a number of Chinese sponsored investments have been proposed, including a 257km line from Bat Deng to Kratie on Cambodia's border with Vietnam, at a reported cost of US\$686 million. A much more ambitious proposal would see Chinese companies building a 405km track to link a proposed steel plant and mining area in Preah Vihear with Sihanouk Ville.

Southeast Asia is becoming a focus market for rail industry suppliers, as long awaited proposals for new rail and mass transit projects move nearer to the implementation phase in several countries. In the long

term, the future of rail transport in the Region may be high speed networks. The Chinese Government which has built its own and still expanding spectacular high speed system, is keen to extend such links to neighbouring countries to connect these to Kunming in the southwest of China.

However, railway development also calls for careful attention to environmental impact in sensitive areas and adequate compensation for communities displaced in areas where new track is developed. The process is going to be long term but ASEAN's new railway age is beginning.

High speed rail links promise transport revolution

Most rail traffic in ASEAN countries is slow, dedicated to freight haulage running on metre gauge single tracks with locomotives proceeding at a leisurely 20-70km/h. The double tracking and electrification now taking place to modernise systems will provide improvement but the real longer term breakthrough is seen in High Speed Rail (HSR) networks, with trains travelling at 250km or more an hour.

While China is very keen to build and to see progress on this ambitious venture, the first dedicated high speed link in the Region may be built by Singapore and Malaysia to connect Kuala Lumpur with Singapore City. Singapore's Prime Minister, Lee Hsien Loong, declared in 2013, in a press conference with Malaysia's Premier Najib Razak, that a decision will be made within the next year or so, over the planned 330km HSR connection, adding that many areas of the project need to be settled, ranging from design, finance and governance, to security and immigration requirements. HSR is very expensive, requiring dedicated track and specialist rolling stock and locomotives. The mooted Singapore-Malaysia HSR project could cost US\$12 billion, a sum almost approaching the US\$14 billion allocated for development expenditure under Malaysia's 2014 budget. (*Straits Times* 7/4/14)

Similarly, huge capital expenditure will be required elsewhere in the Region to enable high speed concepts to get underway. An HSR trunk line running through Lao PDR would advance the country into the 21st

century railway age. Suggestions that the Lao PDR Government will borrow a multibillion dollar sum to pay for the cost of the project, have caused concerns over the amount of debt that the country would be taking on. (*Daily Telegraph/Asian Development Bank*)

Originating in Kunming in southwest China's Yunnan Province, the high speed track is also planned to cross the border from Lao territory to Bangkok in Thailand. Quite apart from the financial challenge, construction of the line will be a massive engineering task.

An estimated 154 bridges, 26 tunnel sections and more than 30 new stations will be required to take the track just 420km from Boten on the border with China to the Laotian capital of Vientiane. (*Daily Telegraph 9/1/14*)

Thailand has more than 4,070km of usable track and has plans for four HSR lines ranging over 1,447km, at an estimated cost of US\$26 billion. These projected HSR routes include a line between Bangkok-Pitsanulok reaching to Chiang Mai, which is viewed as the country's logistics hub and a tourism destination. A line from Bangkok to Nakhon and Ratchasima will extend to Nong Khai Province that will serve as a gateway to Vientiane. Another line will stretch from the capital to Rayong, Thailand's eastern seaboard industrial hub and deep sea port. Another track will join Bangkok to Hua-Min, a portal to the country's tourist destinations in the south. (*New York Times 1/1/13*)



The north eastern line designed to connect Bangkok and Nong Khai is the main focus, since it will traverse through Lao PDR to connect with Kunming in China.

During an address to Thailand's Parliament in October 2013, China's Prime Minister, Li Keqiang stated that there was "enormous potential for railway cooperation" between the two countries and expressed his country's willingness to participate in Thai HSR ventures. (*Xinhua news agency 24/10/13*)

The process of developing HSR across mainland Southeast Asia is only just beginning. In spite of the daunting investment costs, the potential long term benefits are recognised throughout ASEAN. The challenge is to mould viable economic proposals and financially control the costliest projects ever undertaken in the Region.

New container ports strengthen ASEAN's global reach

In an archipelagic region that includes some 24,000 islands spread across 5,200km east to west and 3,400km from north to south, Southeast Asia is defined by the sea.

The maritime sector is crucial to ASEAN countries' connectivity, with shipping services, ports, shipbuilding and seafaring core activities, in vast parts of the Region. For centuries the Region has been a crossroads of global seaborne trade, a fact reflected in the scale of ASEAN's maritime industries.

Singapore is the fifth largest register of shipping in the world, with some 3,339 vessels carrying that country's flag with a total of almost 90 million tonnes. Singapore, Malaysia and Indonesia, Vietnam and Thailand operate some 8,233 sea going merchant vessels.

The Philippines ranks as the largest single supplier of manpower to the global shipping industry with an estimated 1.5 million Filipino seafarers, comprising one of the country's largest sources of remittance earnings at some US\$4.8 billion a year.

Recent decades have seen a growing focus on shipbuilding in the Region. Indonesia's shipbuilding industry's annual capacity has reached 800,000 Dead Weight Tonnes (DWT) and also ten million DWT for ship repairs. The Government has set a goal to develop larger vessels, particularly tankers up to 70,000 DWT by 2015.

Malaysian shipbuilders have sound credentials for manufacturing offshore oil industry support vessels and cruise ships. Malaysia is also keen to enhance its role in ship repair and maintenance.



There are around 120 shipbuilding and repair facilities in the Philippines and some 45,000 working in the industry. The country's yards are capable of building a wide range of vessels up to 180,000 tonnes.

In Vietnam there are about 150 shipyards of which around 30 have an export capacity, building a range of vessels including tankers, bulk carriers and multi-purpose vessels. (*Royal Norwegian Embassy Hanoi 2013*)

The creation of the ASEAN Economic Community (AEC) is based upon the free flow of goods and people. This in turn depends on the establishment of an efficient and integrated maritime transport sector in the Region.

Possessing access to the world's oceans is little advantage without modern ports, sound logistics facilities and effective management of

maritime facilities. There are many areas requiring improvement in order to promote a safe, modern, efficient and competitive shipping sector in the Region.

While relatively frequent container shipping services connect ports along the coasts of east Malaysia and Brunei with Southeast Asia's major hub ports, Singapore Port Klang and Port of Tanjung Pelapas (PTP), shipping services within the Indonesia Malaysia Philippines-East Asia Growth Area (BIMP-EAGA) have scope for considerable improvement. (*ADB*)

Myanmar's ports can become regional transportation hubs serving markets in China, India and the Indo-China region. Growth in imports and exports as a result of increased demand for the country's agricultural commodities, minerals and natural resources, are expected to present opportunities in the development of port infrastructure.

A shorter international trade route to and from Europe would allow companies to save on transportation costs and time. Dawei, Thilawa and Sittwe as well as sites in Kalgauk and Bokpyin have been identified for potential port developments.

The giant multibillion dollar Dawei project, while still at the planning stage, promises to transform logistics in the Region. Plans include an oil transshipment port, a refinery, steel mills, a petrochemical industry and a major electricity generating station. The development also calls for road, rail and oil pipeline routes running from Dawei into Thailand to link up with north-south transport infrastructure.

India meanwhile is assisting in the construction of a US\$120 million port in Sitte, located on the Bay of Bengal in Myanmar's Rakhine State. The port will offer an alternative for shippers currently transiting freight through Bangladesh.

There are growing pressures on other countries in the rest of the Region to also enhance port facilities, particularly container handling capacities. Container ships carry an estimated 52% of global seaborne trade in terms of value. Their share of the world fleet has grown almost eightfold



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since 1980. Containerised cargoes are a significant part of intra-ASEAN trade. Many commodities including rice, previously moved as bulk cargoes, are moved in containers. (*World Shipping Council 2013*)

However, modern container vessels are also increasing in size. In less than a decade container ships have almost doubled in size. Ships able to carry 18,400 containers are due to enter service in 2014. Essentially such newer vessels no longer carry their own cranes to offload boxes and depend on seaports to provide specialised handling equipment. This trend poses a challenge to smaller ports, especially in developing countries. (*UNCTAD Review of Maritime Transport 2013*), (*Asian Development Bank Myanmar Sector Initial Assessment 2012*)

Larger ASEAN ports also have to address pressures on their existing container handling capacity. Box traffic at Malaysia's Port Klang is forecast to rise by 6.5% to 11 million Twenty-foot Equivalent Units (TEUs) in 2014, while an increase of 4.5% is predicted at the country's Port Tanjung Pelepas, to 8.29 million TEUs. (*Business Monitor International*)

A similar increase is expected at Ho Chi Minh City, Vietnam's busiest port, where container throughput is forecast to rise to 4.62 million TEUs. An increase in tonnage is also expected at Da Namg Port with a 7% rise forecast to 5.36 million tonnes in 2014. (*Business Monitor International*)

Gross tonnage at Thailand's Laem Chabang, the country's largest port, is expected to rise by 3% to 69 million tonnes in 2014, with container

handling predicted to expand 2.3% to 6.18 million TEUs. At the Port of Bangkok, Business Monitor International (BMI) projects that tonnage will grow by 4.2% in 2014, to 20.23 million with container handling growing 7% to 1.61 million TEUs. (*Business Monitor International*)

In the more developed areas of Southeast Asia, huge investments are being made to keep pace with demand. In Singapore, a US\$2.8 billion investment at Pasir Panjang Terminal will see the facility expanded to handle some 15 million TEUs a year, including the latest technology to allow operation of unmanned gantry cranes.

A big effort is now underway in Indonesia to build up container handling capacity. Until recently, weak operational performance of Indonesia's port sector and a low level of investments in infrastructure have tended to hold back development of the country's maritime sector. (*OECD*)

Although Indonesia is the world's fourth most populous nation and Southeast Asia's largest economy, ocean carriers presently offer no direct mainline services to either Europe or the US due to port capacity shortages.

Many of Indonesia's ports suffer from shallow drafts. The country's largest current port, Tanjung Priok in north Jakarta on the northwest coast of Java, has a maximum draft of 11.5m and cannot accommodate vessels longer than 250m. The largest ships that can dock there carry a maximum load of 5,000 TEU containers. This means they are only

suitable for intra-Asia services and as far as Australia, but nowhere large enough for voyages to the US or Europe, routes where time and costs are key considerations.

Shippers pay a premium to access long haul international services, via feeders at Asian transshipment hubs such as Malaysia's Port Klang and Port Tanjung Pelepes as well as Singapore.

The UK port of Felixstowe, for example, can be reached in 18 days from Malaysia's port of Tanjung Pelepas but the same journey takes 23 days from Jakarta. At best, Hamburg can be reached in 20 to 22 days from Malaysia's other main maritime facility at Port Klang but at least another 4 to 5 days is added to journey time if ships are routed from Jakarta via Port Klang.

Port performance data for 19 regional container ports in Indonesia suggest that berth occupancy rates are high by international standards, leading to berthing delays and excessive waiting time, while average turnaround time is high. (*ADB Southeast Asia Working Paper*)

The Indonesia Logistics Association estimates that logistical costs currently consume between 25%-30% of annual GDP. In 2011, a study by the Netherlands based international container terminal handling company owned by Maersk Group, APM Terminals, advised that investment by Indonesia was urgent with at least 6 to 7 million container handling capacity required by 2015 and an additional 1.5 million in place by 2020.

Development of the new Priok Port container terminal complex near Jakarta, will be a major step in helping modernise port operations in the

country by cutting transit times and reducing logistical costs. Also known as Kalibaru Port, the facility including a container terminal is due to open in mid 2015. The port will have a depth of 18m, giving mainline container lines deploying ultra large container vessels the option of adding Jakarta to liner schedules.

The state owned corporation PT Pelabuhan Indonesia (Pelindo 11), which is responsible for both the existing Tanjung Priok serving Jakarta, and the new Priok Port has set up a joint venture with Japan's Mitsui, to build and operate the first terminal with an annual capacity to handle 1.5 million TEUs. Two further terminals are due to be completed by 2018, raising annual handling capacity by an additional 4.5 million TEUs.

Pelindo 11 believes the three new container terminals will reduce logistical costs sharply. According to London based shipping consultants Drewry "removing the premium imposed on Indonesia's container shippers will take some time, but adding more port capacity and encouraging carriers to offer direct mainline services is the first step". (*Drewry*)

Philippines model can transform sea trade

The main delay to improving port developments and expanding maritime service in Southeast Asia remains the cost. However, there are hopes that this intractable problem can be addressed by the expansion of services provided by roll-on roll-off (Ro-Ro) ships. These types of vessels do not require cranes for loading and offloading because the goods carried are rolling cargoes including buses, cars and trucks which simply roll on and off ships. As a result the requirement for expensive container handling and infrastructure is avoided.



It is a method of maritime connectivity, when accompanied by investment in roads and railways which can stimulate a range of economic sectors such as agriculture, manufacturing and tourism, by creating much larger markets for private enterprise. In archipelagic nations such as Indonesia and the Philippines, maritime economic corridors are seen as having considerable domestic impact and are set to have an even wider influence as they begin increasingly to carry over maritime borders.

The concept has already proved its worth in the Philippines, where the Asian Development Bank concludes that the approach and experience warrants serious consideration for the whole ASEAN Region. The

advantages are that large upfront capital investment is not needed and an entire system can be built up gradually, including port facilities and road connections, said the bank.

Nautical highways have also revealed new markets for agricultural and fishing produce by making it viable to reach new areas in a cost effective and timely way. Companies too have been able to reduce costs by closing a significant number of warehouse and storage areas, since frequent and direct deliveries mean that they can access clients easily through Ro-Ro shipping networks.

In terms of the wider Region, there is growing potential to operate Ro-Ro links between the Philippines, Indonesia, Thailand, Vietnam, Malaysia and Singapore. The establishment of these vessel services was a top item at the BIMP-EAGA strategic planning meeting held in Davao in February 2014.

In 2013, a Ro-Ro service started from Davao and General Santos City in the Philippines to Bitung City and Manado City in Indonesia. There are also plans for Ro-Ro service between Batangas City in the Philippines to Da Nang in Vietnam and Humen in China. (*Philippine Daily Inquirer* 27/9/13)

Enrico Basilio in charge of USAID's Advancing Philippine Competitiveness Project, a four year initiative that started in 2012, points out that the Philippines does not yet trade with Myanmar, Lao PDR and Cambodia because goods have still to be trucked overland to Bangkok. "If we can do it from Batangas to Da Nang in Vietnam, that truck can end up in those countries via an ASEAN Ro-Ro system. The Ro-Ro network presents a new way of trading". (*Manila Bulletin* 18/12/13)

Focus on airport investment intensifies

There is a shortage of airports in many parts of Southeast Asia and even international airports serving major cities in the Region are running out of capacity and increasingly stretched by millions of passengers. One consequence is that new landing slots are becoming very hard to obtain. (*Economist 17/5/14*)

Industry analysts Frost & Sullivan estimate that passenger throughput at ASEAN airports will rise to 233 million passengers in 2014, an increase of 10% since 2011. By 2025, the Region's airports are predicted to handle more than three times the volume of movements handled in 2005. (*Inter airport Southeast Asia 2015 Show*)

The entry and rapid development of budget airlines is responsible for much of the increased traffic. Growth of discount carriers has been phenomenal and they continue to drive the aviation market in the Region.

However, these newer Low Cost Carriers (LCCs) are finding expansion increasingly constrained by a lack of airport infrastructure, particularly in

the Region's vast archipelagic areas. Unlike Europe, the Region has far fewer smaller or disused airports that LCCs are able to use.

If current aviation growth is going to be sustained, investment in airports and associated technology, safety and security, needs to keep pace with the expansion in every country in the Region.

Brunei expects to double annual handling capacity in 2014 to accommodate three million passengers. Indonesia with 210 airports has a particularly urgent need to modernise and expand facilities to accommodate huge passenger demands. (*Inter airport Southeast Asia 2014*)

Kuala Lumpur International Airport (KLIA) had a passenger throughput of almost 40 million in 2013. Growth of up to 11% through to 2018 is projected for KLIA. An annual growth in numbers of between 10% and 12% is predicted over the same period at Manila's Ninoy Aquino International Airport, where passenger numbers grew 8.8% to 32.1 million in 2013. (*AIN Singapore Air Show 2014*)

Singapore already possesses a highly advanced aviation infrastructure and is working on ambitious plans to double its passenger handling capacity by the mid 2020s. A fourth terminal at Changi International Airport, designed to handle 16 million passengers per year, is due to be completed in 2017. The facility is being built on the site of a building previously used to accommodate budget airlines, which will move to the airport's Terminal 2.

