

# Investing in ASEAN

Association of Southeast Asian Nations

2015 | 2016



• one vision • one identity • one community •

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



| Myanmar | Philippines | Singapore | Thailand | Vietnam |



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Allurentis is delighted to have been involved in partnership with ASEAN on this, the fifth publication and would like to thank all sponsoring organisations for their kind contributions. We are confident that it will raise awareness with all readers and prove to be an invaluable resource, especially for those wishing to become involved in the extraordinary business opportunities and growth prospects within the region.

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# Contents

## Introduction

Southeast Asia's new dawn is full of promise 5

## Messages

H.E. Le Luong Minh: Secretary General 8

US-ASEAN Business Council 9

EU-ASEAN Business Council 10

UK-ASEAN Business Council 11

## Business - Finance - Legal

Manufacturing expansion in ASEAN with HSBC - HSBC 12

ASEAN members forge ahead with financial integration 16

The Rule of Law and ASEAN growth - DFDL 21

Investing in ASEAN: Five top considerations - EY 28

Harnessing unique ASEAN talents for investment growth - TMF Group 33

Legal regime of ASEAN - Chandler & Thong-ek Law Offices 36

Interview with David D. Doran: Partner and Chairman, DFDL Legal & Tax 41

## Energy

Gas resources boost ASEAN's energy strategy 46

Renewable energy helping to lessen reliance on fossil fuels 49

## Industry & Manufacturing

ASEAN's manufacturers have a window of opportunity 53

At home in ASEAN - Jebsen & Jessen (SEA) 59

## Infrastructure

Infrastructure spending set to grow with more funding 62

A new railway age begins in Southeast Asia 66

Focus on ports development will strengthen ASEAN's global reach 70

## Aviation

ASEAN aims high in aerospace manufacturing 75

ASEAN aviation support industries are global players 78

ASEAN airlines are flying high again 80



### **IT & Telecommunications**

Southeast Asia sees huge expansion in broadband access

### **Mining**

The region's mining sector has bright future

### **Agriculture**

Economic integration will improve food security

### **Healthcare**

Focus on healthcare yields impressive results

### **Education**

Educational development is key to economic progress

### **Tourism**

Southeast Asia's tourism potential is immense

### **Country Reference**

Member country profiles

### **Useful contacts**

85

90

93

96

99

103

109

130



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## Southeast Asia's new dawn is full of promise

The ASEAN Economic Community (AEC) becomes a single market comprised of ten Southeast Asia nations 48 years after the Association was first agreed by its initial members; Indonesia, Malaysia, the Philippines, Singapore and Thailand. As 2016 begins, it will herald a new epoch for its members, which now include; Brunei Darussalam, Vietnam, Lao PDR, Myanmar and Cambodia.

These countries and those who invest in them stand to gain from an increasingly integrated and vibrant economic area, where GDP growth has surpassed any other region in the world consistently over the last decade and which continues to do so.

Southeast Asia's industries increasingly feature high technology ventures attracting aerospace, automotive, bio-scientific companies and many other foreign investors from Asia, Europe and US.

ASEAN membership has seen the economies of these countries expand and consistently exceed average global GDP growth in recent years. In 2014, most of the ten members achieved growth rates well above 5% in a year of difficult global trading conditions.



This growth, and the promise that the AEC brings, fortifies a growing sense of confidence in long term prospects that is generating a wide range of opportunities for business development and investment. Tariffs on goods are now close to zero in many sectors for trade between Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand.

The single market provides an uninhibited flow of goods, services, investment, skilled labour and a freer flow of capital between all the member countries. Many benefits will result, including access to a huge and expanding market and a reduction in trade barriers.

While more liberalisation is imminent, there is a growing development of trade flows within Southeast Asia itself. Intra-regional trade with Indonesia, Singapore and Thailand in particular, is increasing and other markets are expanding as well.

The growth of intra-ASEAN trade has outpaced the growth of world trade in the past three years. This proves 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 several trillion dollars.

The region is firmly set to be at the crossroads of global business, as it invests in the digital age and builds vast new connectivity including modern ports, high speed railways, airports and other transport infrastructure

Some of Asia's largest free trade export development areas are now 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 as well as 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.

FDI flows into ASEAN's largest economies of Indonesia, Thailand, Malaysia, Singapore and the Philippines surpassed those going into China for a second year running in 2014. FDI inflows into these countries rose by 7% to US\$128 billion, US\$4 billion more than went into mainland China, an indication of ASEAN's growing importance.



For investors, it is a question of balancing risk against opportunity. Although the countries of ASEAN are at different stages of development, they all share immense growth potential as a result of the AEC and now comprise a major global hub of manufacturing and trade.

In the longer term, ASEAN could become 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.

ASEAN's economic vision is ambitious and stretches beyond 2015. In addition to its own integration, it is the policy to proceed with the

integration of its many different free trade agreements into one overarching accord. The goal is to establish 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 on RCEP which began in May 2013, aims to reach an accord that will eventually create an integrated market across the Asia-Pacific region of some 3.4 billion people.

The attractiveness of ASEAN for foreign investment will be further enhanced by the 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 contained. ASEAN has not focused solely on economic and social development matters but also acts as a political stabiliser in the region, through its network of dialogues, ranging from maritime security, health and climate change. These ASEAN driven initiatives tend to go largely unnoticed in the West but they are tools of preventive diplomacy.

ASEAN executed much behind the scenes influence to spur political change and reform in Myanmar. The process of change now underway

is testimony to ASEAN's 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.

The social as well as commercial benefits of cooperation are already clear. Rapid economic growth has helped lift millions of communities in Southeast Asia out of extreme poverty, but there is a great deal left to do to consolidate progress made on providing acceptable standards of living and universal healthcare.

Indonesia, for example, represents almost 40% of the region's output and is a member of the G20 group of leading world economies. Myanmar in contrast is emerging from decades of isolation, a frontier market but with huge opportunities.

The challenges remain, and require a cooperative effort to overcome them. Within a group of nations of such different ethnicities, cultures, languages, religions and political histories, each step towards integration has involved lengthy discussion and will 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. Integration of the member states is making 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

The formal establishment of the ASEAN Community this year comes at a time of unprecedented economic growth and prosperity. With a combined GDP of over US\$2.5 trillion and a consumer base of 625 million people, as the region cultivates on its demographic dividends with half of its educated population below 30 years old, the prospects and potential of the ASEAN Economic Community (AEC) have never been greater. Sustained business confidence and expansion in the region affirm the vast and wide-ranging growth opportunities arising from regional economic integration. With greater connectivity, ASEAN has embedded itself in key regional and global value chains, driving more trade and business investments across the region.

As ASEAN Member States continue to improve on their investment regimes, the region remains committed to enhancing investment liberalisation, protection, facilitation and promotion through the ASEAN Comprehensive

Investment Agreement (ACIA). With efforts to provide greater transparency, instill confidence, raise awareness and foster broad stakeholder support, ASEAN has been undertaking a range of promotional measures, including the investASEAN website, an updated compendium of national investment rules and regulations and publications such as the ASEAN Investment Report, the ACIA Guidebook for Investors and the Handbook on ACIA for the Investment Promotion Agencies.

Working closely with the region's business community, private sector initiatives such as this Investing in ASEAN publication complement ASEAN's concerted efforts to make the region a prime investment destination, fulfilling the vision of a competitive, innovative and dynamic ASEAN Community that engenders equitable development and inclusive growth benefitting all ASEAN peoples beyond 2015.



# US-ASEAN Business Council



Alexander Feldman,  
President & CEO,  
US-ASEAN Business Council

The US-ASEAN Business Council has worked for more than 30 years to advance the business relationship between the United States and Southeast Asia, and I can honestly say there has never been a more important time to learn about the opportunities ASEAN offers. At the end of 2015, the ten nations of ASEAN will come together to create the ASEAN Economic Community, a single market of 640 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 Master Plan will create and develop cross-border linkages helping to bring regions and countries together and narrow the gaps in economic development. If you are thinking about investing in ASEAN, now is the time to get involved.

At the Business Council, we see more and more companies looking to grow and expand their operations in ASEAN. US companies have made ASEAN their number one destination for foreign investment: at US\$204 billion, US companies have more invested in ASEAN than in the BRIC countries (Brazil, Russia, India, China) combined. Bilateral goods trade is up more than 60% since 2002, supporting

more than 560,000 US jobs. You can find out more at [www.aseanmattersforamerica.org](http://www.aseanmattersforamerica.org)

ASEAN's network of Free Trade Agreements (FTA) covers more than 50% of the world's population, and four ASEAN nations are participating in the Trans-Pacific Partnership Agreement, an historic, 21st century FTA, with more likely to join. ASEAN is at the centre of regional economic and political architecture, and companies with a presence in ASEAN are uniquely situated to judge emerging trends.

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. Developing global supply chains means opportunities for small and medium enterprises and multinationals alike. 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

At the ASEAN Leaders's Summit in Kuala Lumpur in November 2015, ASEAN will declare the inauguration of the ASEAN Economic Community, heralding a key development in the much anticipated and welcomed ASEAN integration project. The EU-ASEAN Business Council is a strong supporter of this ambitious project and I am pleased to report that we have regular dialogues and consultations with ASEAN and its Member States, as part of an ongoing process of assisting with the development of the AEC. Once fully implemented, and no one should be under the illusion that the end of 2015 marks the end of the process, the AEC should be a significant game changer in the economic, social and industrial development of ASEAN.

For many from Europe, ASEAN is seen as it should be: a hot bed of innovation, opportunities and possibilities. This is a very dynamic and growing region; a region that has the potential to be the key driver for growth not just in Asia but also for the global economy. A quick look at some key facts and statistics for ASEAN underlines this: GDP growth across the region as a whole is predicted to be above 5% for the next few years, surpassing anything that the more developed world is presently seeing. Inflation rates are low and the governments generally stable. With 625 million people ASEAN itself represents a considerable consumer market. And when that population size is coupled with growing populations, increasing middle classes, exceptionally high rates of urbanisation, good and improving education levels and the relative youthfulness of much of the region, the attractions for business are obvious.

Add on to these factors both the exceptional geographical location of ASEAN, slowing growth rates in China, and the forward looking trade policies of many of ASEAN's Member States, as manifested in the AEC, the Trans-Pacific Partnership, and the plethora of other Free Trade Agreements (FTA) that many are putting place, including with the European Union (EU), then it is clear that ASEAN remains a very attractive place for businesses to invest and grow. We at the EU-ABC look forward to more trade deals being done between the EU and countries of Southeast Asia and, hopefully, soon an EU-ASEAN FTA.

Yet again Europe has signalled its support and belief in ASEAN: Europe remains the prime source of FDI funds for ASEAN, with inflows in 2014 more than twice the next largest investor in the region, Japan, and accounting for over 20% of inward investments to the region. Europe also remains the second largest trading partner of ASEAN after China. For its part, ASEAN is the third largest trading partner of the EU outside of continental Europe.

There is a clear and mutually beneficial trading and diplomatic relationship between Europe and ASEAN; a relationship that we fully expect to continue to develop and grow as the AEC is implemented and as the importance of ASEAN to the world economy continues to be recognised. The EU-ABC will be doing all that it can to help this relationship further, and to support ASEAN and its Member States in both their development and the full implementation of the AEC.



Kevan Watts, Chairman,  
UK-ASEAN Business Council

By 2030 the ASEAN economy is predicted to eclipse Japan's and be the world's fourth largest 'single market' after the EU, US and China. ASEAN is home to more people than Europe, and has the world's third largest labour force. Currently there are some 67 million ASEAN consuming households. The Asian Development Bank predicts the size of the middle class in emerging Asia will increase from 24% of the population in 2010 to 65% in 2030 - creating almost 300 million new consumers.

ASEAN has lived in the shadow of China and India, but things are changing. Chinese growth is slowing and production costs are rising, while India is not growing as quickly as predicted. Considering the impact of the Chinese slowdown, ASEAN economies are performing well. Some markets have above 5% growth, with the Philippines and Vietnam the star performers over the past couple of years.

As this incredibly useful publication goes to print, the much talked about ASEAN Economic Community (AEC) will have become a reality. A milestone, rather than end-state, the AEC will continue to evolve and move to even greater liberalisation through continued negotiations. The prospect of ASEAN's ten dynamic markets better connected and more harmonised as a single market make the region a seriously attractive investment destination.

'Brand Britain' has never been stronger globally and there is real demand for UK products and services across ASEAN. From luxury cars to boutique beers and cutting edge architecture to world class animation, UK companies are winning business based on innovation and quality. ASEAN customers want UK designed, innovative, high quality products and services. This was evident during the UK Prime Minister's recent visit to ASEAN accompanied by a large UK business delegation, where new deals worth £750 million were announced.

Research is a fundamental part of doing business in ASEAN, but is it hard to win business in ASEAN from the UK - visiting the region is key. Experience ASEAN, feel the energy across the region and find out what opportunities exist for your business in one of the world's fastest growing regions.

The UK-ASEAN Business Council's (UKABC) key role is to raise the awareness to UK companies of ASEAN's diverse, high growth markets. Through the UKABC's signposting of in-depth information, relevant events, visits to the markets and connections to local delivery partners, UK companies are in a better position to make informed choices about their investment and export strategies in ASEAN.

# Manufacturing expansion in ASEAN with HSBC

Y.S.P. Southeast Asia Holding Berhad

## At a glance

- YSPSAH is one of the leading pharmaceutical companies and drug manufacturers in Malaysia
- Listed on Bursa Malaysia (formerly known as the Kuala Lumpur Stock Exchange), YSP recorded revenues in excess of US\$46.6 million (MYR 200 million) in 2014
- The group has a customer base of more than 20,000 buyers, predominantly based in Southeast Asia
- YSPSAH imports many of its raw materials from Asia
- The company wanted to expand its footprint into Vietnam by building a manufacturing plant in Nhon Trach 3 Industrial Zone in Dong Nai Province, Vietnam
- The company wanted to ensure they had adequate funding to support their investment and expansion
- As a Malaysian company, they also wanted to secure an Islamic banking financing solution
- HSBC Amanah Malaysia Berhad provided the company with a five year fixed rate term US\$4.65 million (MYR 19.728 million) financing facility
- Because the financing was Shariah compliant, YSPSAH enjoyed a 20% reduction on stamp duty
- As a result, the factory was completed by the end of 2010, marking an important milestone and a significant achievement for YSPSAH

When Malaysia's Y.S.P. Southeast Asia Holding Berhad (YSPSAH) looked to expand their footprint to include a new plant located at Nhon Trach 3 Industrial Zone in Vietnam's Dong Nai Province, they needed a banking partner that could help them with a long term Islamic financing facility that would not only meet their capital expenditure needs, but also satisfy the requirements of a substantial shareholder.

## The company

Since its establishment in 1988, YSPSAH has grown into one of the leading pharmaceutical companies and drug manufacturers in Malaysia, recording revenues in excess of US\$46.6 million (MYR 200 million) in 2014. Listed on Bursa Malaysia (formerly known as the Kuala Lumpur Stock Exchange), the group boasts a diverse range of pharmaceutical, over-the-counter (OTC), veterinary and aquatic products, and also offers a host of traditional herbal products in partnership with Sun Ten Pharmaceutical Co. Ltd, a renowned Good Manufacturing Practice (GMP) company that produces standardised concentrated herbal extracts from Taiwan, Republic of China. The company develops gels, capsules, tablets, suppositories, creams, syrups, suspensions and powders that are used in the production of antibiotics, antifungals, antacids, anti-diabetics, anti-platelets, antivirals, injectables and eye drops, among others.

YSPSAH imports most of its raw materials from Asia and Europe via suppliers based in Malaysia and Taiwan, among other locations. These operations were established in order to procure raw materials from overseas because many of the active ingredients in their products cannot be sourced locally. As such, they have established long term relationships with several key suppliers, many of which have been working with the group for more than ten years. In order to ensure tight quality control of raw materials and timely delivery, the group is only allowed to purchase raw materials from approved vendors.

Because YSPSAH manufactures and distributes a large range of pharmaceuticals, they have a diverse base of customers for their various products. Today, the group has a customer base of more than 20,000 buyers comprising general practitioners and clinics, pharmacies, private hospitals, livestock farms, aquatic farms, and feed mills, predominantly based in Southeast Asia.