The overall expansion strategy is being overseen by Changi Group, which manages a global portfolio of international airports. The Group's Singapore strategy includes building a third runway and a fifth terminal, able to handle up to 50 million passengers per year by the mid 2020s, in addition to the fourth already under construction.

Singapore is also planning a US\$161 million research programme into future air traffic control requirements. The improvements are designed to double the airport's current capacity to around 130 million passengers annually and cement Singapore's leading role as a hub of Southeast Asian business. (*Changi Airport Group annual report 2013/Straits Times 5/3/14*)

Kuala Lumpur, Bangkok and Jakarta are also embarking on major expansions to consolidate and develop their roles as both regional and international hub airports. Kuala Lumpur International Airport (KLIA) and Bangkok's Suvarnabhumi Airport also aim to accommodate substantially more flights and passengers. A new terminal to accommodate budget airlines opened at KLIA in 2014. This has raised the airport's overall passenger handling capacity to 70 million passengers.

In the near term, airports of Thailand wants to expand Bangkok's principal Suvarnabhumi International Airport, Asia's sixth busiest, to handle 65 million passengers annually. The airport had a throughput of 51.4 million passengers in 2013, a figure though down from the 53 million recorded the previous year is still 18% above the capacity



originally envisaged when it was opened in 2006. Construction of a third runway, terminal and parking bays would expand the airport to handle nearly twice as many passengers as it currently does.

The Authority has plans to develop Don Muang, Bangkok's first international airport, that is now used by low-cost airlines. Located north of Bangkok it was re-opened in 2012 to help relieve congestion at the main airport and is handling 16 million travellers annually but was built to handle at most 10.5 million. (*Reuters 23/8/13*) (*Nikkei Asian Review 30/4/14*)

Expansion projects are also underway at Phuket International, which handles travellers heading to Thailand's beach resorts, is also stretched handling 9.5 million passengers a year, well above its designed capacity of 6.5 million passengers. A new terminal, in addition to aircraft parking bays is under construction there.



Growth of discount carriers has been phenomenal and they continue to drive the aviation market in the Region.



Vietnamese officials have agreed that a major new airport should be built at Long Thanh, some 35km outside the city. This is aimed to relieve pressure on Tan Son Nhat International, which currently serves Ho Chi Minh City, the country's main commercial centre.

The planned airport with two runways would be capable of serving 25 million passengers a year and 35 million annually if a third runway was added.

In neighbouring Cambodia, a US\$100 million project to expand passenger terminals at Phnom Penh and Siem Reap began in 2014. The upgrades are needed to accommodate the increasing number of tourists visiting the country that rose to 4.2 million in 2013, compared with 3.68 million in 2012. The country's main airports, including Sihanoukville are operated by France's Vinci Group. (*Ministry of Tourism/ The Cambodia Daily/Vinci Group*)

Philippines conglomerate, San Miguel Corporation, has expressed interest in building a US\$10 billion new airport featuring four runways to serve Manila. A plan drawn up by the company calls for construction of the airport on an 800 hectare site near the existing airport and will involve reclaiming part of Manila Bay. (*Reuters 15/5/14*)

Manila's Ninoy Aquino International Airport (NAIA), has three terminals but just one runway and is already operating well beyond its designed capacity of 20 million passengers a year. The airport experienced a throughput of more than 30 million in 2013.

The nearest alternative airport at present is the former Clark air base which is a two hours drive away from Manila. There have also been suggestions that the two facilities could provide a dual airport solution to serve Manila located on Luzon, the country's largest and most populous island. This would see NAIA designated as a southern aviation hub and the former air force base at Clark, with its two lengthy runways, as a northern aviation centre for the Region. (*ACI World Issue 3/ 2013*)

Meanwhile Philippines Department of Transportation and Communications is seeking to spend US\$138 million to develop and modernise Kalibo International Airport, which is serving an increasing number of tourists travelling to resorts on Borocay Island.

Singapore's SilkAir and Malaysia's AirAsia have said they expect to launch routes to Kalibo as a result. AirAsia intends to make Kalibo International Airport a secondary hub to offer up to 320 domestic and international flights to South Korea, Taiwan and Malaysia. (*Airport News 21/5/14*)

Improved connectivity is also high on Myanmar's development agenda, where increasing interest in the country, not least from tourists is putting pressure on an old and underdeveloped aviation infrastructure. While there are around 70 airports, not much more than half of these are operational and have only limited capacity.

Of Myanmar's serviceable airports only Yangon, Mandalay and Naypyidaw are capable of handling international flights. Other airports

have runways that are either too short or lack the necessary safety and security facilities.

The Government plans to add two international airports to meet future requirements, as the country increasingly opens to foreign investment and tourism.

A new international terminal opened at Yangon airport in 2007 and is due for a further upgrade by Pioneer Aerodrome Services, a subsidiary of Singapore based, Asia World Group. When this is complete, the airport is expected to serve up to six million passengers a year by 2018, compared to the 2.7 million in 2013. (*Myanmar Times* 24/7/14)

Japan's Mitsubishi and Jalux are due to improve Mandalay International Airport. However, the largest new project comprises a plan to develop an entirely new airport on a 3,642 hectare site, 86km from the centre of Yangon at Hanthawaddy, at an estimated cost of US\$1.5 billion.

The long awaited project is expected to have an annual capacity of ten million passengers. Once it is built it will help ease the pressure on the country's principal international airport at Yangon. At present Yangon relies on one runway which is also used by Myanmar's air force.

Dawei's domestic airport is expected to be expanded and modernised to accommodate international flights. A key consideration though, is the projected development of a major new port and special economic zone.

Given the size of required investment, Myanmar in common with other countries in the Region is seeking to accelerate the building of new airports as Public Private Partnership (PPP) schemes. The developments promise to transform the Region's economic prospects and underscore its important role in global aviation.



Indonesian airports development takes off

Indonesia, with the largest population and most extensive area of any ASEAN member, has the greatest need for aviation infrastructure investment. Out of 26 of the largest airports, 16 are operating above designed capacity with Jakarta's Soekarno-Hatta International Airport the most congested. Many other aviation links in the country also require expansion.

The two state-owned airport operators PT Angkasa Pura 1, which operates aviation infrastructure in the eastern and northern parts of the country, and PT Angkasa Pura 11 which is responsible for airports in the western part, aim to address the problem by new airports and modernising and extending existing facilities.

In the west on the most populous island of Java, Soekarno-Hatta International Airport, serving Jakarta is in particular need of expansion. Built to handle 22 million passengers annually, the airport's designed

capacity has long since been exceeded and now handles double this number. Today, it handles more passengers than Kuala Lumpur, mostly as a result of the expansion of budget carriers. As a result since 2012, Halim the capital city's former international airport has had to be re-opened to scheduled commercial flights in order to relieve congestion.

An US\$805 million expansion of Soekarna-Hatta will see the annual passenger handling capacity of the terminal serving domestic routes doubling to 18 million, while capacity at the international Terminal 2 will increase from 9 to 19 million passengers per year. Almost half the investment though is aimed at increasing capacity at Terminal 3, which is used mainly by budget airlines, from 4 to 25 million passengers annually. (*ACI World Airport development news Issue 3, 2012*)

The aim is to build a new airport to ease pressure on Soekarna-Hatta International. Karawang International, about 50km east of Jakarta is part of the Government's masterplan for the Acceleration and Expansion of Indonesia Economic Development programme and is intended to be constructed under a PPP format.

The new airport is planned as a staged development, with handling capacity eventually rising to 70 million passengers a year. Together with Soekarna-Hatta, this would make Jakarta one of the world's best connected destinations.

Karawang is one of two new airports planned for the West Java region, with Kertajati International expected to replace Bandung's busy Husein Sastranegara International Airport. Another planned venture is

Kulonprogo International Airport in Yogyakarta. (*ACI World Airport Development News Issue 4 2013*)

PT Angkasa Pura 1 intends to build new terminals and expand three crowded airports in Semarang, Central Java, Banjarmasin in South Kalimantan and Surabaya East Java, which is the country's third busiest airport. (*Airport development News issue 3, 2013*)

They are also investing US\$228 million, to almost double capacity at Bali's international terminal to handle 15.3 million passengers per year. (*Jakarta Post 1/4/14*)

A major regional airport has already been completed at Medan at a cost of US\$527 million. The new Kuala Namu Airport replaces the old Polonia airport that previously served the city, now the largest on Indonesia's island of Sumatra. The new facility also features a 30km dedicated rail connection to the city. (*Financial Times 21/5/13*)

Expansion of Bali's Ngurah Rai International Airport, as well as projects at Sepinggan Airport in Balikpapan in East Kalimantan and at Juanda Airport in Surabaya in East Java, are expected to be completed in 2014, according to the Transportation Ministry's Airport Director, Bambang Cahyono. (*Jakarta Post*)

Indonesia's Transportation Ministry is also funding a US\$224 programme due to be completed in 2015, involving improvements of nine smaller airports in the east of the country in Java, Sulawesi, Marmasa and Maluku. Others across the archipelago are due to be upgraded as part of a vital programme to develop the country's connectivity.

Region's aviation expansion surges ahead

Southeast Asia's sustained economic growth is being accompanied by a prodigious expansion of aviation services. According to industry forecasts, air travel within the Region is projected to grow at an average annual rate of 6.7% over the next 20 years. *(Boeing Current Market Outlook 2013-2022)*

This trend is reflected in aircraft manufacturers' order books. In 2014, carriers in the Region are due to take delivery of some 230 aircraft valued at US\$20 billion. *(Reuters 9/2/14)*

The Sydney based aviation consultants, Centre for Asia and Pacific Aviation (CAPA), estimate that with an order book set to surpass 2,000 aircraft, airlines in Southeast Asia will have a total fleet of 1,800 aircraft by the end of 2014. Asia-Pacific planes or orders make up 36% of the world total and the figure is rising according to Airbus. *(CAPA Southeast Asia report)*

Airbus and Boeing have published growth predictions for Southeast Asia's aircraft market, with the former forecasting that Asia, as a whole, will take more than 7,000 twin-aisle and 20,000 single-aisle airliners over the next 20 years.

There is plenty of evidence to back these estimates. Established Low Cost Carriers (LCCs) such as Malaysia's AirAsia, have placed orders for hundreds of aircraft. Indonesia's Lion Air, has started taking delivery of a record order of more than 500 Airbus A320s and Boeing 737-800s. More recent budget airline entrants, such as VietJet and Nok Air are purchasing nearly 100 Airbus A320s and 15 Boeing 737s respectively. Myanmar's Air Mandalay has also agreed a potential US\$400 million order to purchase six Mitsubishi MRJ90 regional jet airliners with options on a further four aircraft. *(Myanmar Times 24/7/14)*

Full service carriers are also expanding. Malaysia Airlines expanded its fleet from 121 aircraft to 127 in 2013, while Indonesia's Garuda added 14 new aircraft to its fleet of 88 aircraft.

Vietnam's fast growing economy and increased popularity as a tourism destination is also supporting the expansion of the flag carrying airline Vietnam Airlines. The carrier has plans to acquire 35 new aircraft over the next three years, while the launch of an Initial Public Offering (IPO) is also awaited.

In February 2014, the country's leading budget carrier, VietJet, confirmed a US\$9 million order involving 63 Airbus A320s with options on a further 30 of the aircraft. Bangkok Air also placed an order for six French manufactured ATR 72-600 turbo-prop aircraft. *(Airbus PR 11/2/14)*

State-owned carrier Lao Airlines has acquired further Airbus A320s, while privately owned Lao Central Airlines is also beginning to develop. More expansion is also expected for Cambodia Angkor Air as it starts routes to China. Elsewhere in the Region, Royal Brunei Airlines has become the first airline in Southeast Asia to begin operating Boeing's new 787 long-range airliner. *(Boeing/Airline Lender bi-monthly)*

Myanmar, one of ASEAN's most populated and largest member states, is the most under served aviation market in Southeast Asia at present. However, the country's aviation sector is beginning to develop fast with international passengers growing from 49,392 in April 2012 to 110,000 by January 2014. Frequency of flights across Myanmar airspace has also increased from 400 to 600 flights a day, according to Myanmar's Civil Aviation Department. *(Consult Myanmar 28/4/14)*

There are now 22 international carriers operating services to and from Myanmar and more are expected as the country's tourism sector opens

up. One of the main aims of a masterplan being drawn up with the help of the Japan International Cooperation Agency (JICA), is the introduction of direct flights to destinations in Europe, Australia and the US, which will save travellers having to go via Bangkok, Singapore or the Middle East.

These are times of expansion in the Region's aviation sector which will accelerate further with the moves to emulate the liberalised aviation environments that have been established in other parts of the world. The drive towards an ASEAN Single Aviation Market (ASAM) is designed to foster a competitive aviation market and to propel the Region's airlines into bigger regional and global markets. *(CIMB/ASEAN Aviation Ready for Takeoff)*

ASEAN is working towards establishing the same high standards of flight management and regulation that are standard in the US and across the European Union. This requires setting up a common aviation authority, which would operate on the same lines as the US Federal Aviation Authority and the European Aviation Safety Agency.

The intention is ultimately to create a single aviation market without constraints on regional airlines' ownership or their ability to fly between points in countries other than where they are based. This would allow carriers to operate in the same way as EU airlines where the likes of Ryan Air or Easyjet are able to provide services between cities in European states other than the UK, in addition to cross-border flights.

An easing of market restrictions has already encouraged established flag carrying airlines in the Region including, Singapore Airlines, Garuda, Thai Airways and Vietnam Airlines to develop low-cost subsidiary airlines. These include Thai Airways offshoot Thai Smile and Singapore Airlines subsidiary Silk Air, which has 68 Boeing 737 airliners on order.

The rise of LCCs has been a phenomenon of the global aviation industry over the last decade. In Southeast Asia their development has been



particularly evident and tailor made for large populations living in vast archipelagic regions such as Indonesia and the Philippines.

Some of the world's busiest budget airline routes are now located in Southeast Asia. These include Singapore to Jakarta and Kuala Lumpur to Bangkok. According to Airbus, LCCs comprised 25% of the total seats sold across Southeast Asia in 2013, compared to 2% a decade earlier.

This is illustrated in the Philippines, where the cost of air travel has declined significantly with the ticket price for the Manila-Cebu route falling by half in real terms between 1997 and 2012. This has allowed many Filipinos to fly for the first time avoiding lengthy road journeys. *(Philippine Airways)*.

The Philippine domestic market has the highest LCC penetration rate at 67%, followed by Indonesia with a penetration of 60%. In Malaysia and Thailand LCC penetration has surpassed 50%. *(AIN online Singapore Air Show 2014)*

According to CAPA, nine out of 15 of the world's busiest low-cost international routes are in Southeast Asia. As a consequence, ASEAN

airlines are expanding fast and it is the only region where there are more aircraft on order than exist in current fleets. Southeast Asia's LCC fleets grew by about 19% in 2013 to 485 aircraft. In 2014, they are projected to increase by another 18% to 573 aircraft.

Airbus has 579 outstanding orders to supply low-cost carriers with A320 jets in the Region. Boeing has a further 318 outstanding orders for its 737 series, as well as 16 orders for its long range 787 airliner. Malaysia based AirAsia, is currently the largest LCC group in the Region, with an in-service fleet of 172 aircraft and is already branching out, with routes to North Asia and Australia.

Six carriers in the Region operate under its brand. These include Indonesia AirAsia and Thai AirAsia. The airline group also operates from the Philippines as both AirAsia and Zest Air. In Malaysia another franchise, AirAsia X has been set up to operate long-range budget routes.

The budget sector continues to expand. VietJet launched in 2011 and has already surpassed Jetstar Pacific as Vietnam's largest LCC. There are nearly 30 LCCs operating in the Region, including Malindo which was launched in 2013, as a joint venture with National Aerospace and Defence Industries (NADI) of Malaysia and Lion Air of Indonesia.