### **The challenge**

As a global operation with a regional focus, YSPSAH already had subsidiaries in Singapore, Myanmar, Philippines, Indonesia, Brunei and Cambodia, as well as an associated company in Thailand. Given the group's ongoing plans for expansion and their extensive reliance on material from within Asia, the company naturally looked to extend their footprint into neighbouring Vietnam, aiming to take advantage of attractive tax incentives, low cost labour and cheap logistics. The company was also looking to relocate their veterinary plant from Malaysia, in order to free up space to develop more profitable high end products without losing



market share of their existing product range. And finally, YSPSAH saw huge potential in emerging Southeast Asian nations, like Vietnam, not only because of their fast economic development, but also because they play home to large populations, which presented an opportunity in terms of growing the company's customer base.



While YSPSAH is very well capitalised and cash flow strong, they needed a banking partner that would help them ensure they had adequate funding to support their investment and expansion to Vietnam.



In January 2008, YSPSAH purchased a plot of land located in Nhon Trach 3 Industrial Zone in Dong Nai Province, Vietnam, with plans to build a manufacturing plant to produce veterinary products. They acquired the 68,000m<sup>2</sup> plot of land for a purchase consideration of US\$2,278,000, calculated at the rate of US\$33.5/m<sup>2</sup>, using their internal cash reserves and planned to spend US\$7.5 million (MYR 32 million) on the construction and development of the plant.

While the company is very well capitalised and cash flow strong, they needed a banking partner that would help them ensure they had adequate funding to support their investment and expansion to Vietnam. And as a Malaysian company, they were keen to work with a bank that not only shared similar values, but also offered an Islamic banking financing solution that was Shariah compliant<sup>1</sup>.

YSPSAH were also keen to develop a long term relationship with a banking partner that not only supported its strategic vision, but may be able to provide support during economic downturns. And finally, given the fact that YSPSAH is expanding at such a fast pace, it was extremely

important that the banking partner's geographical footprint matched that of the company's strategic plans for the future. With this in mind, they turned to HSBC Bank Malaysia Berhad.

#### The solution

Having reviewed the company's plans for expansion, in 2007 HSBC Amanah Malaysia Berhad supported the financing of the Vietnam plant by providing a five year fixed rate term financing facility of US\$4.65 million (MYR 19.728 million), which was drawn down progressively.

A substantial shareholder in YSPSAH is Lembaga Tabung Haji, the Malaysian hajj pilgrims fund board. As such, it is important that a certain percentage of the company's investments are funded using Islamic financing solutions. With local expertise on the ground, HSBC Amanah Malaysia Berhad was able to provide a suitable Islamic financing facility which was attractive to YSPSAH because of the 20% reduction on stamp duty for Islamic facilities.

<sup>1</sup>Shariah Law prohibits acceptance of specific interest or fees for financing (known as riba, or usury), whether the payment is fixed or floating.

And finally, because of the company's regional presence and global network, YSPSAH were looking for a banking partner that could provide international support, solutions and advice. As such, it made sense to approach HSBC due to the bank's extensive geographical footprint – which includes both Malaysia and Vietnam.

### The results

YSPSAH was very careful to ensure they had adequate funding to support their investment and expansion to Vietnam, and because the company enjoys such a strong cash position, the financing was successfully settled by YSPSAH on 18 January 2013.

As a direct result of the financing solution, the installation and commissioning of machinery and equipment in the veterinary factory was completed by the end of 2010, marking an important milestone and a significant achievement for YSPSAH. Today, with manufacturing facilities in Malaysia and Vietnam, YSPSAH is well positioned to make its mark as one of the leading pharmaceutical companies in the ASEAN region and can now capitalise on opportunities presented by the competitive landscape. GMP approval for the veterinary factory in



Nhon Trach 3 Industrial Zone, Vietnam was received in April 2011, and to date 32 products have been registered. The Vietnam plant commenced operations in September 2011, and now supplies not only the domestic market in Vietnam, but also other ASEAN and African markets.

## ASEAN members forge ahead with financial integration

Integration of Southeast Asia's varied financial and banking systems, is recognised as a key component in making the ASEAN Economic Community a success.

An integrated banking market reduces costs by enhancing competition and allowing institutions to achieve economies of scale, through serving a larger customer base, pooling skilled labour and consolidating back office functions such as data centres. Greater integration also promotes the emergence of more globally competitive institutions with more sophisticated capabilities.

Transaction costs could also be reduced, and there could be significant efficiencies in cross-border payments by avoiding using US dollars as an intermediate step when converting from one ASEAN currency to another. This would lower the costs to businesses and individuals when sending cash transfers across countries, according to the McKinsey Global Institute.

An integration of the region's banking sectors will also benefit those countries at a lower stage of development, through transfers of financial technology from developed member states to help them increase the availability of banking services to their own people. The process is also necessary to build up a customer base, sufficient to support the growth of large competitive banks, an evolution now taking place as a result of mergers and through the acquisition of smaller banks.

The ASEAN Financial Integration Framework (AFIF), adopted by the region's Central Bank Governors and endorsed by ASEAN Finance Ministers, envisages a region more financially integrated by 2020.

The Framework aims to remove restrictions to the intra-ASEAN provision of financial services by ASEAN financial institutions and to build capacity and infrastructure to develop and integrate the capital markets in the region. The strategy also aims to increase the flow of capital across the region.

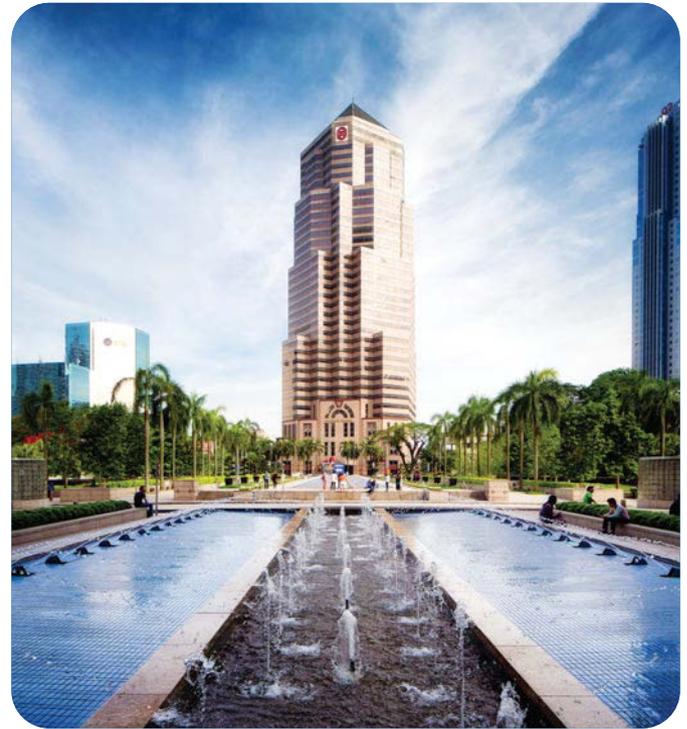
According to the Managing Director of Singapore's Central Bank, Ravi Menon, deeper financial integration will yield substantial benefits for ASEAN economies by helping to mobilise surplus savings more efficiently and channelling them to productive investment opportunities in the region.

Financial systems across Southeast Asia are at very different stages of development and vary in sophistication. Complex issues are involved and it is recognised that the integration strategy is going to take place at a slower pace than trade reforms.

Financial liberalisation involves the balancing of regulatory standards, market conduct practices, disclosure requirements, and licencing conditions. This process is therefore ongoing and recognised as necessary in order to consolidate the economic progress achieved in the region.

Singapore and Malaysia have the most developed financial markets in region and are expected to lead the integration of ASEAN's banking market. One reason is that banks in both these countries have very little scope for expansion in their domestic markets and are keen to expand in the region and internationally.

Singapore has a financial sector which is six times larger than its economy, with local and foreign banks holding assets worth US\$1.7 trillion according to Forbes magazine. Myanmar, in contrast is striving to work out how to re-engage with global finance and to rebuild a financial sector that was once the most sophisticated in the region. Drawing such institutions back to Myanmar is going to be a long process constrained by weaknesses in institutions and infrastructure.



Only a few ASEAN banks have region wide operations and then in only seven of the member states. These comprise Bangkok Bank, Maybank and United Overseas Bank. However, global commercial banks have a substantial presence in many parts of the region. Standard Chartered has subsidiaries in seven ASEAN states for example, and a representative office in three. Citibank and HSBC also have subsidiaries in three member countries.

The attitude towards the presence and entry of international banks varies considerably in member states. The Philippines in recent times, has decided to develop its financial sector to embrace foreign banking, according to Diwa Guinigundo, Deputy Governor of the Philippines Monetary Stability Sector.



Singapore has a financial sector which is six times larger than its economy, with local and foreign banks holding assets worth US\$1.7 trillion according to Forbes magazine.



The system's lack of scale is reflected in the ratio of bank lending to GDP in the Philippines which, after Indonesia, is the second lowest in the region. An estimated 80% of Filipinos do not have bank accounts, a statistic that also indicates an urgent need to expand domestic retail banking.

The change in direction was heralded by a new law in July 2014, allowing the "full entry" of foreign banks into the country in time for the roll-out of the AEC in 2015. The law allows domestic banks to be 100% owned by foreign interests. Previously, foreign entities were allowed to hold no more than 60% of shares.

The Governor of the Central Bank of the Philippines, Amando Tetango, highlights "the economic benefits that can be derived from a further opening of the Philippines banking system to foreign banks, through increased FDI that will be available to the domestic market, transfer of technology and enhancement of human resource skills."

Vietnam has taken a more constrained approach, and has loosened foreign equity restrictions in the country's banking sector more slowly. Individual foreign strategic investors are now able to take a 20% equity stake in a Vietnamese bank, up from 15% previously.

The authorities are hopeful that this will draw more capital into the country's banking sector, although the total share of equity outside investors are collectively allowed to hold remains unchanged at 30%. In

2015, the Government said it intended to change the rules to allow foreign investors larger stakes in local banks above this limit.

Despite the region's disparate banking structures over the last decade, ASEAN member states have made great strides to improve their defences against the type of financial instability that occurred in 1997, when a currency liquidity crisis in Thailand eventually spread throughout Asia.

A regional system of surveillance and mechanisms for mutual financial support such as the ASEAN Swap Arrangement and the Chiang Mai Initiative which followed the currency crisis, have provided stability to vulnerable countries at times of global uncertainty.

The multilateral currency swap arrangement agreed in 2010, at Chiang Mai in Thailand and backed by China, Japan and South Korea, allows countries in the region to access a US\$240 billion pool of currency when they face short term liquidity problems.

While ASEAN central banks have been supported as a result of inter-government arrangements, the financial sectors they oversee still need strengthening in most member countries. Measured by the size of their assets, banks are still small, which impacts on levels of efficiency and international competitiveness.

For ASEAN financial institutions, the way ahead means developing and expanding their assets to be able to compete against global players in

international financial markets,” according to the Asian Development Bank. (*ADB: The Road to ASEAN Financial Integration 2013*)

Despite this considerable challenge, ASEAN Finance Ministers and Central Bank Governors are determined to press ahead with liberalisation in the post AEC phase, leading up to 2020, says Ravi Menon.

The process will take into consideration the differing stages of development of the region’s financial sectors. ASEAN countries recognise that member states need to take different approaches to integration over a period of time to suit each member within the ASEAN Banking Integration Framework (ABIF), endorsed at the end of 2014. This agreement aims to achieve financial integration by 2020.

According to a statement made by ASEAN Finance Ministers and Central Bank Governors in March 2015: “The ABIF represents a critical milestone towards achieving greater financial and economic integration in ASEAN.”

In terms of capital markets, ASEAN has already made good progress in integration, starting with Thailand, Malaysia and Singapore with measures in place to balance disclosure requirements and broaden market linkages. As a result of the ASEAN Trading Link between the latter countries there is a single gateway to all three of their stock exchanges. This allows an investor in one country to buy shares in the other two markets through a local stockbroker.

ASEAN members have also agreed in principle to liberalise the cross-border supply of marine and aviation insurance in addition to goods in international transit insurance by 2016. This move will allow insurance companies to offer cover across ASEAN member states helping to reduce costs and encouraging intra-regional trade.

A key aim of the ABIF, is to allow ASEAN banks to establish operations in other member countries to support regionally based companies wanting to expand their business operations into other ASEAN countries. It provides a platform for qualified banks in the region

to enjoy greater market access and operational flexibility. Under the ABIF, banking liberalisation can be done on a bilateral basis and customised accordingly.

The ABIF is aimed at ensuring a more stable flow of funds in the region and increasing cross-border trade and investment. Under the framework agreement, ASEAN banks can sign reciprocal bilateral deals to operate in a partner country on the same terms as domestic financial institutions.

The immediate objective of the ABIF is said “to achieve a more integrated banking market, spearheaded by Qualified ASEAN Banks (QABs) which have the potential for a meaningful presence across ASEAN countries.” Any two ASEAN countries may enter into reciprocal bilateral agreements to provide QABs with greater market access and operational flexibilities consistent with those of domestic banks in their respective host countries.

The standards ASEAN banks will have to meet to qualify as a QAB and for reciprocal access to be granted, will be agreed bilaterally by national central banks and financial regulation authorities, comments Rajiv Biswas, Chief Economist for the Asia Pacific region at IHS.

“The new ABIF creates a mechanism for greater regional access for well capitalised and well managed ASEAN banks, which will improve their long term competitiveness and support their expansion across the ASEAN region. This is an important positive step for the long term growth of ASEAN banking institutions and is expected to improve their competitiveness against foreign banks from other countries,” Biswas says.

The ABIF platform is seen as complementing the broader economic integration of member states. More importantly it will help expand a group of strong pan-ASEAN banks with the scale and the capability to compete alongside global banks. “As ASEAN becomes an economic powerhouse, so must our banks,” says Ravi Menon.



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# The Rule of Law and ASEAN growth

David D. Doran, Partner and Chairman, DFDL Legal & Tax

It is widely accepted that the Rule of Law is critical for continued development in Southeast Asia. What does it really mean, and how does it affect growth and investment? While there are a range of views on how the Rule of Law can be conceptualised and measured, it is clearly one of the most critical conditions for sustainable economic growth, political stability and economic rights for citizens.

That said, high growth rates can and have been achieved in certain countries with poor implementation of the Rule of Law. Such occurrences are the exception, and it is very difficult to overcome the middle income trap without successful implementation of an economic, legal and political system based securely on the Rule of Law which includes the suppression of corruption and strong corporate governance principals.

What does become clear when reviewing the data is that the countries with the highest wealth (as measured by GDP) also score high on ease

of business, Rule of Law and corruption indices. Conversely, those with lower wealth indicators score lower on these indicators.

Singapore, for instance, ranks 5th in the world on wealth, 1st on ease of doing business, and 9th on the World Justice Project's Rule of Law Index, which takes into account factors such as the absence of corruption, open government, order and security, regulatory enforcement, civil justice and criminal justice. Unsurprisingly, Singapore alone accounts for around 50% of all inbound ASEAN Foreign Direct Investment (FDI). A large amount of this FDI ends up flowing through to other ASEAN nations as investors use the city state as an intermediary, taking advantage of the added regulatory protections that an advanced Rule of Law offers. While growth is dependent on a number of factors, an established Rule of Law significantly contributes to investor confidence.

ASEAN countries have been turning their attention to these issues for the past five to ten years with varying degrees of success. A number of

commentators have recently been asking whether ASEAN itself should take greater steps to encourage and promote this process within its member states. This article looks at ASEAN measures related to the Rule of Law and what the future may hold.

### Rule of Law

There is a spectrum of approaches to conceptualising the Rule of Law. At one end is a 'formal' list of key prerequisites, at the other a broader, more 'substantive' understanding that adds qualitative elements and assesses the content of the law. A combination of the two approaches yields the four fundamental pillars of the Rule of Law:

1. Government and its officials are accountable under the Law;
2. Laws are equitable, clear, published and fair, protecting fundamental rights;
3. The process by which laws are enacted, implemented and enforced is transparent, fair and efficient; and
4. Justice is accessible to the public and judicial officials are competent, independent and ethical.