Driven by LCCs, Indonesia's domestic air travel increased 20% in 2012 to 72.5 million passengers, making it the world's largest domestic aviation market after the US, China, Brazil and Japan. Indonesia's Transportation Ministry estimates that the number of air travellers will reach 100 million in 2014, up from nearly 94 million recorded in 2013.

Garuda, Indonesia's budget subsidiary, Citilink, is one of the fastest growing LCCs in the Region. It operates a modern fleet, including ATR turbo-prop airliners built by Airbus and Italy's Alenia Aermacchi, as well

as Airbus A320s. Citilink expects to operate 80 airliners by the end of 2015, expanding to regional routes outside of Indonesia, resulting in fleet acquisitions including Boeing twin-aisle 787s and Airbus A350 aircraft being considered.

New LCCs have continued to develop, including the flag carrier Garuda's subsidiary Citilink, AirAsia and Singapore based Tigerair's affiliate, Mandala. The biggest entrant by far being Indonesia's privately owned Lion Air.

The latter and its regional subsidiary Wings Air operate a fleet of 122 aircraft and account for half of Indonesian airlines' domestic seat capacity. With almost 600 aircraft on order, the Lion Group has ambitious plans to expand into regional and other international markets.

A number of the Region's budget airlines are now forging medium and long haul routes beyond ASEAN. In the Philippines, Cebu Pacific, Jetstar Pacific which is owned by Vietnam Airlines, Australia's Jetstar, Singapore Airlines' subsidiary Scoot and AirAsia are branching out to Australia and North Asia.

Singapore Airlines and Nok Air have set up a joint venture known as Nok Scoot to operate Boeing 777 twin-aisle airliners on medium to long haul routes from Bangkok's Don Muang airport.

Whatever the immediate concerns, the relaxation of market regulations among ASEAN countries has removed many traditional impediments to growth, and new opportunities can be exploited. According to Lion Air's Chief Executive Officer, Rusdi Kirana, his airline is still seeing load factors of 90% compared to a global average of 75.9%, while the market is growing by 15% a year, he notes. (*Aviation Week 10/3/14*)

Aircraft Maintenance Repair and Overhaul (MRO) services continue to grow

Airlines in the ASEAN Region are poised for rapid expansion over the next two decades, as they take delivery of an estimated 3,000 new commercial aircraft by 2032, in an investment estimated at US\$500 billion. Key trends during this period will be a continued expansion of the Region's Low Cost Carriers (LCC), a growth phase for the Region's tourism industry and the extension of aviation services including Maintenance Repair and Overhaul (MRO) services. (*Focus ASEAN 23/5/14*)

Southeast Asia's surging aviation expansion is being accompanied by a rapid development of MRO service providers. Singapore's MRO market, for example, has grown by an average of 13.3% a year since 1992. This growth mirrors a worldwide trend where global spending on MRO for jet aircraft and turbo-props is set to increase to US\$57.7 billion in 2014, says US based industry analyst Team SAE.

Much of this future servicing requirement will be in the Asia-Pacific region and particularly Southeast Asia, where regional airlines are among the fastest growing in the world. Boeing forecasts that fleets of airlines' within the Region will triple in size to 3,490 aircraft by 2032, from 1,110 in 2012.

Lufthansa Technik Philippines, estimates that more than 37% of global commercial aircraft will soon be based in the Region, with many of them in service with LCCs.

Rajiv Biswas, Chief Asia-Pacific Economist for US based IHS Global Insight, believes that Singapore is particularly well positioned to benefit from this trend. The island is currently the leading hub for MRO in Asia,

accounting for 25% of the market and is expected to be a one of the beneficiaries of the Region's fast expanding aviation growth.

Elsewhere, the new hangars being developed in Malaysia, the Philippines, and Indonesia and perhaps Myanmar and Vietnam, shows the Region is creating credible MRO options, according to Brian Hogan of Singapore based XSQ Aviation Consultancy.

"Backed by a pool of over 100 aerospace companies, Singapore has garnered a quarter of the Asian MRO market," says the Singapore Economic Development Board. Many are being established as a result of joint ventures with foreign companies, including the original equipment manufacturers and also the airlines, providing services to ensure aircraft safety and airworthiness.

There is already a well established MRO capability in some ASEAN countries which are able to bid for work from international and regional airlines. A full provider is able to service and repair airframes, engines and provide component services. Singapore's MRO sector, the largest in Southeast Asia, has an annual turnover of some US\$5.8 billion, employing more than 18,000 people.

International aerospace companies active in MRO activities in Singapore include Raytheon, Pratt & Whitney, Rockwell Collins, Goodrich, Honeywell Aerospace, Hamilton Sundstrand, Nordam and Lockheed Martin. GE Aviation is also due to manufacture components at its plant at Loyang in Singapore. In 2013, France's Safran Electronics Asia and SIA Engineering signed a joint venture for an avionics components repair centre.

Many of these companies' activities are located at Seletar Aerospace Park at a former British air force base in the north-east of the island. The site is spread over 300 hectares and accommodates MRO ventures, design and manufacture of aircraft systems, components production as well as training.

The US' Goodrich provides nose to tail servicing of airliners at its 160,000m² site at Seletar, which is the company's largest global facility. Eurocopter also has an 8,200m² facility at the park for MRO, training and research and development activities.

Singapore Airlines fast expanding MRO affiliate, SIA Engineering Company (SIAEC), also operates from there. In July 2014, Boeing and SIAEC established a company to service the US manufacturers' aircraft in the Region. SIAEC already provides line maintenance services at 34 airports in nine countries and has agreements with 26 other original equipment manufacturers worldwide and within the Region.

The new agreement covers SIEAC, providing MRO services for Singapore Airlines' Boeing 777-300ER aircraft and the fleet of new 787 airliners ordered by local budget carrier Scoot.

The largest local MRO company is Singapore Technologies Aerospace (STA), operating since 1976, when it was established to service Singapore Air Force aircraft. Now with a global reach, the listed company has 8,000 certified engineers and operates 30 twin-aisle and 11 narrow body airliner bays, with one third of these in Singapore alone. STA recently added two new hangars at Seletar, to cater for growing narrow body aircraft MRO services and passenger to freighter conversions. Civil



business now comprises 70% of the company's average annual US\$1.4 billion revenue.

Malaysia is also a major aerospace engineering hub in the Region, with the Government's Economic Transformation Programme focusing on MRO services as a key industry to expand value added industrial development and skilled employment. (*Focus ASEAN 23/5/14*)

The country's MRO industry contributed US\$1.8 billion to the national economy in 2013, and comprised around 17% of the total Malaysian aerospace market, according to the Malaysia Industry Government Group for High Technology (MIGHT).



Southeast Asia's surging aviation expansion is being accompanied by a rapid development of MRO service providers.



A number of leading international MRO players have established a presence in Malaysia including General Electric, Eurocopter, Hamilton Sundstrand, Honeywell Aerospace, Parker Hannifin, Germany's MTU as well as Lufthansa Technik and the Anglo-Italian Agusta Westland.

With major principal aerospace centres located at airports in Subang, Sepang and Senai, Malaysia is now seen as a main aviation hub participant for the Asia-Pacific region. This has resulted from leading industry players including Airbus and Switzerland's SR Technics setting up in the country. (*Malaysia's Economic Transformation Programme 2013 annual report*)

The Zurich based Group, which is owned by Abu Dhabi's Mubadala Development Company, is expected to create 240 jobs at Subang, where its 1.4 hectare facility operates under US and European aviation safety agency approvals. SR Technics will focus on avionics panels and accessories, hydraulic pumps and actuators, cockpit seats, water and waste components, ball screw actuators, chillers, fan lights, motors, ovens and valves. The company said that it would transfer hydraulic control units and pneumatic components, including thermostats and valves to Malaysia in the second quarter of 2014. (*Airline Update.com 21/8/14*)

The company intends to use its Subang site as its regional customer service and distribution centre. From here it would serve its Asia-Pacific integrated components services clients and manage all of their component supply needs.

Malaysian MRO expertise has also been enhanced by Sepang Aircraft Engineering (SAE) expanded facilities, opened at the end of 2013. Based at Kuala Lumpur's International Airport adjacent Free Zone, in a 17,000m² purpose built hangar, the facility is designed to service Airbus aircraft.

At the opening, Prime Minister, Najib Razak, declared MRO to be an important sector for job creation. The target is to capture a 5% share of the global MRO market for Malaysia, generating a turnover of US\$4.2 billion and helping to create more than 20,000 new jobs.

Other parts of the Region are also developing MRO hubs. VietJet is considering setting up an operation in either Ho Chi Minh City, Hanoi or Da Nang. Air France recently selected Lufthansa Technik Philippines (LTP) to provide MRO services for the latter's A380 fleet. As a result, the company has built a third hangar to accommodate its growing volume of work.

Philippines based Cebu Air, in tandem with SIAEC, is also developing a second hangar to expand their maintenance site at the former Clark air base on Luzon Island. The facility will then be able to handle wide-body as well as single-aisle aircraft.

Thailand also aims to develop the country as a full service aviation hub. MRO industries and training bodies are being encouraged to set up in Bangkok at Suvarnabhumi International Airport. Studies are also taking place to develop Nakhon Ratchasima Airport, 220km northeast of Bangkok, as a new service centre.

Indonesia's MRO sector is forecast to expand 10% a year over the next decade, according to projections by GMF AeroAsia, Indonesia's largest MRO company. In line with this forecast, the company was due to commission two further hangars in 2014 in Jakarta, designed to service Boeing 737 and Airbus A320 single-aisle airliners.

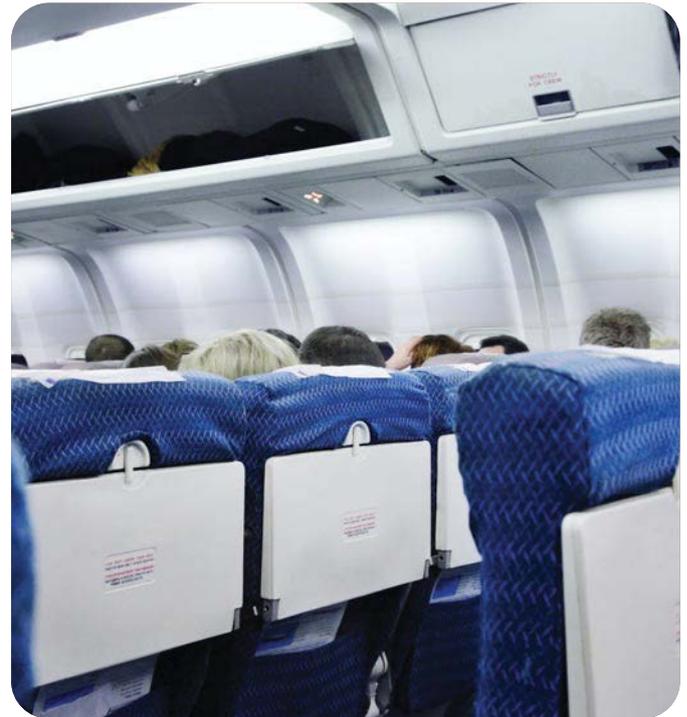
At the end of 2013, Garuda Maintenance Facility AeroAsia (GMF) signed a service agreement with SR Technics for component repairs in Jakarta. Under the agreement, GMF will act as SR Technics regional support workshop for approximately 100 parts and the latter will develop GMF's existing in-house repair capabilities accordingly.

In August 2013, Indonesia's Lion Air, the Region's fastest expanding airline, said it intended to build a US\$250 million maintenance hub at Hang Nadim International Airport, on Batam Island. Batam Aero Technic's facility is on course to build four hangars at Manado airport in north Sulawesi. The new facility complements an existing MRO facility operated by the company at Surabaya Juanda airport in east Java.

Located just a 45 minute flight from Singapore's Changi International Airport, the facility at Batam features an extended 1,278m runway, able to accommodate the largest airliners. This could help the new facility becoming a keen competitor to Singapore and Malaysia for MRO business in the Region.

The future for MRO throughout Southeast Asia is positive. However, the Region will need to keep investment high in new technology, and training an ever increasing number of engineers and technical staff. There is, for example, a need for technicians to speak and read good English, which is the global language of the aviation industry, as well as MRO manuals says, Heinz Freimann, SR Technics General Manager at Subang.

Jemly Hutabarat, Vice President of Sales & Marketing at GMF AeroAsia, points out that, whatever low cost labour is available, the MRO sector demands that personnel are trained and certified to meet international aviation requirements.



Recruitment and training at all levels is therefore an increasing focus for companies in the sector. Organisations that recognise the value of training and are prepared to invest in this resource should cope best. *(Team SAI)*

Aerospace industries move up the value chain

In addition to servicing the technical requirements of airlines in the Region, ASEAN countries are developing increasingly sophisticated aerospace assembly and manufacturing as well as Research and Development (R&D) activities.

Aerospace Malaysia Innovation Centre is researching an optimal algae strain to produce jet fuel. Malaysian aero structures company, Composites Technology Research Malaysia (CTRM), is a specialist in production of composite parts.

The latter, based near Batu Benendum airport in Malacca, is a partner in the Airbus A380 programme. It is also producing components for Boeing 737, 767, 777 and 787 airliners and has work share on development types such as the Airbus A350. The company has stated its ambition to move into fuselage work, to further enhance its role in airliner production.

In Indonesia, PT Dirgantara is a licenced assembler of Airbus Super Puma helicopters, as well as Messerschmitt-Boelkow-Blohm's BO105 light helicopters. The Regions aerospace companies are steadily moving up the value chain, taking on increasingly more complex work.

Singapore is already established as a world class aerospace design location, with some of the biggest global original equipment manufacturers having a presence on the island. Companies including Boeing, Airbus, Rolls-Royce and Thales have entered into partnerships with local universities and research institutes, to study advanced materials, fuel cells and repair technologies. European Aeronautics Defence and Space company (EADS) has chosen Singapore to establish its first research and technology centre outside Europe.

By 2018, Singapore's aerospace output is expected to more than double to at least US\$9 billion, according to projections by the Economic Development Board (EDB).

Production of engine casings and gears, valves and electrical power systems, are among a range of aerospace products already produced in Singapore factories. On the R&D front, Boeing EADS, Pratt & Whitney and Rolls-Royce are all involved in major engineering programmes.



In 2012, Rolls-Royce launched its Seletar Campus where engine assembly and testing, training, research and development are carried out on the company's 134,000m² site. By the end of 2013, the company had produced 50 of its Trent 900 engines there. The engines, which are among the most powerful in the company's range, power the giant Airbus A380 airliner.

This strategic move to Seletar by Rolls-Royce involved establishing the company's first titanium wide chord fan blade manufacturing plant outside the UK. The facility, will eventually produce half the company's aero engine output and expects to be employing 2,000 workers by the end of 2015, most of them Singaporeans.

In 2013, Pratt & Whitney also started development at Seletar, of its first geared turbo fan hybrid blade and turbine disk manufacturing plant outside of its US base. These and other investments in the Region indicate that the of role of ASEAN countries in global aerospace production is becoming more influential and likely to develop further over the years ahead.

ASEAN's digital advance

Southeast Asia's keen attention to the modernisation and liberalisation of telecoms services over the last 20 years, has been an essential factor in driving ASEAN economies to be among the fastest growing in the world.

Reforms to the provision of telecoms services in the Philippines, for example, initiated in the early 1990s, have been largely responsible for fuelling the country's business expansion since then. Deregulation of the sector transformed it from a virtual monopoly into a competitive market and from a poor and limited network, to an expanded system offering better services at much lower cost, allowing new businesses to thrive according to the World Bank.

A willingness to invest heavily in technical solutions in the Region has also been important. The introduction of a national high speed broadband network has been a priority in Malaysia, for instance, with the country committing US\$3.7 billion to install fibre optic cable links to 1.3 million homes over the last four years.

Singapore, has also invested heavily and now ranks as one of the world's most advanced digital societies, way ahead of other countries in the

Region when it comes to fast internet access, with average speeds of 61 mega bytes per second (Mbps).

Cross-border initiatives are also of strategic importance. The agreement signed in Kuala Lumpur in March 2014, to build SEA-ME-WE 5 fibre optic cable is designed to connect Southeast Asia, the Middle East and Western Europe, in order to provide faster, better quality internet and data services to businesses in the three areas. The existing cable does not have sufficient capacity to accommodate projected internet traffic.

The 20,000km long cable linking Singapore and France, is expected to be operational in 2016, and is designed to provide transmission speeds of up to 100 gigabytes per second (Gbps). The cable is due to be operated by a consortium of 15 companies resident in countries along the route including Myanmar Posts and Telecommunications (MPT), SingTel and Telekom Malaysia.

The new cable, will serve to ease the strain as well on other telecoms networks linking Europe and the two regions, many of which connect via the US at present. "With significant growth in data traffic in recent years,

SEA-ME-WE 5 will address the urgent need for a new generation data superhighway, to cater for the increasing demand for next generation internet applications," says Bill Chang, Chief Executive Officer of Singapore Telecommunications. (*SingTel PR*)

The benefits to countries with advanced domestic telecoms infrastructures, such as Singapore and Malaysia, will be substantial but even for the less developed areas of Southeast Asia, it provides a greater opportunity to join the digital world.

At present, Myanmar with a population of 60 million, has one of the lowest rates of telecoms and internet access in the world and has a particular need to modernise its system. Reform of its telecoms sector is an integral part of lifting millions of people out of poverty, says Ulrich Zachau, World Bank Country Director for Myanmar. Bold new investments are due to accelerate the process.

In 2013, MPT selected Norway's Telenor and Qatar based Ooredoo to build new mobile networks, bringing in foreign companies for the first time to a country where less than 7% of the population has access to telephone services.

The companies have paid US\$500 million each for their 15 year licences. Telenor has said that it expects funding costs, including the fee and accumulated losses until revenue streams break even, to peak at US\$1 billion. High front end costs are seen as a risk worth taking.



Ross Cormack, CEO of Ooredoo Myanmar, told Forbes Asia "this is the last frontier of telecoms". He said they intended to apply the same strategy as it has in India and Iraq by tailoring pricing for individuals rather than marketing standard packages which could mean a weekly rate for Facebook access, for example, priced at less than 10 cents.

Ooredoo has said it will begin selling affordable SIM cards in Naypyidaw, Yangon and Mandalay in 2014, and provide its cellular 3G service to 97% of the population by 2019.

Other international companies have also pledged substantial investment in Myanmar's telecoms sector. Japan's mobile operator KDDI and the trading house Sumitomo Corporation, signed an agreement with MPT in July 2014 to invest US\$1.96 billion to jointly operate a new mobile telephone business. KDDI's Senior Vice President, Yuzo Ishikawa



As increasingly advanced telecoms and ICT technologies evolve in Southeast Asia, the Region is set to advance its social development and enhance its credentials as a leading focus for international investment.



commented: "We have entered what could be called the last rapidly growing market. With our telecoms infrastructure, we hope to greatly contribute to the development of Myanmar's economy". (*The Japan Times 17/7/14*)

All of the new entrants face considerable challenges. Telenor's Head of Asian Operations, Sigve Brekke, says the company has never entered a market before where the need is so visible.

Johan Adler, Chairman of Ericsson Myanmar, which is providing network equipment and managing services on behalf of Telenor, recognises a need to address problems relating to land access. This is required for network infrastructure to be installed in support of the new licenced cellular operators in the country.

Adler also identifies difficulties in ensuring reliable power supplies and adequate road access to every site, in order to ensure rapid delivery of services, particularly in remoter areas. According to research by Deloitte, around 15,000 towers, in addition to thousands of kilometres of fibre optic infrastructure will need to be installed.

However, the benefits of a successful roll-out of mobile telephone services have already been illustrated in Cambodia. The latter has

avoided a costly rebuilding of fixed-line telecoms infrastructure by its launch of cellular services.

The number of fixed-line customers, as a consequence, has remained largely static at around 50,000 subscribers for more than a decade. In contrast the cellular area has boomed with the number of mobile telephones greater than the country's population of 15 million. By the end of 2013, there were around 20 million mobile subscriptions served by five companies, with the largest networks operated by Viettel Metfone and Smart Mobile.

Access to the internet for the mass of the Region's population has become available for the first time through their mobile phones. Figures compiled by German research company GfK, indicate consumers in Singapore, Malaysia, Thailand, Indonesia, Vietnam, Cambodia and the Philippines purchased 41.5 million handsets in 2013, at a cost of US\$10.8 billion.

In Malaysia, mobile data services are predicted to become the key driver for cellular operators and their earnings from these are expected to surpass mobile voice revenue in 2017, according to industry research analyst International Data Corporation (IDC). (*IDC 22/7/14*)

Internet users in Vietnam and Thailand, driven in part by their younger populations, spend the greatest amount of time online in the Region, according to the US digital analyst comScore Inc. The latter's 2013 report says, that with 16.1 million monthly internet users, Vietnam has the largest online population in Southeast Asia. (*www.comscore Southeast Asia Digital Future in Focus report*)

The number of internet users in Indonesia expanded by 13% in 2013, compared to 2012, with internet penetration standing at around 28%. This indicates though, that the vast majority of the country's people in a population of 240 million, are still without internet access.

Introduction of high speed broadband services though is increasing the potential for more advanced mobile devices to connect with internet content. As a result, industry analyst Frost & Sullivan expects smart phone penetration in Indonesia to rise to 50% in 2015, from just 9% in 2012. (*www.indonesiainvestments.com*)

Much of Indonesia's internet usage, as elsewhere in the Region, reflects a high demand for social media applications and video content. Facebook is the main social network with Southeast Asia, comprising one of the media provider's top global markets by visitor penetration. Twitter, LinkedIn and Tumblr are also gaining, as social networking captures the largest percentage of consumers in the Region. (*comScore Southeast Asia Digital Future in Focus*)

While social networking is the focus of broadband internet access, the technology also promises a huge change in the way services are provided from Government, social and medical services and businesses. Applications such as video conferencing, television broadcasting and online banking can all benefit from broadband.

The internet, combined with advanced Information Communications Technologies (ICT), represents the most essential building block of social and material progress as well as a digital bridge to the most advanced global economies.

The Philippines Business Process Outsourcing (BPO) industry has grown 25% a year over the last decade, employing a few thousand people in 1999, to 800,000 people in 2013, and is expected to employ one million people by 2016, the World Bank estimates. (*World Bank Philippines Development report 2013*)

Southeast Asia's ICT and telecoms progress is no longer limited to a few countries. A forecast in 2013 by industry analyst Gartner, estimated the value of ICT services provided in Singapore, Thailand, Malaysia and Indonesia alone would total US\$74 billion by 2017.

The ICT Ministers of the ten ASEAN member countries have drawn up a masterplan that seeks to improve mobile applications for use in areas such as healthcare provision, transport and e-governance. Another aim is the provision of broadband internet access to every school in the ASEAN community, through development of policy frameworks and a national statistics portal.

The World Bank meanwhile is to provide a US\$31.5 million loan to Myanmar to help set up an online portal for Government services and information, which will develop outreach strategies to apply new technologies in rural areas.

As increasingly advanced telecoms and ICT technologies evolve in Southeast Asia, the Region is set to advance its social development and enhance its credentials as a leading focus for international investment.

Region seeks sustainable model for its mining sector

Southeast Asia possesses vast mineral resources, with both precious metals and industrial ores. Coal is the most abundant fossil fuel. The proven reserves, for example, are sufficient for 80 years of production at present levels, according to estimates by the International Energy Agency.

Much of these reserves are located in remote areas which often lack basic services. Their exploitation and the income generated can serve to provide employment and to bring improvements to infrastructure, such as power supplies and roads to isolated communities.

Many ASEAN economies are driven by the extraction of natural resources. Foreign Direct Investment (FDI) in the sector is high and in 2012, accounted for 17% of Indonesia's FDI and 20% in Malaysia, with almost 93% of FDI in Lao PDR going into mining ventures.

The mining industry has been one of the key sectors supporting Indonesia's economic growth. The sector makes a significant contribution to Indonesia's GDP, exports, Government revenues, employment and perhaps, most importantly, the economic development of the country's remote regions. (*Jakarta Post 27/11/14*)

Indonesia's extensive mineral deposits are distributed throughout the country with mining a major activity in provinces such as Papua, Bangka-Belitung, West Nusa Tenggara and East Kalimantan.

The country ranks as the world's main exporter of thermal coal, as well as the second largest in tin and the third and fourth copper and nickel respectively. The mining sector's total output is predicted to rise to US\$146 billion a year by 2016, compared to US\$82.6 billion in 2010.

Some of the biggest increases are expected to be seen in production of coal and nickel, with annual growth rates of around 10%. (*Business Monitor International*)

Other parts of the Region offer similar mining potential. The Philippines, with some nine million hectares of highly mineralised areas, is estimated to have some of the world's biggest reserves of nickel, gold and copper, according to the country's Mines and Geosciences Bureau (MGB).

Philippines Finance Minister, Cesar V Purisima, has said that the Government is committed to tax legislation that features "a fair sharing where both the mining company, which takes the risk and the one who owns the assets, are fairly rewarded".

Vietnam also possesses large coal reserves. The country's output of anthracite coal is considered most suitable in steel production, while Indonesian 'steam' coal is best suited for power stations. Both countries are net exporters of coal, with Thailand, the Philippines and Malaysia importers of steam coal to fuel their growing number of coal-fired power stations.

Given the capital intensive and long term nature of the mining industry, investment will be needed from the global market to fund the exploration and development required to boost Government and export revenues, spur economic growth and expand regional prosperity.

According to Ong Keng Yong, Singapore's High Commissioner to Malaysia and former ASEAN Secretary-General, the centrepiece of ASEAN minerals cooperation is a strategic Public Private Partnership (PPP) within the framework of sustainable development.



Given that the Region's mining potential, attracting FDI interest to the sector is not a problem, although fulfilling its potential will take time. In 2013, the Philippines Government, for instance, valued the country's mineral deposits at around US\$850 billion. However, investments and mining output have slowed in the last three years, as inconsistent policies and tax uncertainties have deterred investors. The latter also argue that since they often have to contribute to infrastructure such as power supplies and roads to serve mining sites, their investments deserve higher returns. (*Reuters*)

In Indonesia, the Government wants to create added value to mining activities by retaining more of the benefits of the country's mineral resources through investment in smelters and refineries to carry out onshore processing of minerals.



Natural resources can help economies expand and to develop in a sustainable way, benefiting local communities as well as national exchequers and the companies involved.



Foreign investors in Indonesia’s mining are also required to divest at least 20% and 51% of their stakes respectively by the fifth and twentieth years of a mine’s production. The divestment schedule is applicable to all.

Canada’s Fraser Institute’s annual survey of mining companies, shows that at present global mining company interest is low in Indonesia, the Philippines and Vietnam. Difficulties for foreign companies include uncertainty over the administration, interpretation and enforcement of policy as well as over environmental regulations.

The survey’s conclusions mirror those of a PricewaterhouseCoopers (PwC) report which states that perceptions of Indonesia’s regulatory environment for the mining sector remain a key challenge for potential investors.

It is not just a business equation. Local communities also have concerns. There is a need to address the perception that marked the mining industry’s development over the years, due to such issues as perceived damage to river systems and farmlands from mine tailings and waste, displacement of people and dislocation of indigenous peoples, as well as the environmental impact of open-pit mining methods. The public awareness campaigns and activities of the ASEAN Federation of Mining Associations should help redress the balance, Ong Keng Yong believes.

Finance Minister, Cesar V Purisima says, the Government wants to organise the industry in the same way as advanced countries such as Canada, where plans exist from inception, on how to mitigate environmental damage caused by mining ventures.

“Civil society groups that are campaigning for environmental protection must be engaged in a constructive way. I believe ASEAN mining companies can fully embrace corporate social responsibility and become trend setters and model corporate citizens in environmentally sustainable mining and the rehabilitation of land they exploit,” he says.

If governed well, natural resources can help economies expand and to develop in a sustainable way, benefiting local communities as well as national exchequers and the companies involved. In this, meaningful attention to human rights and to environmental questions is essential.

There are many challenges ahead but interest in mine ventures remains strong. A PwC survey of companies active in Indonesia’s mining sector carried out in 2013, found that 77% had not considered withdrawing from the country in spite of uncertainties, though only 32% were satisfied with current returns on investment. However, a clear majority of those surveyed, 65%, thought that there would be significant improvements over the next five to ten years.

Agriculture is ready to meet its challenges

The Region's economic expansion has seen development of oil & gas resources, mining and the growth of manufacturing industries and service activities. This development over the last 20 years has helped raise millions of people to middle class status.

However, it is farming, a far more traditional sector, that continues to be the most vital focus for ASEAN members, most of whose populations continue to rely on agriculture for their livelihoods. Despite the rise of new industries in a region becoming more urbanised, most people continue to live in rural areas, rising to 80% in the case of Lao PDR.

In 2013, the agricultural sector contributed 14.3% of Indonesia's GDP, 38% in Myanmar, 48% in Vietnam, 34% in Cambodia, 24.8% in Lao PDR and 11.2% in Malaysia and the Philippines respectively. (*CIA World Factbook 2013*)

The sector's output derives almost entirely from smallholdings which dominate the Region's agricultural landscape. Many farms occupy less than two hectares and have low access to technology, information, finance and crucially to markets. The problem is that poor techniques and low grade inputs, including seeds, lowers productivity while farmers struggling to survive are driven to over cultivate their land and deplete scarce water resources as a result. (*Philippine Star/World Economic Forum on East Asia 21/5/14*)

The consequences are that while millions have been lifted out of poverty, elsewhere a third of the Region's population still lives on little more than US\$2 a day, which presents a massive economic and social challenge for Governments in the Region.

Another factor increasing the pressure to grow more food is population growth. The number of people living in the Region is projected to reach 800 million by 2050, a third higher than at present, according to Gil Saguiguit, Director of the Southeast Asia Ministers of Education Organisation (SEAMEO), the Regional Centre for Graduate Study and Research in Agriculture.

Population expansion and changing food consumption patterns, together with growing demand for dairy and meat products, is making food security a primary challenge for Southeast Asia. The situation is compounded by concerns over water resources and the effects of catastrophic weather events such as the typhoon that struck the Philippines with full force in 2013.

Indonesia, Malaysia and Thailand could be most affected by greater demand for animal protein products as well as wheat, since they are the main importers in the Region of staples such as grain, corn and soybean, according to Belinda Chng, Research Fellow at Singapore's Nanyang Technological University.

In several areas, the productivity of farming communities cultivating major commodities such as food grains and vegetables is low. However, there is considerable scope for improving yields, as a result of better growing methods and reducing waste and post harvest losses resulting from poor storage, as well as bringing produce to markets in more timely ways.

Nandu Nandkishore, Nestle's Executive Vice President for Asia, also believes that "low rates of land ownership deprive farmers of the capacity to invest in necessary materials, such as plant protection agents, or fertilisers which limit farmers' earnings".

New methods of cultivation though, are proving successful. In Indonesia's rice partnership, a first trial has resulted in 17% higher yields for farmers participating and at the same reduced their use of water by 20%. The programme is to be extended to reach up to five million Indonesian farmers by 2020.

Another project aimed to increase production of coffee, led by Vietnam's Ministry of Agriculture and Rural Development, has brought together companies such as Nestle, Yara and Syngenta as well as Non Governmental Organisations (NGO) and research agencies. The initiative has helped farmers to increase yields by 10% and profits by 14%, also reducing water usage by 40% and greenhouse emissions by 54%. The Government is now seeking to replicate the programme in additional areas of the country.

Affordable microfinance schemes and crop insurance schemes would go a long way towards alleviating the difficulties that small farmers experience. Investing in education is another key element of any



strategy, since training in good agricultural practices will significantly increase the productivity of a farm and the quality of its produce, Nadkishore says.

The World Economic Forum (WEF) in collaboration with ASEAN, has launched an initiative known as Grow Asia, focusing on smallholder farmer development and environmental agricultural sustainability.

The programme is part of the WEF's New Vision for Agriculture Initiative, which is seeking to bring together both private and public sectors, to work on market based solutions to the development of inclusive and sustainable farming in the Region.

One of the aims is to increase agricultural productivity and profitability while also reducing detrimental environmental effects in cultivation. Other areas of focus are inefficiencies in supply chains, access to finance by farmers and encouraging the use of technology and attracting investors to the sector.



In Indonesia, the Agriculture Ministry has instructed farming advisors, paid by the Government to assist farmers with modern techniques, to bring forward the planting of selected crops.