Based on this definition, the key ingredients of a Rule of Law based system is reduction in corruption, protection of economic rights and good corporate governance (both private and public).

### ASEAN: The early years

The Rule of Law has been a key pillar of ASEAN from the beginning. Officially inaugurating ASEAN in August 1967, the Bangkok Agreement was a two page list of shared aspirations that required no ratification by its signatories. In the context of a growing fear of communism and existing regional distrust due to prior military confrontations, a key purpose expressly stated by the fledgling body was the promotion of



regional peace and stability through abiding respect for justice and the Rule of Law. Other ambitions included the expansion of trade and the raising of living standards.

The Agreement was quintessential of the so-called 'ASEAN Way': a non-binding understanding reached through the consensus of a diverse group of nations that ensured little to no erosion of their individual sovereignty. While justice and the Rule of Law was a worthy aspiration, it was by no means a requirement imposed on members. The evolution of ASEAN was intermittent over the ensuing decades, mostly consisting of a handful of practical trade measures that carried limited legal obligations. Such agreements included the 1977 Agreement on ASEAN Preferential Trading Arrangements, 1981 Basic Agreement on ASEAN



Adopted in November 2007, the ASEAN Charter represents a significant paradigm shift in the approach to integration, including promotion of the Rule of Law.



Industrial Complementation, and 1987 Agreement for the Promotion and Protection of Investments.

The ASEAN Way approach to integration initially saw limited progress as member states relied largely on consensus building and sought not to pressure each other (or themselves) into legally binding standards. It was not until the signing of the ASEAN Free Trade Agreement (AFTA) in 1992 that member states were faced with significant obligations to ratify a clearly defined framework in their respective legislatures. Since then, a proliferation of agreements have been formalised that required substantial ratification and implementation by each member state. This process began to stimulate the development of the Rule of Law following certain norms within member states, albeit almost exclusively related to economic and trade matters.

One can contrast the original ASEAN Way approach with the binding requirements for accession to the World Trade Organisation (WTO), now ratified by all ASEAN member states, requiring parties to promulgate a whole range of laws and regulations to be accepted into the WTO club. This has contributed to substantial improvements to the Rule of Law, especially in the less developed ASEAN member states.

#### **The ASEAN Charter**

Adopted in November 2007, the ASEAN Charter represents a significant paradigm shift in the approach to integration, including promotion of the Rule of Law. Although the Charter tends to focus on diplomacy and does not necessarily do away with the ASEAN Way of consensus, it does

outline a number of binding elements and important goals. The goals laid down for the ASEAN member states will have serious ramifications for the region as they are implemented.

One such goal relating to the Rule of Law is found in Article 1.7 of the ASEAN Charter which states that one of the purposes of ASEAN is to “strengthen democracy, enhance good governance and the Rule of Law, and to promote and protect human rights and fundamental freedoms”. While the Rule of Law is not specifically defined, this reference could be used by ASEAN policy makers to pursue a more substantive application of the Rule of Law among its members than under existing agreements. However, Article 1.7 also offers substantial leeway for interpretation, adding the caveat, “with due regard to the rights and responsibilities of the Member States of ASEAN.”

ASEAN Secretary General, Le Luong Minh, acknowledges that while core elements of the Rule of Law should include substantive elements such as equality before the law, “the application of this concept into national political systems and legal structures varies greatly according to the specific contexts and capacities.” Although the ASEAN Charter offers a useful framework for each of its member states to take into consideration, it is effectively up to each state to decide how they should adopt and observe the Rule of Law.

#### **The AEC and the Rule of Law**

While the ASEAN Economic Community (AEC) requires certain changes to domestic legal systems in order to improve trade and investment

among ASEAN members, it imposes only a limited number of obligations related to the Rule of Law. Article 9 of the AEC Blueprint states that ASEAN will establish a single market and production base through the free movement of goods, services, skilled labour and capital. The AEC effectively consists of a series of agreements to address these goals, including the ASEAN Trade in Goods Agreement (ATIGA), the ASEAN Framework Agreement on Services (AFAS) and the ASEAN Comprehensive Investment Agreement (ACIA).

Perhaps the most significant of these agreements from a Rule of Law perspective is the ACIA which came into effect in 2012. This agreement requires modification of domestic legal regimes in order to liberalise investment regimes, protect investors, ensure transparency of investment regulations and promote the region as an investment destination. Regulatory transparency and the protection of investor rights are, of course, key components of a Rule of Law based society.

There are a number of specific elements in the ACIA that address Rule of Law issues. Articles 5 and 6, for instance, provide most favoured nation treatment for investors and investments from other member and non-member states. These provisions are intended to target the Rule of Law components of equity and fairness. Articles 13 and 14 ensure that capital can move freely across borders and that investments are not expropriated without due process, addressing fair judicial process and economic rights. In addition, Article 21 provides that member states must make laws and regulations publicly available in order to enhance transparency. This is perhaps the strongest Rule of Law provision in the Agreement, targeting transparency through the publication of laws.

### **Judiciary and dispute mechanisms**

While a number of ASEAN agreements address resolution of disputes through international or regional dispute resolution procedures, none contain measures that impose standards on judicial process, conduct or composition.

One such dispute mechanism is through the 1976 Treaty of Amity and Cooperation (TAC), which applies to disputes that are outside of ASEAN agreements and has been ratified by all member states as well as a number of key ASEAN trading partners. The TAC sets out that disputes should be settled through direct negotiation, with unresolved disputes referred to a High Council made up of representatives from all ASEAN member states as well as the states of the disputing parties. The High Council can then recommend an appropriate dispute mechanism.

Conversely, the ASEAN Protocol for the Enhanced Dispute Settlement Mechanism (EDSM) applies to disputes directly relating to ASEAN agreements. Confirmed in 2004, the EDSM procedure initially requires consultation between the disputing parties, followed by referral to a panel facilitated by the Senior Economic Officials Meeting (SEOM). Either party can appeal the recommendations of the SEOM panel to a body convened by the ASEAN Economic Ministers. The ultimate appellate body is the ASEAN Summit itself, made up of the heads of state, including those of the disputing parties.

The TAC and EDSM are closely modelled on the WTO dispute mechanisms. Unsurprisingly, several ASEAN member states have opted for the tried and tested WTO procedure in recent years, rather than utilise the TAC or EDSM. It is worth noting that all ASEAN member states are also party to the New York Convention which binds signatories to recognise foreign arbitration awards.

Finally, there is also an Investor State Dispute Mechanism (ISDM) under the ACIA. Similar to ISDM provisions found in many free trade agreements, a private investor is able to make a claim against a host state that breaches its obligations under the ACIA where that breach causes loss or damages. The investor must first seek conciliation before it can request formal arbitration proceedings. Arbitration can occur through a variety of forums, including an ASEAN regional arbitration centre, the courts of the host state in question, the International Centre for

Settlement of Investment Disputes (ICSID), or the United Nations Commission on International Trade Law (UNCITRAL). However, the ACIA provisions are only applicable to agriculture, fishery, forestry, manufacturing, mining, and related sectors. Like the TAC and EDSM, the ISDM provisions under the ACIA are yet to be utilised.

### Anti-corruption measures

Reducing corruption is a critical measure for achieving sustainable growth and higher value FDI. Transparency International's Corruption Perception Index indicates mixed results for ASEAN member states, with some showing significant improvement while others languish behind. Although perceptions may not be directly related to the level of actual corruption in a member state, the index encourages governments to address corruption in order to improve their comparative advantage and the FDI that follows. In light of this evidence, and the AEC Charter's initial guiding principal to "... enhance good governance and the Rule of Law, and to promote and protect human rights and fundamental freedoms" it is surprising that no major ASEAN corruption initiative has taken root to date.

That does not mean that ASEAN member states are ignoring the issues. To the contrary, almost all have started their own intensified anti-corruption campaigns, including improving the anti-corruption legal infrastructure. Significantly, all ASEAN member states are now signatories to the United Nations Convention on Anti-Corruption (UNCAC), the most comprehensive and binding agreement of its kind. Accession to



UNCAC requires a commitment to implement specific laws and measures aimed at preventing bribery, embezzlement, abuse of power and trading in influence as well as corrupt practices in the private sector. UNCAC closely monitors implementation and offers assessment review, policy guidance and technical assistance to member states in order for them to ratify the agreement.