National level strategies are no longer seen as sufficient to tackle the immense food security challenge. ASEAN is in an increasingly influential position to develop and implement region wide responses to these problems. These efforts are being conducted through bodies such as ASEAN Integrated Food Security Framework (AIFS), and the ASEAN Multi-Sector Framework on Climate Change: Agriculture Fisheries and Forestry Towards Food Security (AFCC), among others.

AIFS, for example, is designed to integrate programmes which stabilise national and regional food prices and supplies, as well as providing improved and updated mechanisms which quickly help member countries to cope with food emergencies. (*New Straits Times 21/10/13*)

In 2013, the ASEAN Food and Beverage Alliance (AFBA) was also launched to help harmonise food policy and standards to enhance the trade of safe, high quality food across the Region. A lack of consistency in food standards between countries poses a significant technical barrier to trade. ASEAN food and agricultural exports are much lower than they could be with the food element in the Region's total exports accounting for just 3.6% and, of these cross-border sales, just 15% are within ASEAN countries. (*Food Industry Asia*)

Rice is the most important crop in the Region and where the need for regional cooperation is most important. According to research carried out by the World Bank, despite the importance of the commodity as a basic staple, only 6.5% of global rice production is traded internationally.

This makes the commodity's price highly vulnerable to small changes in supply and demand. The situation is made more complicated since only three countries export their rice - Thailand, Vietnam and India. If the trade policies of these three change for any reason, it can lead to hoarding and speculation in rice importing countries with soaring prices and dire effects on the poorest people.

Indonesia is the world's third largest producer of un-milled rice and Vietnam the fifth largest. Most ASEAN countries consume all of the rice they produce. Only Vietnam together with Thailand and Myanmar produce sufficient amounts in the Region to export. All of Indonesia's estimated 2013 production of 72.1 million tonnes was used to feed its own people. This is insufficient, given the country's very high consumption per capita of around 140kg per year. This means it has to also import about three million tonnes of rice per year mainly from Vietnam and Thailand. The Philippines and Malaysia are also net rice importers.

Singapore, which imports more than 90% of its food requirements is also highly vulnerable to supply disruptions and price rises. This has led to rice importers being required to maintain two months worth of reserves of imports in Government warehouses for up to a year. Other countries such as the Philippines also maintain stockpiles of rice.

Indonesia is seeking to persuade people to eat less of the traditional grain and consume other crops and is also encouraging improved

methods of cultivation, though this is difficult in a country where smallholders account for 90% of rice cultivation, with each farm occupying land averaging less than 0.8 hectares.

The 2008 price crisis illustrated the degree of social unrest which food insecurity can lead to. This period saw prices of staple grains surge from US\$370 to US\$764 and higher over just a few months, causing poverty levels to increase dramatically. The events led to much greater regional cooperation to address key issues regarding rice and other food supplies, in particular the ASEAN Plus Three Emergency Rice Reserve (APTERR) agreement was concluded.

APTERR maintains a store of some 787,000 tonnes of rice, the equivalent of two days consumption across the whole of Southeast Asia and East Asia. Contributions from the ten ASEAN member states make up 11% of the reserve stock with China, Japan and South Korea accounting for the rest. Some 5,000 tonnes from the rice reserve was given to the Philippines in April 2014, for distribution to those suffering as a result of Typhoon Haiyan.

Climate change is considered a real threat to any region, creating natural disasters including droughts, typhoons, tsunamis and cyclones, all of which cause devastation to agricultural production and uproot farming communities.

“The impact will vary in different regions, some places will experience more droughts and some places more rains and more extreme weather events. We can guess what some of those impacts may be and we are already starting to see some of these impacts but others

will only unfold in time,” says Lisa Dreier, Senior Director of the World Economic Forum’s Food Security and Development Initiatives.

The Region’s Governments are currently focused on mitigating the potential impact of the El Nino weather phenomenon, which forecasters said could affect climate patterns in 2014.

“We are putting in place policy initiatives, water management and conservation measures and modern and innovative farming and fishery technologies, to somehow soften the effects of this dry weather phenomenon,” said Philippines Agriculture Secretary, Proceso Alcala. (*Reuters*)

In Indonesia, the Agriculture Ministry has instructed farming advisors, paid by the Government to assist farmers with modern techniques, to bring forward the planting of selected crops.

“Hopefully, with this action, we can still grow crops and minimise the risk of drought,” says Tunggul Iman Panudju, the Ministry’s Director of Land Development. Calendars indicating specific dates for planting crops are also being disseminated. Indonesian farmers are being trained to adapt to changing weather patterns and depending on the province concerned, provided with alternative crops to rice which are able to cope better with very dry conditions.

“We cannot stop climate change but what we can do is develop solutions to have better agricultural practices that can manage some of the weather differences and also to have stronger partnerships to be ready to recover when we do experience these severe weather events and disruptions,” the WEFs Dreier says. (*business.inquirer.net 20/5/14*)

Healthcare offers many opportunities for the private sector

As primary healthcare provision has increased in recent decades, health of the ASEAN population has improved considerably. According to the World Health Organisation (WHO), life expectancy grew in all ASEAN countries between 1990 and 2012. This reflects the huge progress which has been made in little more than a generation to improve healthcare, advancing from caring for the sick, to huge initiatives to prevent illnesses and diseases.

The improvement is particularly evident in the Region's least developed countries. Cambodia, for example, has made substantial strides in improving maternal health and early childcare, and has also proved successful in HIV/AIDS prevention and treatment. At least 95% of those infected have access to anti retro viral treatment, a coverage rate that is among the highest in the developing world, according to the World Bank.

The success of regional health strategies is also illustrated by confirmation from the WHO in March 2014, that polio has been eradicated in Southeast Asia.

Healthcare advances are also noticeable in Singapore, Malaysia and Thailand, where results are often comparable with those of the US and Europe, particularly in the former.

For instance, the number of births attended by skilled health personnel and immunisation coverage of children for measles is equal if not higher than in the US and UK. Neo natal mortality rates for these countries are the lowest and case detection rates for tuberculosis are the highest, according to a CIMB ASEAN Research Institute report.

ASEAN leaders have identified healthcare as a priority sector for region wide integration. This means that medical workers will eventually be allowed to work in any member country via the full implementation of Mutual Recognition Agreements. These will permit doctors, dentists and nurses to work in any member country. An ongoing liberalisation process is also proceeding through ASEAN's Framework Agreement on Services (AFAS) and through the latter's Healthcare Services Sectoral Working Group (HSSWG).

All ASEAN members are seeking to expand and develop healthcare provision through cooperation with the private sector. Deloitte notes that the Region already records the highest private health expenditure in the world. It says that the future of healthcare in the Region seems to be moving increasingly to greater investment in private sector delivery.

Malaysia may have a low ratio of healthcare expenditure as a percentage of GDP, but its public healthcare system is one of the best, primarily due to a well developed co-existing Government and private healthcare system. A significant amount of coverage and provision is now facilitated by private healthcare providers. *(Edelman PR report)*

Indonesia's plans are focused on stimulating Public Private Partnerships (PPP) to develop hospitals and other essential healthcare infrastructure. Siloam Hospitals, a local company, has said it plans to extend its portfolio of seven hospitals to 40 by 2017, through new developments and acquisitions.

In Vietnam, VinMec opened a 500 bed private hospital in Hanoi in 2013. Another investor, Canada's Triple Eye Infrastructure Corporation, has proposed a US\$225 million 200 bed hospital for development in Hai Duong Province. The Philippines' Chandler Corporation is reported to have bid US\$99 million for an 80% share in Hoan My Hospital Corporation, the country's largest hospital group. *(Edelman - The State of Healthcare in Southeast Asia)*



The Government is keen to encourage more inward investment into the sector and is offering foreign healthcare developers corporate tax exemption rates of 10% over the first four years of a project and 50% in following years.

In the Philippines, the Government is seeking a PPP route for the construction of a 700 bed specialist hospital at an estimated cost of US\$135 million. Thailand has plans for a new US\$135 million 700 bed tertiary hospital on a similar basis. The Royal Rattanak Hospital in Phnom Penh, Cambodia's first private hospital offering international standards, is also financed by Thailand's Dusit Medical Services.



An expanding middle class in the urban populations of the larger cities has served to push demand for high quality healthcare, thereby creating a flourishing private health sector.



Singapore's Healthcare Masterplan, anticipates PPP involvement to provide 4,100 new hospital beds by 2020, including 1,900 community care hospital beds, mainly to cater to the ageing population's needs. Four additional acute hospitals are also planned over the next 15 years. *(Edelman PR Insights)*

Universal healthcare strategy takes shape

In recent years, most countries in the Region have strengthened their social protection mechanisms and essential health services. Several innovative financing schemes to help the poor have been implemented. These include the Healthcare Fund for the Poor in Vietnam, Health Equity Funds in Cambodia and Lao PDR. Singapore also supplies a subsidised system for its nationals.

The Malaysian Government is committed to universal healthcare provision and public medical services are heavily subsidised. For the poor, healthcare is free. A majority of Malaysians have private insurance

policies, or pay out-of-pocket for private healthcare expenses. The Government wants the amount spent to rise to 7% as a percentage of GDP by 2020, to reach developed country levels. However, with the Government accounting for 60% of healthcare expenditure, it is keen to shift more to the private health sector.

Singapore has the highest per capita spend on healthcare in the Region. Some 70% to 80% of its citizens access a public health system via three major public healthcare finance schemes, Medsure, Medshield Life and Medfund. The Government carries around 30% of healthcare expenditure for the system, with the rest provided via healthcare insurance packages.

Thailand has had a universal healthcare programme in place since October 2001. Its Universal Health Coverage Scheme, is widely known as the 30 Baht scheme, referring to the less than one dollar cost for low earners.

A national insurance law in the Philippines, provides that all citizens, regardless of social and economic status, shall be covered by national health insurance protection via the Philippine Health Insurance Corporation.

Under Indonesia's National Social Security System (Sistem Jaminan Sosial Nasional), which became law in January 2014, all employees and residents are intended to be covered under a single healthcare system by 2019, and will pay into a National Health Insurance Agency (Badan Penyelenggara Jaminan Sosial). The poor and disabled will have their contributions paid for by the Government. (*Jakarta Post 31/12/13 and 2/1/14*)

Medical tourism sector continues to expand

The more affluent in Southeast Asia are accustomed to seeking medical treatments outside their own countries, especially for specialist procedures. Industry analysts, Frost and Sullivan, estimate that Indonesians spend more than US\$1 billion a year on medical treatments overseas. (*Independent Market research on the Global Healthcare Services Industry, 2012*)

An expanding middle class in the urban populations of the larger cities has served to push demand for high quality healthcare, thereby creating a flourishing private health sector. Market forces have turned many aspects of healthcare into a new industry in countries such as Singapore, Malaysia and Thailand.

In Malaysia, the Malaysia Healthcare Council, a Government Agency, has been set up to develop the healthcare travel industry. One result is that the country operates a green lane at its airports to facilitate easier travel for medical tourists.

Thailand's medical tourism market leader is Bumrungrad Hospital in Bangkok. The majority of the latter's staff have board certification from the US, Japan and Europe. The hospital maintains offices in most ASEAN countries as well as in the Middle East and Australia, catering to more than one million patients a year, 420,000 of whom are foreigners.

Other prominent Thai hospitals with a significant foreign clientele include the Phyathai, Samitivej Sukhumvit and Dusit hospitals in Bangkok. (*IHE-online.com*)

Singapore is also a globally renowned medical tourism hub and also a centre of excellence in oncology. Such high level specialist medical facilities account for a very high spending level per patient. Health tourism expenditure is estimated to have been more than US\$800 million in 2011, of which nearly half derived from Indonesia. (*Edelman PR report*)

Other operators of private clinics and hospitals in the Region also want to attract foreign patients. The Philippines aims for 200,000 foreign patients a year to its recently accredited 44 hospitals and health facilities for health tourism. Cambodia and Vietnam are also believed to be very interested in finding their own niche in the medical tourism area.

A photograph of a woman with dark hair pulled back, smiling warmly at the camera. She is holding a young child in a red top with yellow trim. The background is a soft-focus outdoor scene with green foliage and pink flowers. A large, semi-transparent orange circle is overlaid on the lower-left portion of the image, containing text.

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Educational development is a key economic strategy

The potential rewards of a single market within the ASEAN Region are attractive, with the promise of even greater and faster economic expansion. Governments recognise that to be competitive with other trading blocs, it will depend on ASEAN providing workforces with the necessary skills needed for businesses and industries in a globalised economy.

Education is proving the key to successful adaptation to changing market requirements. This is illustrated by Vietnam's experience, where educational improvements have played an important role in making the country a development success story over the last two decades.

A committed effort to promote access to primary education for all and to ensure its quality, through centrally setting minimum quality standards has contributed, for example, to Vietnam's reputation for having a well educated, young workforce. Sound literacy and numeracy attainment among adult workers is widespread and more so than in other countries, including wealthier ones, the World Bank says.

This has allowed a rapid shift of employment out of low productivity agriculture, into higher productivity non-farm jobs. In the World Bank's latest Knowledge Economy Index, which seeks to measure a country's capacity for generating and diffusing knowledge and applying it for economic development, Vietnam has jumped nine places.

An availability of personnel capable of training, is helping to attract international technology based industries in Vietnam. The Ministry of Science and Technology is now trying to develop a high tech cluster of Small to Medium Enterprises (SMEs). The move is already showing some success, with the decision made by almost 80 Japanese ICT firms to invest in the country in 2013. (*Centre for Economics and Business Research*)

The Knowledge Index (KI) lists Singapore as occupying first place in Southeast Asia followed by Malaysia, Thailand, Philippines, Vietnam, Indonesia, Lao PDR, Cambodia and Myanmar.

According to the World Bank, development of higher education in low and middle income Southeast Asian countries has the potential to dramatically lift productivity and competitiveness by providing the high level skills and research necessary for innovation and growth. UNESCO also states that "those developing countries that have progressed fastest in recent years are the ones that have adopted policies to promote science, technology and innovation". (*World Bank 2012/UNESCO Science Report 2010*)

Higher education can only be developed if earlier educational stages are sound. The Region has been successful in building the required foundations. According to the ASEAN State of Education Report for

2013, youth literacy rates have improved remarkably. It states that on average, more than 90% of the Region's population can read and write, while net school enrolment rates increased between 2000 and 2011 in all member countries. Drop out rates also declined rapidly over the same period. Advances in gender parity in primary and secondary education are also recorded.

The focus on educational development beyond secondary school is particularly important, in order that countries avoid being caught in what economists call the middle income trap. This expression is used to describe where a country attains a certain income but can only remain at that level. Those caught in the trap occupy predominantly lower, value added niches of manufacturing such as assembly and processing.

As Southeast Asia becomes increasingly connected to advanced global knowledge based economies, it has to increasingly create a class of highly educated professionals to compete with foreign workers in those high end sectors.

Malaysia's Government is committed to transforming its educational system over the next 15 years. "Our goal, and the purpose of the education system, is to equip our students holistically to allow them to succeed in the 21st Century," says Deputy Prime Minister and Minister of Education, Tan Sri Muhyiddin Yassin.

The reforms aim at raising teaching standards in the classroom for core subjects. These include English, Maths and Sciences alongside Malay, the local language.

Higher entry levels for teachers are also called for, as well as greater private sector collaboration and more parental involvement. The programme also emphasises not just improved salaries but professional development through teacher training. More ICT is to be introduced for distance and self paced learning programmes.

One of the principal reforms will see new secondary and revised primary curricula delivered to international benchmarks by 2020. Ultimately, the



objective is to see Malaysia's education system placed among the top third in the world. This will see greater school based management and autonomy around curricula implementation and a culture whereby teachers share best practices and hold peers accountable for meeting professional standards, the Ministry of Education says.

"Indonesia's labour force is rapidly becoming more educated. Most of the expansion of the labour force over the past decade has been in senior secondary and tertiary education graduates," according to a 2014 World Bank assessment. (*Indonesia Development Policy Review 2014*)

Access for the country's poor to education has also increased dramatically with children from poorer families enrolling earlier and staying in school longer. The constitution demands that at least 20% of the total Government budget is committed to education, which has led



It will be the countries displaying higher levels of education and those able to push the technological frontiers of the future that will reap the economic benefits.



to a more than doubling of spending in real terms on education since 2002, the World Bank notes.

While the majority of the population has completed basic education, there are now more than 30 million senior secondary graduates and more than ten million tertiary education graduates in Indonesia's workforce.

There are also moves to extend the development of English language skills lacking in a country which was colonised by the Dutch. Binus University in Jakarta, is aiming to teach 60% of its courses in English by 2020, according to the university's Director of Internationalisation, Lily Manoharan. The university, founded in the 1970s, specialises in computing, maths and science courses.

The Philippines, with its pool of English speaking workers, vies with India as the world's largest business process outsourcing industry, that has developed from call centres to provide a range of back office support services, engineering design and software development.

Myanmar also has the advantage of English as a primary language. There is a growing focus on education development in the country,

where the education budget is due to be increased from 5.43% to 5.92% over 2014 and into 2015. This is likely to grow further in future years. An education sector review, described by USAID as remarkably frank and comprehensive, is underway to help inform educational policy reform in the country.

There is an interest to reform academia and establish greater international connections, driven in part, by a desire to reclaim the historical high standing of Myanmar's educational system. Yangon University was once considered to be one of the jewels of higher education in the ASEAN Region. USAID notes that a hunger for external information and technical support is evident everywhere and at all levels of institutional and civil society hierarchies. (*Investing in the Future: Rebuilding Higher Education in Myanmar*)

It will be the countries displaying higher levels of education and those able to push the technological frontiers of the future that will reap the economic benefits. ASEAN's rich reserves of highly skilled workers will spur the introduction of new and advanced technologies for producing high value goods. This can place ASEAN countries at the hub of innovation and industrial growth in global markets.

Tourism is Southeast Asia's fastest growing sector

More people are travelling than ever before with just over one billion tourists recorded worldwide in 2013, by the UN World Travel Organisation (UNWTO). As in 2012, the ASEAN Region has again featured as the fastest growing globally, with a 10.8% increase in international tourist arrivals, a reflection of buoyant intra-regional demand, according to them.

The travel sector is helped by growing connectivity in the Region which is helping to stimulate tourism. In 2004, ASEAN Transport Ministers, drafted a ten year plan under which the Region's air travel would be progressively integrated and liberalised. More competition in the skies has helped in turn to reduce prices and provide more direct flights between countries. (*Straits Times 28/2/14*)

As a result, the travel and tourism industry is seen as crucially important for development. Malaysian Prime Minister, Najib Razak, addressing the seventeenth ASEAN Tourism Forum (ATF) in January 2014, declared that "tourism is vital for the socio-economic benefits as it promotes people to people connectivity, one of the key strategies towards achieving the ASEAN Community by 2015".

Industry trends continue to be encouraging. The UNWTO, which bases its forecasts on feedback from industry experts around the world, believes that growth will continue during 2014, to reach 4.5% worldwide. This would exceed the long term forecast of 3.8% between 2010 and 2020, that the organisation has previously predicted. (*www.travelpulse.com*)

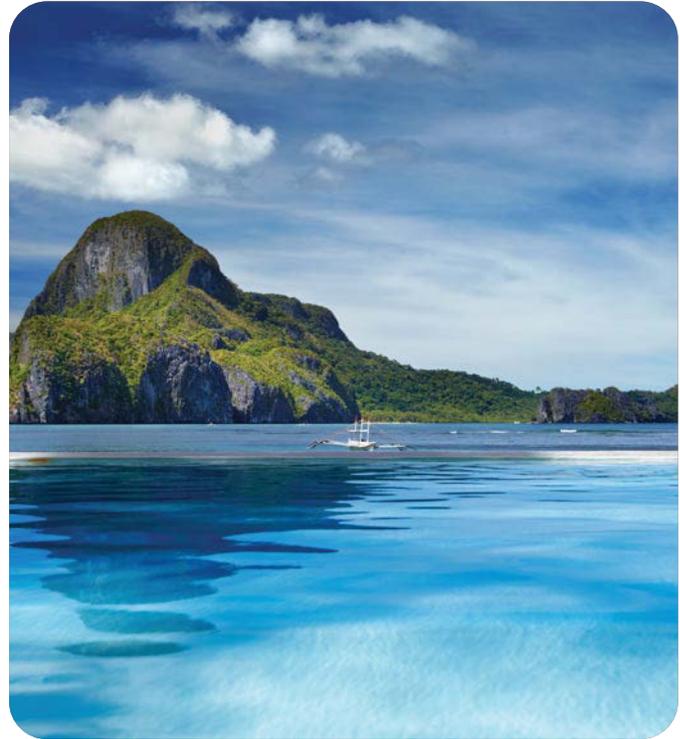
“ASEAN attracted 90 million visitors in 2013, an increase of 12% from 2012. This is a precursor to what lies ahead for the Region: a robust tourism economy. It is human capital that is at the core of this sustainable success”, says Peter Semone, Chief Technical Advisor for the Lao National Institute of Tourism and Hospitality.

Data from 2014 illustrates just how important tourism has become. UNWTO statistics for 2013, reveal Brunei Darussalam received 225,000 international visitors, up 7.6% on the previous year. Cambodia up 3.6% to 4.2 million, Indonesia up 8% to 8.8 million, Philippines up 9.7% to 4.7 million visitors, Vietnam up 10.6% to 7.6 million and Thailand up 18.7% to 26.5 million.

Thailand, Malaysia and Singapore are recipients of the largest number of visitors in the Region. The latter two countries have seen international arrivals numbering around 25 million and 11 million respectively, for each of the last two years. The biggest jump in visitors has been experienced by Myanmar from 593,000 in 2012, to 900,000 in 2013, a more than 51.7% jump. (*UN World Travel Organisation Tourism Highlights 2014*)

Income received from international tourism at an estimated US\$21 billion for Malaysia in 2013, US\$18.9 billion for Singapore, US\$9.3 billion for Indonesia, US\$7.5 billion for Vietnam, US\$4.7 billion for the Philippines, US\$2.7 billion for Cambodia and a huge US\$42 billion for Thailand. This places Thailand among the top ten countries in the world for international arrivals and for earnings from its tourist industry.

The accelerating development of the tourism sector is focusing the attention of governments. Member countries are keen to help tourism by developing a free flow of services and trained personnel. At ATF in



Kuching, Malaysia’s Tourism and Culture Minister, Mohammed Nazri Abdel Aziz, said that he and his counterparts within ASEAN are determined to press ahead with building the sector’s capacity to sustain its growth.

They also want to improve skills by implementing a Mutual Recognition Arrangement (MRA) of qualifications for those working in the hospitality sector. A regional secretariat is being set up in Indonesia to facilitate the introduction of the MRA. The move includes setting up an ASEAN Tourism Qualifications Equivalent Matrix to serve as a key reference for the tourism industry and associated training institutions, as well as an ASEAN Tourism Professional Registration System.



Developing new visitor attractions and marketing these to an international audience is vital if the benefits of tourism development are to be more evenly spread within the Region.



Another priority is to develop a strategic plan for eco-tourism. This aims at promoting sustainable economic development through conservation of nature based tourism in the Region. ASEAN Tourism Ministers also see opportunities to attract more of the booming international cruise business. This follows the establishment of an ASEAN Cruise Work Plan in 2013, designed to showcase the attractions and ports. Assistance is also being given by UNWTO to identify opportunities for river based tourism routes.

Developing new visitor attractions and marketing these to an international audience is vital if the benefits of tourism development are to be more evenly spread within the Region and pressure relieved on traditional and increasingly overcrowded visitor sites. The most visited cities and resorts are Singapore, Bangkok, Kuala Lumpur, Phuket, Pattaya, Ho Chi Minh City, Manila, Denpasar, Chiang Mai, Jakarta, Hanoi and Siem Reap.

Cambodia's strategy, for example, is to reduce congestion at its most popular sites such as Angkor Wat in Siem Reap Province, by developing and promoting other tourism areas in the country. Indonesia also wants to develop away from Bali to other areas of tourism development potential.

A central part of ASEAN tourism development strategy is also the creation of a single entry visa to the ten member countries. The strongest proponents of this visa are countries such as the Philippines and Indonesia and these will benefit most according to Philippines Tourism Secretary, Ramon Jimenez. An arrangement concluded by Cambodia and Thailand is seen as a precursor to phased introduction. The latter now allow visas obtained in either country to be valid for both.

Growing investments and cooperative efforts augur well for a continuing expansion in ASEAN's share of world tourism. "The positive results in

2013, and the expected global economic improvement in 2014, set the scene for another positive year for international tourism”, says UNWTO Secretary-General, Taleb Rifai.

“The tourism sector has shown a remarkable capacity to adjust to changing market conditions, fuelling growth and job creation”, he says. The sector has shown considerable resilience in recent times to health scares, natural disasters, financial crises and political upheavals.

Demand grows for more and better hotels

Myanmar, although it attracted nearly one million international travellers in 2013, is still one of the least visited countries. Now firmly embarked on a determined re-engagement with the international community, the Government is planning for an ever increasing number of international arrivals, including both tourists and business visitors.

Both categories are likely to demand similar standards of accommodation and facilities offered in other, more developed, parts of the Region.

Until 2013, Myanmar only had six hotels considered to be of an international five star standard. With Government plans to receive up to seven million tourists in the next five years, a huge amount of new infrastructure is required. The shortage of top end accommodation has attracted interest from a range of international hotel and service apartment operators. These include the Accor Group, Shangri-La Group and Pan Pacific Group, all of which have declared plans to enter the Myanmar hospitality market.

Hilton Worldwide Holdings announced plans in June 2014, to open more hotels in Myanmar over the next three years. The Hilton Naypyidaw and Hilton Ngapali Beach Resort in Rakhine State were due

to be opened in Autumn 2014. These are to be followed by the opening of hotels in Bajan, Mandalay and a resort hotel at Inie Lake in Shan State. Hilton says it is proceeding with planned projects in conjunction with the local Eden Group. *(11/6/14 Hilton PR)*

Vietnam’s surging tourism industry is also proving attractive to developers. Rose Rock Group, a US investment company, announced plans in early 2014, to develop a US\$2.5 billion residential and 760 room hotel project on the south central part of the country’s coast at Vung Bay. In the south at Ho Tram, Canada’s Asian Coast Development is already developing a golf course and casino resort. *(Bloomberg 14/1/14)*

The new hotels being developed reflect a trend towards development of the high end visitor market. Luxury hotel brands including Worldhotels, and Sofitel are among those planning to expand in Indonesia’s islands of Java and Bali, with the opening of 4,000 rooms.

The former opened its first resort property in the country, the Worldhotel Balangan in 2014. According to the Group’s VP for the Asia-Pacific region, Roland Jegge, it plans to add 30 more hotels across Indonesia in the next ten years.

Worldhotels is collaborating with Tauzia Hotel Management in this expansion. The latter’s President, Marc Steinmeyer, says there is a growing demand for luxury accommodation. Tauzia, which operates 18 hotels in Java, Bali and Sumatra, says it is introducing its Preference brand to cater for high end guests in Java.

Sofitel Asia-Pacific’s Senior VP, Markland Blaiklock says: “Indonesia is a key growth market for us and we see immense potential to grow the brand here. We are looking at opportunities to expand our presence both in Bali and Jakarta”.



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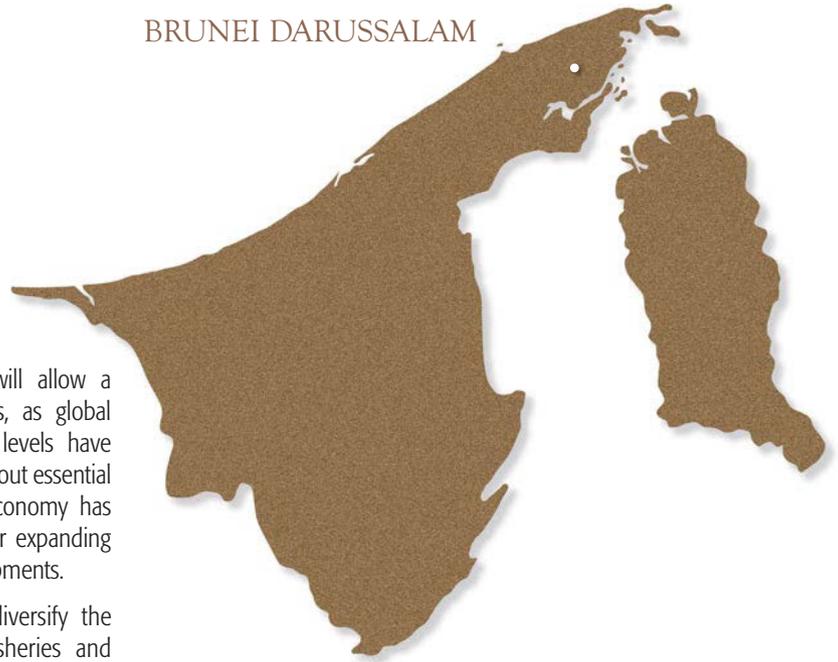
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Member country profiles...



BRUNEI DARUSSALAM



The Government anticipates that offshore exploration will allow a substantial increase in future output of crude oil & gas, as global hydrocarbon prices remain at a high level. Production levels have recovered in 2014, after shutdowns in major oilfields to carry out essential maintenance which occurred in 2013. As a result, the economy has resumed an upward trajectory, with the construction sector expanding particularly strongly and stimulated by infrastructure developments.

At the same time strong efforts are being made to diversify the economy by encouraging investment in agriculture, fisheries and forestry. There are also plans to transform the country into a regional trading and financial hub. The Brunei Economic Development Board has instituted an assistance programme to attract investment from both local and foreign entrepreneurs with innovative ideas that will help diversification. There are also substantial prospects for developing the Sultanate's tourism industry.

Located on the northern shore of the island of Borneo, Brunei Darussalam consists of two unconnected parts, with a total area of 5,765km² and occupies only 1% of Borneo's land area. It is bound on all sides by the Malaysian State of Sarawak. To the north there is a 161km long stretch of coastline next to the South China Sea. The island is also shared with the Indonesian provinces of West, South, East and Central Kalimantan.

Of the total population in Brunei, around 140,000 live in the capital Bandar Seri Begawan. Other major towns are the port of Muara, the oil producing Seria and its neighbouring Kuala Belait. The Panaga area is home to a large expatriate community due to Brunei Shell Petroleum

housing and facilities. The majority of the population live in the eastern part of Brunei, while the remainder live in the mountainous southeastern region, in the district of Temburong. Most of Brunei is within the Borneo lowland rainforest eco-region, which covers the majority of the island. There are also areas of mountain rainforest inland.

Culture is deeply connected to religion, with the family being the focal point of the social structure. Islam is the primary religion. The monarchy provides a royal heritage with a direct family line going back to 1405, and this is the only Malay Islamic Monarchy in the world.

Bandar Seri Begawan is Brunei's centre of commerce, finance and government. One of the city's most prominent features is the Sultan Ali Saifuddien Mosque, a tribute and indication of the nation's deep rooted Islamic faith.

Brunei joined ASEAN on 7 January 1984, becoming the sixth member and hosted the ASEAN Regional Forum in July 2002.

BRUNEI DARUSSALAM

Joined ASEAN:	7 January 1984
Head of State:	His Majesty Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaulah
Area:	5,765 km ²
Border countries:	Malaysia
Coastline:	161km
Capital city:	Bandar Seri Begawan
Total population:	415,717
Population of capital:	140,000
Climate:	Tropical, hot, humid and rainy
Languages:	Malay, English, Chinese
Religions:	Muslim 67%, Buddhist 13%, Christian 10%, other 10%
Ethnic groups:	Malay 66.3%, Chinese 11.2%, indigenous groups 3.4%, other 19.1%
Monetary unit:	Brunei Dollar (BND)
Natural resources:	Petroleum, natural gas, timber
Major exports:	Crude oil, natural gas, garments
Major export trading countries:	Japan 45%, South Korea 15%, Australia 7.4%, India 7.3%, New Zealand 6.5%
Major imports:	Machinery and transport equipment, manufactured goods, food, chemicals
Major import trading countries:	UK 27%, Singapore 17%, Malaysia 15%, China 11%, Japan 5.8%
Internet domain:	.bn
International dialling code:	+673



CAMBODIA



Driven by the country's garment manufacturing industry, construction, agriculture and its fast developing tourism sector, Cambodia's economy is displaying robust growth with GDP increasing by 7.5% in 2013. The garment sector, which produces clothing for many of the world's leading brands, employs around 400,000 people and accounts for some 70% of total exports. Cambodia is also an increasingly popular tourist destination. Its world heritage sites have established the country on the tourism map and attract some three million visitors a year. Cambodia's export base has the potential of being expanded if offshore oil deposits are exploited and ventures to mine iron, bauxite, gold and gemstone deposits are pursued. The Economist Intelligence Unit forecasts that GDP growth of 7.4% will be achieved in 2014.