In addition, the Asian Development Bank (ADB)/OECD Anti-Corruption Initiative has been signed by all ASEAN member states, with the exception of Brunei, Lao PDR and Myanmar. Offering further policy analysis, dialogues and guidance to its 31 signatories, implementation of the UNCAC is a key priority of the initiative. As such, it is an important additional plank to combat corruption through the implementation of measures that reinforce the Rule of Law.

### Corporate governance

Through its focus on anti-corruption, legal compliance and stakeholder rights, good corporate governance can also be a significant contributor to the creation of a society based on the Rule of Law and the reduction of corruption. In addition to good governance codes originating from corporates themselves, ASEAN member states have also embarked on some significant initiatives.

One of the most notable is the path taken by Thailand after the 1997 Asian financial crisis in order to significantly improve good governance within its listed and private companies. A raft of reforms were passed in the aftermath of the crisis to improve the rights of minority shareholders, strengthen the role of company audit committees, increase oversight of financial institutions by the Bank of Thailand and limit potential conflicts of interest on company boards, among others.

This has had a dramatic effect, catapulting Thailand to the lead of good corporate governance tables, including the ADB ASEAN Corporate Governance Initiative, which conducts annual surveys of the top listed companies in each member state and produces an annual scorecard based on the results. The scorecard reports assess the following OECD Principles of Corporate Governance:

- A. Rights of Shareholders
- B. Equitable Treatment of Shareholders

- C. Role of Stakeholders
- D. Disclosure and Transparency
- E. Responsibilities of the Board

The 2013-2014 ASEAN Corporate Governance Scorecard covered Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam, indicating specific achievements for each as well as recommendations for areas of improvement. As with the Corruption Perception Index, it is expected that such assessments will provide guidance and encourage governments and corporations alike to adhere to principles of good corporate governance in order to improve the investment environment.

### Conclusion

In short, the Rule of Law is a work in progress in ASEAN. While the Charter identifies it as a key component of the association, the various ASEAN agreements adopted since have resulted in little progress in bringing Rule of Law issues into the ASEAN mainstream. Meanwhile, a variety of concurrent international agreements and domestic laws have filled the gap to some degree. ASEAN policy makers are now considering whether they should focus more directly and robustly on Rule of Law issues, including anti-corruption. The steps taken in improving corporate governance are certainly significant and perhaps similar initiatives against corruption will gain momentum in the near future.



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# Investing in ASEAN: Five top considerations

EY

2015 is a landmark year for ASEAN, as the ASEAN Economic Community (AEC) culminates in an integrated economic region that promises even more to come in the next decade.

In 2007, the Association of Southeast Asian Nations (ASEAN) conceived the ASEAN Economic Community (AEC) Blueprint, which visualised an integrated economic region by 2015 marked by the free flow of goods, services and labour between member countries. To achieve this ambition, the AEC identified four key pillars, which would be the basis of all associated measures:

- A single market and production base
- A competitive economic region
- A region of equitable economic development
- A globally integrated regional economy

In May 2015, the ASEAN Secretariat indicated that over 90% of the AEC's high priority goals have been achieved. The ASEAN Economic Ministers are identifying, prioritising and putting into action measures that would boost the implementation rate to 95% by the end of the year.

Although the progress of integration has been slower than expected, the overall momentum around policy changes and integration efforts – many of which have been highly challenging – has been very encouraging and positive.

As an economic region, the potential and opportunities that ASEAN brings are overwhelming. With a population of more than 600 million, rapidly burgeoning middle-class, young demographics, and new frontier markets such as Myanmar, ASEAN promises to be an economic “hot-spot” region that, in the long run, investors cannot ignore.

## ASEAN in the next decade

- Southeast Asia may overtake China as the world's leading manufacturing centre in the next 10-15 years<sup>1</sup>
- The median age in ASEAN will increase from 28.8 in 2014 to 32.2 by 2025.<sup>2</sup>

*Based on 2014 estimates from CIA World Factbook and Oxford Economics*

- Brunei: 29.3
- Cambodia: 24.1
- Indonesia: 29.2
- Lao PDR: 22.0
- Malaysia: 27.7
- Myanmar: Not available
- Philippines: 23.5
- Singapore: 33.8
- Thailand: 36.2
- Vietnam: 29.2
- Overall ASEAN, as weighted by population in 2014: 28.8

- Intra-ASEAN trade will exceed US\$1 trillion by 2025, while extra-ASEAN trade with the G4 economies will hit US\$3.7 trillion<sup>3</sup>
- Between 2015 and 2025, ASEAN's population is forecast to grow by 63 million people - nearly the same population as the United Kingdom - to 695 million<sup>4</sup>
- By 2025, two thirds of ASEAN's urban population will reside in cities with 500,000 people or less. Urban areas of this size will account for most of the region's population growth.<sup>5</sup>
- ASEAN will be among the main drivers of global energy demand by 2030.<sup>6</sup>

<sup>1</sup> ANZ Banking Group

<sup>2</sup> World Bank/United Nations projections, Oxford Economics

<sup>3</sup> ANZ Banking Group

<sup>4</sup> Oxford Economics

<sup>5</sup> Nielsen

<sup>6</sup> International Energy Agency

Whether to the investor who is familiar with ASEAN and looking at expansion possibilities, or the investor that is new to ASEAN, it is immediately obvious that ASEAN is a highly diverse economic region with the respective countries at widely varying levels of economic maturity and development. This means that the infrastructure, the processes and operating environment for new investors that are looking at opportunities can be varied and confusing. The effort needed to navigate the web of myriad rules and complexity cannot be underestimated: investors should do sufficient homework prior to taking the leap.

Below we highlight the top five issues that investors should be aware of when operating in ASEAN.

### 1. Setting up in ASEAN

With any new investor venturing into ASEAN, the first obstacle is usually the setting up of a business in a specific country within ASEAN. In fact, one of the biggest challenges that investors face in setting up business in ASEAN is the need for clarity and certainty in local laws, government policies and legal environment. Some examples of these include amendments to important legislations with little or very short notice, or arbitrary interpretation of laws or policies, outdated rules and regulations.

Other issues that investors may face include complicated procedures or long delays. For example, to set up business in ASEAN, the number of procedures required for business can range from 3 to 15, and the processing time ranges from 3 days to 104 days! In addition, there are multi-layer approvals for licences, with some ASEAN countries requiring licences from various Government Ministries before commencing business operations. Even in the same country, regulations can differ in different states. Setting aside adequate time and having guidance on the local practice and rules is critical in ensuring a smooth process.



### 2. Foreign equity rules and restrictions

Many ASEAN countries continue to have restrictions in specific sectors on foreign ownership. Thus, prior to embarking on an investment, investors should determine whether the proposed business activity falls within the restrictions.

One of the common sectors that remain heavily restricted is the financial sector, and the journey towards an ASEAN integrated financial system remains in its embryonic stages. With the impending AEC, and the economic advancements that ASEAN is making in leaps and bounds, this is an area that the various ASEAN countries are constantly refining and liberalising. Understanding the restrictions and policy considerations behind potential liberalisation schedules will be an important consideration.



2015 is a landmark year for ASEAN, as the AEC culminates in an integrated economic region that promises even more to come in the next decade.



### 3. Market access

With the opportunity to access the aggregated market in ASEAN, the ability to have free flow of goods in and out of ASEAN is an important consideration for all investors.

This is an area that has made strong progress in ASEAN over the last decade. Six ASEAN member states – Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand – have eliminated tariffs on almost all goods that are produced and traded within ASEAN under the ASEAN Trade in Goods Agreement or ATIGA. Newer members such as Cambodia, Lao PDR, Myanmar and Vietnam have committed to eliminate tariffs on such goods by 2015, with some flexibility to extend the deadline to 2018.

However, while tariffs on goods have significantly been reduced or eliminated, investors need to recognise that non-tariff barriers to cross-border trade remain.

For example, even though ASEAN has established a common eight digit tariff classification system, in practice, it is still common for importing customs authorities to adopt differing product classifications and deny benefit of ATIGA preferential duties. This is on top of other gaps, including the disparity in the time taken for goods to clear customs, which can range between 4 to 26 days across ASEAN countries. The time that goods await customs clearance can result in unnecessary inventory and

other logistics costs. Other challenges such as old or outdated ports and airports, poor use of technology and electronic data interchange in customs clearance and port handling, can also hamper cross-border trade.