Cambodia is located in the southern portion of the Indochina Peninsula. It is bordered by Thailand to the northwest, Lao PDR to the northeast, Vietnam to the east and the Gulf of Thailand to the southwest.

Cambodia's landscape is characterised by a low lying central plain, which is surrounded by uplands and low mountains and includes the Tonle

Sap (Great Lake) and the upper reaches of the Mekong River Delta. Extending outwards from this central region are transitional plains, thinly forested and rising to elevations of about 200m above sea level.

The Mekong River flows south through the country's eastern regions. To the east of the Mekong there is a region of forested mountains and high plateaus, which extend into Lao PDR and Vietnam. In southwestern Cambodia, there are two distinct upland areas, the Kravanh Mountains and the Damrei Mountains. The southern coastal region adjoining the Gulf of Thailand, is a narrow lowland strip, heavily wooded and sparsely populated, which is isolated from the central plain by the southwestern highlands.

The Mekong River provides fertile, irrigated fields for rice production. Exports of clothing generate most of Cambodia's foreign exchange but tourism is also an important part of the economy.

Cambodia received 2.8 million visitors in 2011, many visiting the Angkor temples in Siem Reap Province, built between the ninth and 13th centuries. The beaches in Sihanoukville in the southeast and the capital Phnom Penh, are the principal visitor attractions. Other attractions include the area around Kampot and Kep, with the Bokor Hill Station.

Buddhism is the main religion and this creates an identity and a behaviour pattern for each person. This also enforces a sense of hierarchy within society. Cambodia is a collective society. This places emphasis on groups rather than the individual.

Cambodia joined ASEAN on 30 April 1999, making them the tenth member.

CAMBODIA

Joined ASEAN:	30 April 1999
Head of State:	His Majesty King Norodom Sihamoni
Area:	181,035km ²
Border countries:	Lao PDR, Thailand, Vietnam
Coastline:	443km
Capital city:	Phnom Penh
Total population:	15.14 million
Population of capital:	1,519,000
Climate:	Tropical and humid. Monsoon season May to November. Dry season December to April.
Languages:	Khmer, French, English
Religions:	Buddhist 96.4%, Muslim 2.1%, other 1.3%, unspecified 0.2%
Ethnic groups:	Khmer 90%, Vietnamese 5%, Chinese 1%, other 4%
Monetary unit:	Riel (KHR)
Natural resources:	Oil & gas, timber, gemstones, iron ore, manganese, phosphates, hydropower potential
Major exports:	Clothing, timber, rubber, rice, fish, tobacco, footwear
Main export trading countries:	US 28%, Hong Kong 14%, UK 7.9%, Germany 7.9%, Canada 5.2%.
Major imports:	Petroleum products, cigarettes, gold, construction materials, machinery, motor vehicles, pharmaceutical products
Main import trading countries:	China 25%, Thailand 22%, Vietnam 17%, South Korea 5.5%, Hong Kong 5.4%.
Internet domain:	.kh
International dialling code:	+855



INDONESIA



Indonesia has embarked on a change of political direction, with the election of Joko Widodo, Governor of the capital Jakarta, in July, 2014. He takes the helm of a vast country stretching across an archipelago of more than 18,000 islands, stretching from Asia to Australia. The economy needs to continue to develop rapidly in order to support a population approaching 250 million people, the fourth largest in the world after China, India and the US. Indonesia's economy has expanded substantially since the late 1990s and the country is an established member of the G20 group of leading world economies. Indonesia consists of over 18,000 islands, about 6,000 of which are inhabited. These are scattered over both sides of the equator. The largest are Java, Sumatra and Borneo, shared with Brunei and Malaysia, New Guinea, shared with Papua New Guinea and Sulawesi. The capital, Jakarta, is on Java and is the nation's largest city, followed by Surabaya, Bandung, Medan and Semarang.

Indonesia is the most populated of ASEAN's ten nations and is the world's 16th largest country in terms of land area, with Java being the world's most populous island. At 4,884m, Puncak Java in Papua is Indonesia's highest peak and Lake Toba in Sumatra its largest lake, with an area of 1,145km². The country's largest rivers are in Kalimantan and include the Mahakam and Barito.

Indonesia has at least 150 active volcanoes, including Krakatoa and Tambora. Volcanic ash is a major contributor to the vast agricultural fertility that has historically sustained the high population densities of Java and Bali.

Although the main tourist attraction is Bali, many of the country's best beaches are located on the less known Toglan Islands off the coast of central Sulawesi, Karimunjawa in the Java Sea and the Banda Islands in Maluku Province. Other popular tourist attractions include the temples of Borobudur, the tropical rainforest of Sumatra, the mountainous Lorenze National Park in Papua and West Nusa, home to the Komodo Dragon. Indonesia's eastern most province of Papua contains 1,500 islands and west of Papua lies the Maluku archipelago, once known as the Spice Islands.

Indonesia is perhaps the most culturally diverse of the ASEAN states. There are over 300 ethnic groups in Indonesia. Due to this diverse nature, there is a strong pull towards each person's ethnic group or place of birth or family. The national motto is "Unity in Diversity".

Indonesia is a founding member of ASEAN and a member of the G-20 major economies.

INDONESIA

Joined ASEAN:	8 August 1967 (Founder Member)
Head of State:	President Joko Widodo
Area:	1,904.569km ²
Border countries:	Timor-Leste, Malaysia, Papua New Guinea
Coastline:	54,716km
Capital city:	Jakarta
Total population:	249.9 million
Population of capital:	9,121,000
Climate:	Tropical, hot and humid. More moderate in the highlands
Languages:	Bahasa Indonesia, English, Dutch, local dialects (of which most widely spoken is Javanese)
Religions:	Muslim 86.1%, Protestant 5.7%, Roman Catholic 3%, Hindu 1.8%, other 3.4%
Ethnic groups:	Javanese 40.6%, Sundanese 15%, Madurese 3.3%, Minangkabau 2.7%, Betawi 2.4%, Bugis 2.4%, Banten 2%, Banjar 1.7%, other 29.9%
Monetary unit:	Rupiah (IDR)
Natural resources:	Petroleum, tin, natural gas, nickel, timber, bauxite, copper, fertile soils, gold, silver, coal
Major exports:	Oil & gas, coal, electrical appliances, plywood, textiles, rubber
Main export trading countries:	Japan 15%, China 12%, Singapore 9.1%, US 8.4%, South Korea 7.2%.
Major imports:	Machinery and equipment, chemicals, fuels, foodstuff
Main import trading countries:	China 16%, Singapore 14%, Japan 11%, South Korea 6.9%, Malaysia 6.1%.
Internet domain:	.id
International dialling code:	+62



Lao PDR recorded the strongest GDP growth of an ASEAN economy in 2013, according to World Bank data. Development of the country's natural resources has helped it achieve consistently high economic returns for the last decade. The communist state has moved to gradually introduce business reforms since 2005, and it opened a stock market in the capital, Vientiane, in 2011, as part of a tentative step towards a market economy.

The mountainous landlocked country, which borders Thailand, Vietnam, Cambodia, China and Myanmar, has an abundance of water, forests and mineral resources. In particular, hydropower, timber, gold and copper contribute increasing amounts of GDP and export revenues. USAID says that by some estimates, hydropower and mining will contribute 25% of Lao PDR's GDP by 2020. A significant upgrade to infrastructure will also result if discussions to build a high speed railway link to China move forward to implementation.

Lao PDR has a thickly forested landscape and consists mostly of rugged mountains, the highest of which is Phou Bia at 2,818m, with a number of plains and plateaus. The Mekong River forms a large part of the western boundary with Thailand, whereas the mountains of the Annamite Chain form most of the eastern border with Vietnam.

Dong Hua Sao, at the southern end of the country prevents access to the sea but cargo boats travel along the entire length of the Mekong in Lao PDR during most of the year. Smaller power boats and pirogues provide an important means of transportation on many of the tributaries of the Mekong.

Vientiane, located on the curve of the Mekong River, has French inspired architecture, it's a vibrant city and popular tourist destination. Other large cities include Luang Prabang, Savannakhet and Pakse.

LAO PDR



Buddhism is the religion of 67% of the population. The people are influenced largely by Buddhist teachings and this is reflected in the culture. Lao PDR is so far, untouched by the modern demands and pace of life. Collectivism is also a strong part of its culture. There are 65 ethnic minorities, each with their own language, making individualism also possible.

Lao PDR joined ASEAN on 23 July 1997, along with Myanmar.

LAO PDR

Joined ASEAN:	23 July 1997
Head of State:	President Choummaly Sayasone
Area:	236,800km ²
Border countries:	Myanmar, Cambodia, Thailand, Vietnam, China
Coastline:	Landlocked
Capital city:	Vientiane
Total population:	6.47 million
Population of capital:	799,000
Climate:	Tropical. Monsoon season May to November. Dry season December to April
Languages:	Lao PDR, French, English, various ethnic languages
Religions:	Buddhist 67%, Christian 1.5%, other 31.5%
Ethnic groups:	Lao PDR 55%, Khmou 11%, Hmong 8%, other 26%
Monetary unit:	Kip (LAK)
Natural resources:	Timber, hydropower, gypsum, tin, gold, gemstones
Major exports:	Wood products, coffee, electricity, tin, copper, gold
Main export trading countries:	China 35%, Thailand 31%, India 6.3%, Japan 5.6%, UK 4.8%.
Major imports:	Machinery and equipment, vehicles, fuel, consumer goods
Main import trading countries:	Thailand 48%, China 25%, Vietnam 6.9%, South Korea 4.6%, Germany 4.2%.
Internet domain:	.la
International dialling code:	+856



MALAYSIA



Malaysia's GDP grew 4.7% in 2013. The country has progressed from being a producer mainly of raw materials, such as tin and rubber, to a diversified economy and a leading exporter of electronics, electrical parts and components, as well as natural gas and palm oil. Malaysia's New Economic Model launched in 2010, is ongoing and aims for the country to reach high income status by 2020. The plan includes a number of reforms to achieve growth which is intended to be primarily driven by the private sector and to move the economy into higher value added activities in both industry and services. The World Bank says that this strategy hinges on structural reforms. The accelerated implementation of productivity enhancing reforms to boost education and training and competition will be the key to long term growth and to secure the country's passage to the ranks of high income economies.

Malaysia consists of two regions separated by 1,030km of the South China Sea - West Malaysia, in the southern third of the Malay Peninsula and East Malaysia on the northern quarter of the island of Borneo, with its Provinces of Sarawak and Sabah. West Malaysia is bound by Thailand to the north, the South China Sea to the east, Singapore to the south and the Strait of Malacca to the west. East Malaysia is bound by

Indonesia to the south, the South China Sea to the west and north and the Sulu Sea to the northeast. West Malaysia consists of a range of steep forest covered mountains, with coastal plains to the east and west and the principal river is the Pahang. East Malaysia has a broad swampy coastal plain, which rises to jungle covered hills in the interior.

As well as its status as a leading business destination, Malaysia offers beautiful scenery and a huge variety of tourist attractions, from beaches to dense rainforests.

Leading destinations include the Pulau Payar Marine Park at Langkawi, the Gunung Mulu National Park in Sarawak and Sipadan Island in Sabah and Penang's Georgetown, a UNESCO World Heritage site.

Malaysia is a multi-cultural society. The main cultural groups are the native Malays, together with groups of Chinese and Indian ethnicity. Individual lifestyles are maintained. Families tend to socialise within their own ethnic groups but the desire to conform socially, makes Malaysians strive for harmonious relationships in every aspect of their lives.

Malaysia is a founding member of ASEAN.

MALAYSIA

Joined ASEAN:	8 August 1967 (Founder Member)
Head of State:	Sultan Abdul Halim Mu'adzam Shah
Area:	329,847km ²
Border countries:	Brunei Darussalam, Indonesia, Thailand
Coastline:	4,675km
Capital city:	Kuala Lumpur
Total population:	29.72 million
Population of capital:	1,493,000
Climate:	Tropical. Southwest monsoons April to October, northeast monsoons October to February
Languages:	Bahasa Malaysia, English, Chinese, Tamil, Telugu, Malayalam, Panjabi, Thai
Religions:	Muslim 60.4%, Buddhist 19.2%, Christian 9.1%, Hindu 6.3%, Confucianism, Taoism and other Chinese religions 2.6%, other 1.5%
Ethnic groups:	Malay 50.4%, Chinese 23.7%, indigenous 11%, Indian 7.1%, other 7.8%
Monetary unit:	Ringgit (MYR)
Natural resources:	Tin, petroleum, timber, copper, iron ore, natural gas, bauxite
Major exports:	Electronic equipment, petroleum and liquefied natural gas, wood and wood products, palm oil, rubber, textiles, chemicals
Main export trading countries:	Singapore 13.3% Japan 12%, China 12%, US 7.3%, Thailand 5.1%.
Major imports:	Electronics, machinery, petroleum products, plastics, vehicles, iron and steel products, chemicals
Main import trading countries:	China 16%, Singapore 14%, Japan 9.3%, Indonesia 6.1%, Thailand 5.4%.
Internet domain:	.my
International dialling code:	+60



MYANMAR

According to World Bank estimates, Myanmar's economy grew by 7.3% in 2013. A transition process is underway that is intended to lead from an authoritarian administration to democratic governance, and from a centrally directed economy to a market led system. These significant changes in direction have the potential to create opportunities and a more broadly distributed prosperity for the country's people, allowing Myanmar to resume its place as one of the most dynamic economies in Asia.

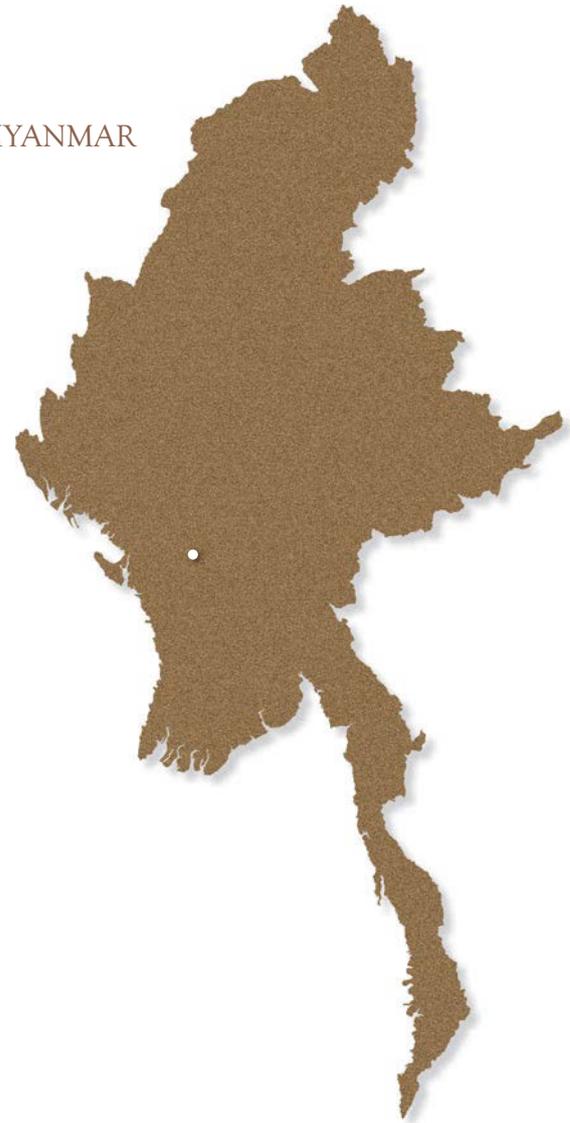
The country has one of the lowest population densities in the Region, with fertile lands and untapped agricultural potential in addition to huge unexploited natural resources. Its geographic location connecting China and India, two of the world's most dynamic economies, makes Myanmar well positioned to resume its traditional role as a trading hub and major supplier of minerals, gas and agricultural produce. Developing the private sector and stimulating FDI is also a priority. In addition, essential infrastructure improvements are underway, beginning with the introduction of a national cellular telecoms network.

Myanmar, the second largest country in Southeast Asia, is bordered by China on the northeast, Lao PDR on the east, Thailand on the southeast, Bangladesh on the west, India on the northwest and the Bay of Bengal to the southwest, with the Andaman Sea defining its southern periphery.

In the north, the Shan mountains form the border with China. Hkakabo Razi, located in Kachin State, at an elevation of 5,881m, is the highest point in Myanmar. Three mountain ranges, namely the Rakhine Yoma, the Bago Yoma and the Shan Plateau, divide three river systems, the Salween, the Sittaung and the Irrawaddy, the longest at nearly 2,170km, which flows into the Gulf of Martaban.

Much of the country lies between the Tropic of Cancer and the Equator. It lies in the monsoon region of Asia, with its coastal areas receiving over 5,000mm of rain annually.

Myanmar has huge tourism potential, with its pristine beaches, snow capped mountains, jungle trails and spectacular temples.



There are around 100 different ethnic groups within Myanmar. Much of the country's population is rural and occupied by agricultural activities. Many of these ethnic groups are largely untouched by western cultures, leaving their own rich cultural traditions still intact. Buddhism is the main guiding force in the lives of the Myanmar people.

Myanmar joined ASEAN along with Lao PDR on 23 July 1997.

MYANMAR



Joined ASEAN:	23 July 1997
Head of State:	President Thein Sein
Area:	676,578km ²
Border countries:	Lao PDR, Thailand, Bangladesh, China, India
Coastline:	1,930km
Capital city:	Naypyidaw
Total population:	53.3 million
Population of capital:	992,000
Climate:	Summer is tropical, cloudy, hot and humid. Southwest monsoon June to September. Winter less cloudy with lower humidity. Northeast monsoon December to April.
Languages:	Burmese
Religions:	Buddhist (89%), Christian (4%), Muslim (4%), other (3%)
Ethnic groups:	Burman 68%, Shan 9%, Karen 7%, Rakhine 4%, Chinese 3%, Indian 2%, Mon 2%, other 5%
Monetary unit:	Kyat (MMK)
Natural resources:	Petroleum, timber, tin, antimony, zinc, copper, tungsten, lead, coal, marble, limestone, precious stones, natural gas, hydropower
Major exports:	Natural gas, wood products, pulses, beans, fish, rice, clothing, jade, gems
Main export trading countries:	Thailand 44%, India 17%, China 15%, Japan 9% , South Korea 4.7%.
Major imports:	Fabric, petroleum products, fertiliser, plastics, machinery, transport equipment, cement, construction materials, crude oil, food products
Main import trading countries:	China 40%, Thailand 17%, South Korea 10%, Japan 9.3%, Singapore 7.5%.
Internet domain:	.mm
International dialling code:	+95



THE PHILIPPINES

The Philippines saw GDP growth of 7.3% in 2013, following 6.6% growth the previous year. The country has been among the fastest expanding economies in Southeast Asia, averaging GDP growth of around 5% since 2002, much higher than that achieved in the previous two decades. Government spending is increasing as it seeks to bring in the private sector to provide much needed development of the country's infrastructure. Export income, notably from services industries, such as business process outsourcing, continues to grow. A stable level of remittances also provides a strong basis for currency stability and is helping to build up international reserves. The Philippines enjoys a savings rate that exceeds investment, while its human resources continue to be in high demand around the world.

The Philippines is made up of over 7,000 islands but the majority of people live on just 11 of them. Its islands make it the country with the fifth longest coastline in the world. It is bordered by the Philippine Sea to the east, the South China Sea to the west and the Celebes Sea to the south. The island of Borneo is located a few hundred kilometres southwest.

Most of the mountainous islands are covered in tropical rainforest and are volcanic in origin. The highest mountain is Mount Apo, which measures up to 2,954m above sea level and is located on the island of Mindanao. To the east of the Philippines on the ocean floor lies the Philippine Trench, where the Galathea Depth is the third deepest place on earth. The longest river is the Cagayan in northern Luzon. Manila Bay, upon the shore of which the capital city of Manila lies, is connected to Laguna de Bay, the largest lake in the Philippines, by the Pasig River.

The Philippines contains some of the world's most amazing scenery, including the beaches of Boracay, Panglao and Pagudpad, as well as historical sites such as Intramuros, Cebu City, Corregidor and Bataan.



The main religion in the Philippines is Christian Malay, with over 80% of Filipinos practicing Catholicism. Family values are at the heart of Filipino tradition. It is recognised and accepted that family members often work for the same company. There is a strong sense of social propriety to conform to societal norms of behaviour.

The Philippines are a founder member of ASEAN.

THE PHILIPPINES



Joined ASEAN:	8 August 1967 (Founder Member)
Head of State:	President Benigno S. Aquino III
Area:	300,000km ²
Border countries:	None
Coastline:	36,289km
Capital city:	Manila
Total population:	98.39 million
Population of capital:	11,449,000
Climate:	Tropical marine. Northeast monsoon from November to April and southwest monsoon May to October
Languages:	Filipino, English
Religions:	Roman Catholic 80.9%, Muslim 5%, Evangelical 2.8%, Iglesia ni Kristo 2.3%, Aglipayan 2%, other Christian 4.5%, other 1.8%, none 0.1%
Ethnic groups:	Tagalog 28.1%, Cebuano 13.1%, Ilocano 9%, Bisaya/Binisaya 7.6%, Hiligaynon Ilonggo 7.5%, Bikol 6%, Waray 3.4%, other 25.3%
Monetary unit:	Peso (PHP)
Natural resources:	Petroleum, gold, silver copper, nickel, cobalt, timber, salt
Major exports:	Semi-conductors and electronic products, transport equipment, garments, copper products, petroleum products, coconut oil, fruits
Main export trading countries:	China 23%, Japan 13%, US 12%, Hong Kong 9.8%, Singapore 5.4%.
Major imports:	Electronic products, mineral fuels, machinery and transport equipment, iron and steel, textile fabrics, grains, chemicals, plastic
Main import trading countries:	China 13%, Japan 11%, US 19%, South Korea 8.9%, Other Asia 6.7%.
Internet domain:	.ph
International dialling code:	+63



SINGAPORE



Singapore is one of the wealthiest countries in Asia. Its highly globalised economy grew by 3.9% in 2013, compared to 1.3% the previous year. This reflects the gradual emergence from recession by countries beyond the Region. The country's strong manufacturing and services sectors are the main strengths of its economy. Singapore, even with relatively high salary levels, continues to be an attractive destination for FDI, particularly high technology companies. The island is seen as providing one of the world's most business friendly regulatory environments and is ranked among the world's most competitive economies. There is a growing focus on value added activities including chemical and biotechnology industries.

Singapore is located off the southern tip of the Malay Peninsular, 137km north of the Equator. As an island country, it is made up of 63 islands and is separated from Malaysia by the Straits of Johor. There are two man made connections to Malaysia, the Johor-Singapore Causeway in

the north and the Tuas Second Link in the west. Jurong Island, Pulau Tekong, Pulau Ubin and Sentosa are the largest islands after Singapore Island, which contains the capital, Singapore City.

Singapore's land area consists of forest and nature reserves and its primary rainforest is Bukit Timah. Most work in Singapore is in the service sector and poverty levels are low compared to other countries in the Region. Singapore has the world's highest percentage of millionaire households.

Tourism forms a large part of the economy with over ten million visitors each year. Gambling has been legalised and the country's casino resorts have proved popular destinations.

A largely Buddhist (Chinese) state, Singaporeans may claim that they are an egalitarian society, yet they retain strong hierarchical relationships in most aspects of their lives. Singapore is a multi-ethnic society, where culturally diverse, Chinese, Malay and Indian traditions co-exist in a westernised cosmopolitan metropolis.

Singapore is a founder member of ASEAN.

SINGAPORE

Joined ASEAN:	8 August 1967 (Founder Member)
Head of State:	President Tony Tan Keng Yam
Area:	697km ²
Border countries:	None
Coastline:	193km
Capital city:	Singapore City
Total population:	5,460,302
Climate:	Tropical, hot and humid with two monsoon seasons. Northeastern monsoon from December to March, southwestern monsoon June to September
Languages:	Mandarin, English, Tamil, Malay, Hokkien, Cantonese, Teochew
Religions:	Buddhist 42.5%, Muslim 14.9%, Taoist 8.5%, Hindu 4%, Catholic 4.8%, other Christian 9.8%, other 0.7%, none 14.8%
Ethnic groups:	Chinese 76.8%, Malay 13.9%, Indian 7.9%, other 1.4%
Monetary unit:	Singapore dollar (SGD)
Natural resources:	Fish, deepwater ports
Major exports:	Machinery and electronic equipment, consumer goods, pharmaceuticals, chemicals, refined petroleum products.
Main export trading countries:	China 14%, Malaysia 12.%, Indonesia 12%, Hong Kong 7.4%, Australia 6%.
Major imports:	Machinery and equipment, foodstuffs, consumer goods, mineral fuels, chemicals
Main import trading countries:	China 12%, Malaysia 10%, South Korea 8.4%, US 7.1%, Japan 6.3.
Internet domain:	.sg
International dialling code:	+65



THAILAND

Thailand is the second largest economy in Southeast Asia. Its GDP at US\$387.3 billion in 2013, is second only to that of Indonesia in the ten nation ASEAN group. The country is one of the world's most important manufacturers of electronic products including computers and integrated circuits. Thailand has also developed as the principal car and motorcycle manufacturer in the Region. Its tourism sector has been one of the world's fastest growing over the last decade. The Kingdom is a popular choice for foreign investors as it ranks 18th in the World Bank's Ease of Doing Business Report in 2014.

Thailand is located at the centre of the Indochina Peninsula and is bordered to the north by Myanmar and Lao PDR, to the east by Lao PDR and Cambodia, to the south by the Gulf of Thailand and Malaysia and to the west by the Andaman Sea and Myanmar.

Thailand is home to several distinct geographic regions. The north of the country is mountainous, with the highest point being Doi Inthanon at 2,565m above sea level, the northeast consists of the Khorat Plateau and the east by the Mekong River.

Southern Thailand has the Kra Isthmus, a narrow land bridge which connects the Malay Peninsula with the mainland of Asia. The centre is dominated by the Chao Phraya River valley, which runs into the Gulf of Thailand. The Gulf of Thailand is also an industrial centre, with the main port in Sattahip being the entry gates for Bangkok's Inland Seaport.

Thailand is the Greater Mekong Sub-region's most visited international destination. Other top destinations include Bangkok, Chiang Mai and the beach resorts of Pattaya and Phuket.

The Andaman Sea hosts the most popular and luxurious resorts in Asia. Phuket, Krabi, Ranong, Phang Nga and Trang and their lush islands all lay along the coast of the Andaman.

The Chao Phraya River and Mekong River are the sustainable resources of rural Thailand. Industrial scale production of crops use both rivers and their tributaries. The Gulf of Thailand covers 320,000km² and is fed by the Chao Phraya, Mae Klon, Bang Pakong and Tapi Rivers.



Thailand is a stronghold of Buddhism. Many of the rules of etiquette are by-products of the Buddhist religion. Great emphasis is placed on outward forms of courtesy and politeness. The family is the cornerstone of Thai culture. Thailand has a strong hierarchical social structure.

Thailand is a founder member of ASEAN.

THAILAND

Joined ASEAN:	8 August 1967 (Founder Member)
Head of State:	His Majesty King Bhumibol Adulyadej
Area:	513,120km ²
Border countries:	Myanmar, Cambodia, Lao PDR, Malaysia
Coastline:	3,219km
Capital city:	Bangkok
Total population:	67 million
Population of capital:	6,902,000
Climate:	Tropical, rainy, warm, cloudy southwest monsoon from May to September. Dry, cool northeast monsoon, November to March
Languages:	Thai, English, ethnic and regional dialects
Religions:	Buddhist 94.6%, Muslim 4.6%, Christian 0.7%, other 0.1%
Ethnic groups:	Thai 75%, Chinese 14%, other 11%
Monetary unit:	Baht (THB)
Natural resources:	Tin, rubber, natural gas, tungsten, tantalum, timber, lead, fish, gypsum, lignite, fluorite, arable land
Major exports:	Textiles and footwear, fishery products, rice, rubber, jewellery, automobiles, computers, electrical appliances
Main export trading countries:	China 14%, Japan 10%, Malaysia 5.7%, US 9.7%, Indonesia 5.2%, Malaysia 5%
Major imports:	Capital goods, intermediate goods and raw materials, consumer goods, fuels
Main import trading countries:	Japan 22%, China 18%, Malaysia 6.3%, US 5.3%, South Korea 4.5%
Internet domain:	.th
International dialling code:	+66



During the last 25 years, Vietnam has emerged as one of Asia's great success stories. GDP growth of 5.3% was recorded in 2013, a level of growth that has been maintained since 1986, faster than that of any other Asian country with the exception of China, according to consultancy firm McKinsey. Vietnam has benefited from a programme of internal restructuring, a transition from its agricultural base towards manufacturing and services. The country has also prospered since joining the World Trade Organisation in 2007. This was followed by a normalisation of trade relations with the US and this has helped to ensure Vietnam is consistently ranked as one of Asia's most attractive destinations for foreign investors.

Vietnam is the most eastern country on the Indochina Peninsula. It is bordered by China to the north, Lao PDR to the northwest, Cambodia to the southwest and the South China Sea to the east. With a population of over 90 million, Vietnam is the 13th most populous country in the world.

Vietnam is a country of tropical lowlands, hills and densely forested highlands, with level land covering no more than 20% of the area. The country is divided into the highlands and the Red River Delta in the north, the Gai Truong Son (central mountains), the coastal lowlands and the Mekong River Delta in the south.

The nation has seven developed ports and harbours at Cam Ranh, Da Nang, Hai Phong, Ho Chi Minh City, Hong Gai, Qhi Nhon and Nha Trang. There are also more than 17,000km of navigable waterways, which play a significant role in rural life.

Vietnam has a vast cultural legacy and is also endowed with a 3,444km coastline, providing ample opportunity to develop sea based tourism around spectacular bays, beaches and islands. These include areas such as Mong Cai City, Halong Bay, Hai Phong City, Nam Dinh Province and Da Nang.

The native Vietnamese are the largest ethnic group, containing 90% of the population of this largely Buddhist country. The teachings of Confucius highly influence the individual in Vietnamese society. This stresses for, amongst other things; loyalty, honour, sincerity and respect for age. Collectivism is a general part of society with an individual seen as secondary to a group.

Vietnam joined ASEAN on 28 July 1995, making it the seventh member.

VIETNAM



VIETNAM



Joined ASEAN:	28 July 1995
Head of State:	President Truong Tan Sang
Area:	331,210km ²
Border countries:	Lao PDR, Cambodia, China
Coastline:	3,444km (excluding islands)
Capital city:	Hanoi
Total population:	89.7 million
Population of capital:	2,668,000
Climate:	Tropical in the south, monsoons in the north with the hot, rainy season May to September. Warm and dry October to March
Languages:	Vietnamese, English, French, Chinese, Khmer
Religions:	Buddhist 9.3%, Catholic 6.7%, Hoa Hao 1.5%, Cao Dai 1.1%, Protestant 0.5%, Muslim 0.1%, none 80.8%
Ethnic groups:	Kinh (Viet) 85.7%, Tay 1.9%, Thai 1.8%, Muong 1.5%, Khmer 1.5%, Mong 1.2%, Nung 1.1%, others 5.3%
Monetary unit:	Dong (VND)
Natural resources:	Phosphates, coal, manganese, rare earth elements, bauxite, chromate, timber, hydropower
Major exports:	Clothes, shoes, marine products, crude oil, electronics, wooden products, coffee, rice, machinery
Main export trading countries:	US 16%, Japan 13%, China 12%, Germany 5.7%, South Korea 5%.
Major imports:	Machinery and equipment, petroleum products, steel products, raw materials for clothing and shoe industries, electronics, plastics, automobiles
Main import trading countries:	China 28%, South Korea 15%, Japan 9.5%, Singapore 5.9%, Thailand 5.3%.
Internet domain:	.vn
International dialling code:	+84



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