### 4. Labour availability and mobility

The ability to have free flow of labour within and into ASEAN is another important consideration for investors. In recognition of this, the AEC blueprint has included measures to facilitate mobility for people and services as part of achieving the vision for a single market and production base in the region.

In addition to streamlining or relaxing rules around the issuance of visas and employment passes for professionals and skilled labour who are engaged in trade and investment, the AEC provisions target the development of core competencies and qualifications for occupations across service sectors, as well as the strengthening of labour market information and job placement networks across ASEAN member states.

While there has been measurable progress towards enabling the free flow of skilled labour, the number of Mutual Recognition Agreements (MRAs) that have been signed to date is limited and a range of existing domestic regulations and labour laws continue to present obstacles that slow the full implementation of these agreements and hinder the mobility of highly skilled professionals around the region.

In most of the ASEAN countries, the relocation of expatriates into the country to oversee new investments is typically possible, although varied immigration rules and procedures would apply. In addition, restrictions in the number of expatriate positions would generally be applicable as well. Depending on the nature of the investment to be made into ASEAN, these factors would have to be taken into consideration too.

### 5. The tax environment and opportunities and incentives

When it comes to making business investment decisions in overseas economies, there are many factors to consider. Taxation is certainly one of these important factors.

With the global tax environment undergoing unprecedented shifts, driven primarily by the OECD Base Erosion and Profit Shifting (BEPS) initiative, tax has taken a more prominent place on the business agenda. In assessing the tax environment, tax complexity and uncertainty, in addition to tax rates, is also an important factor in investment decisions.

ASEAN is currently a diverse region with ten different tax systems in place. The number of different taxes that are applicable within each of the ASEAN countries varies significantly, with Brunei having the lowest number of five tax types and Vietnam having the highest of 12 different tax types. Such variance can also be seen in terms of the headline corporate tax rates of the various ASEAN countries, which range from 17% to 30%, with Singapore being the lowest and the Philippines the highest.

Other than differences in key features in the tax system, there are also significant variances in tax administration resulting in a myriad of rules and regulations that can be challenging for investors. An example

would be in managing transfer pricing, which businesses consistently view as their most important tax concern. Rules and documentation requirements, and most importantly how these are implemented in practice, vary widely across ASEAN.

On the positive side, Governments in the ASEAN states have traditionally been heavy users of incentives as a fiscal tool towards attracting Foreign Direct Investment (FDI) into their respective countries. With the current wave of optimism towards ASEAN, the respective ASEAN countries have been stepping up efforts to enhance and develop initiatives to ensure their continued attractiveness. Such initiatives include investment incentives in the area of corporate and personal income tax concessions, subsidies, relaxation of regulatory requirements as well as land use concessions. Any investor considering significant investments into ASEAN would find it worthwhile to consider due diligence in this aspect to obtain the maximum benefits.

### Future of ASEAN

Clearly, while progress has been made towards achieving the measures set out in the AEC blueprint, much remains to be done as the economies in ASEAN develop.

However, opportunities in terms of market access, tapping the growth markets, and arbitraging on the cost differentials that ASEAN can bring, is immense too. The journey to addressing the above issues is likely to be slow and at times bumpy, but the direction is right.

With the immense latent potential in this region, investors cannot afford to ignore ASEAN or procrastinate on plans. At the same time, as with venturing into any growth market, proper due diligence is necessary to ensure a smooth and successful journey.

The writers are Yeo Eng Ping, Managing Partner for Tax in ASEAN, and Tan Bin Eng, Partner, ASEAN Business Incentives Advisory, EY. The views reflected in this article are the views of the authors and do not necessarily reflect the views of the global EY organisation or its member firms.

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# Harnessing unique ASEAN talents for investment growth

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The ASEAN Economic Community will streamline investment in Southeast Asia, letting companies focus the various elements of their business where it makes most sense.

If ASEAN were one economy, it would be the seventh largest in the world and is projected to rank as the fourth largest by 2050. It is no wonder that foreign investors are flocking to ASEAN countries in droves. The dream is to leverage the region's emerging consumer market, a rising middle class and increasing spending power - ASEAN has a combined GDP worth US\$2.5 trillion.

Much of the region's attractiveness is down to its enormous growth opportunities, and its status as one of the most important consumer markets of the future.

The dawn of the ASEAN Economic Community (AEC), is then, of huge importance to the future growth of Southeast Asia. The AEC will create a seamless pan-ASEAN manufacturing hub in a unified economy, instead of a group of very disparate and individual countries with their own regulations.

With China's population ageing and the workforce becomes more expensive, the formation of the AEC offers a unique opportunity to replace China and become the next "World's Factory" with its expanding workforce, youthful population and relatively low wages.

The downstream and upstream industries across ASEAN could actually come together to form regional value chains. Within a single market, multinationals could leverage a combination of countries with unique main economic sectors. They could perform labour intensive

manufacturing in Indonesia and Vietnam, before sending it to Thailand and Malaysia for higher technology assembly and export to the rest of the world through Singapore. The whole business could be supported by the BPO industry in the Philippines.

The diverse range of industrial specialisations in ASEAN would make the region suitable for a wide array of investors. Singapore and Malaysia specialise in electronic products, Thailand is a leading manufacturer of fast moving consumer goods and processed foods, while Vietnam and Cambodia focus on garments. Indonesia, Brunei and the Philippines are the main producers and exporters of natural resources such as palm oil, rubber, sugar cane, rice, cocoa, timber, petroleum, natural gas, coal and tin.

## Free trade still brings compliance risks

The integration of Southeast Asia economies under the AEC will undoubtedly stimulate intra-regional investment, trade and business connections, benefitting both foreign and local firms. However, while there are plenty of opportunities in ASEAN, the compliance and regulatory risks across the region can vary hugely due to the highly diverse cultures and political landscapes. Research conducted by TMF Group in 2014, discovered five out of six Southeast Asian countries reviewed (Indonesia, Thailand, Philippines, Vietnam and Malaysia) are among the 20 most complex countries to do business in the world.

In particular, tax rates and regulations are fast becoming the largest compliance burdens and expense items for foreign companies in the region. Understanding and managing the local administration and reporting requirements in numerous territories can therefore be

complex and time consuming, and can often distract companies from their key focus: managing and growing their businesses.

Yet in the TMF Group Global Benchmark Complexity Index, Singapore shines as one of the world's least complex jurisdictions in which to do business. The AEC, therefore, provides an opportunity for businesses to focus ASEAN investments where it best suits, making the most of the unique talents of each jurisdiction: a regional head office in Singapore, investing and operating across the region, perhaps?

Taking the time to anticipate and tackle local legal, accounting, tax, and HR and payroll issues is crucial to the success of expansion into Southeast Asia. Businesses should start their planning early and research the specifics of their target territory's political, legal and cultural environments, including its competitive landscape and workforce. They should also give serious consideration to working with third parties with a strong local presence, particularly in the early stages of territorial expansion.

Third parties include IT and global business services, as well as corporate secretarial service suppliers that can help constitute new subsidiaries and keep them compliant with local legal and working requirements. It might be beneficial to select a partner that operates across more than one jurisdiction. This will assist to smooth the transition to further markets should that be your long term goal and it will also accelerate the time to revenue.



In short, wherever in Southeast Asia you plan to expand, local knowledge is the key. Without it, companies can put themselves at serious risk of financial penalty or even prosecution. But for those willing to invest in getting it right, the opportunities are endless.

For more information, see the briefing paper "The ASEAN Economic Community: Capturing the zeitgeist of rising Asia", written by Paolo Tavolato, Head of Asia Pacific at TMF Group, available for download at [www.tmf-group.com/en/asean](http://www.tmf-group.com/en/asean)

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## Overview for Business Lawyers: Lao PDR, 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 Lao PDR, Myanmar and Thailand, which will not meet 2015 and other deadlines for full implementation of ASEAN Economic Community (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 these three 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 the 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, Lao PDR, Myanmar and Vietnam (CLMV).
- Different levels of isolation. Why the “distance” between most Myanmar and Thai citizens; could it be the 38 wars over four centuries, still reflected in primary school textbooks?

## 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.

*Lao PDR's schedules* include reference to the Law on Promotion and Management of Foreign Investment. The schedules include provisions stating that the commercial presence of foreign service suppliers will be allowed in the following forms: 1) a joint venture with one or more domestic Lao investors, 2) a wholly-foreign-owned enterprise, 3) a branch or representative office.

*Myanmar's schedules* include references to the Foreign Investment Law 1988, which has been superseded by the Foreign Investment Law 2012 (FIL), Foreign Investment Rules 2013 (FIR), 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.

- Five 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). Liberalisation of the following sectors 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.

*Lao PDR's reservations.* 18 sectors are listed as restricted to foreigners. The Law on the Promotion of Foreign Investment is cited as legislative grounds. Some exceptions exist where there is a joint venture with domestic investors and/or produced goods are 100% for export.

*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

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. Lao PDR and Myanmar are in group CLMV. Thailand is in the Group of Six.

The 47th ASEAN Economic Ministers' Meeting was held in Kuala Lumpur from August 22-25, 2015. During the conference the Ministers discussed recent global developments as well as the progress made with respect to the AEC and other economic integration objectives (*see AEM Post-Briefing and ASEAN press releases*). Lao PDR and Myanmar submitted revised ACIA reservation lists.

#### **Specific restrictions on foreign investment in Myanmar and Thailand**

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

**Lao PDR:** The 2010 Law on Investment Promotion introduced uniform business registration requirements and tax incentives that apply equally to foreign and domestic investors. Foreigners may invest in any sector or business except those that the Government deems to be detrimental to national security, health or national traditions, or to have a negative impact on the natural environment.

**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), Asian Development Bank (ADB) and other international organisations.

**Thailand:** The 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**

**Lao PDR:** There are no statutory limits on foreign ownership or control of commercial enterprises, but in practice, many companies seek a local partner. Companies involved in large FDI projects, especially in mining and hydropower, often either find it advantageous or are required to give the Government partial ownership.

**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 kind of foreign investments. In August 2014, new MIC notification 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. The 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 the free flow of skilled labour, ASEAN countries have signed a Mutual Recognition Arrangement for eight occupations to work in other ASEAN countries.

**Lao PDR:** To work in Lao PDR, a foreigner must have a business visa (B2 Visa) and a work permit and residence card. Under the Lao PDR Labour Law amended in 2006, a business can hire foreign workers, but must give priority to Lao citizens. Foreign employees can only make up a maximum of 10% of a company's unskilled labour force and 20% of its skilled labour force.

**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

**Lao PDR:** Many contractual documents are required to be notarised and registered in some way to ensure recognition of their legal validity. For

the purposes of notarisation and registration, a Lao language version must be produced. There are some exceptions to this; for example, big project documents entered into with the Government will sometimes explicitly state that they will only be in the English language.

**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

**Lao PDR:** Lao PDR courts and administrative bodies with enforcement capacity are not required by law or any treaty to honour, enforce or implement a foreign court judgment or order. In the absence of a relevant treaty requiring enforcement, it is unlikely that a foreign judgment would be enforced in Lao PDR without a complete retrial or a retrial on the major issues.

**Myanmar:** Myanmar law is the common choice of governing law, especially with state contracts. Myanmar courts will not accept

### Bilateral Investment Agreements (effective as of 31 August 2015)

#### Lao PDR has BIT with four ASEAN countries:

Indonesia, Singapore, Thailand and Vietnam.

#### 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 (effective as of 31 August 2015)

**Lao PDR had DTTs with five ASEAN countries:**  
Myanmar, Vietnam, Thailand, Brunei and Malaysia.

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

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

jurisdiction over a contract governed by foreign law, but will consider a foreign court judgment.

**Thailand:** Generally, parties to the contact 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

**Lao PDR:** Due to the under developed state of the Lao legal system and low capacity of most Lao legal administrators, foreign investors are generally advised to seek arbitration outside the country.

**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.

#### 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.

#### Websites

- 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](http://www.usasean.org)
- Thailand Board of Investment: <http://www.boi.go.th/>
- "A Looming Challenge: Myanmar obligated to comply with ACIA by 2015", April 2014, William Greenlee and Huy Luu, DFDL: [www.dfdl.com](http://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>
- ASEAN Capital Markets Forum" [www.theacmf.org](http://www.theacmf.org)
- "Thailand Free Trade Area, under the Department of Trade Negotiations" [www.thaifta.com](http://www.thaifta.com)
- "2015 ASEAN FDI Framework: the Key Aspects Investors Need to Know from a Practitioner's Viewpoint", [www.dfdl.com](http://www.dfdl.com)
- "The 47th ASEAN Economic Ministers' Meeting: Joint Media Statement" August 22, 2015, <http://www.asean.org/news/asean-statement-communities/item/the-47th-asean-economic-ministers-aem-meeting-22-august-2015-kuala-lumpur-malaysia>

# Interview with David D. Doran: Partner and Chairman, DFDL Legal & Tax

By specialist journalist to the region, Robert Bailey, on behalf of Allurentis | Oct 2015



David Doran

**(1) DFDL has recently been named “Most innovative ASEAN law firm 2015” by the Financial Times (FT). What do you think distinguishes your practice from other legal firms operating in the region. Can you give some examples of the type of innovations the award alludes to?**

Perhaps the key distinguishing factor, and innovation, is our focus on and expertise in the developing and less developed countries in Southeast Asia - what we call frontier markets. Another of our key innovations, as recognised by the FT, was our strategy to first establish offices in several frontier ‘spoke’ markets, building relationships and local expertise, before entering more developed ‘hub’ markets like Thailand and Singapore to better service international clients. Finally, our legal and management structure was from the beginning a corporate structure - which is quite unusual for law firms. This corporate structure allows us greater flexibility and

the decision making authority to adapt to the rapidly changing legal, political and economic environment in the region.

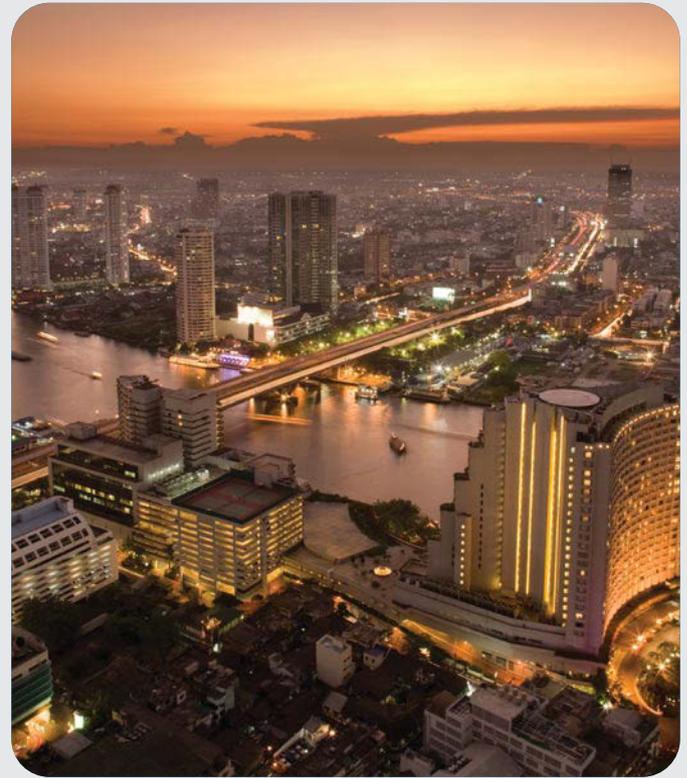
We were also recognised by the FT for a few of our recent innovative finance and energy projects. One which is typical of the leading role we play in opening up frontier markets involved our advice to lenders on the first non-recourse project finance loan in Myanmar. The borrower and developer was Pan Asia Majestic Eagle Limited (PAMEL), a Myanmar registered company. Our client, a consortium of International banks, successfully signed an US\$85 million finance agreement with PAMEL in order to fund the rollout of 1,250 3G telecoms towers for Ooredoo Myanmar (OML).

While the amount was small by project finance standards, the impact the successful deal will have on

encouraging the financing of other projects will be significant. We are now working on a second, much larger and more complicated financing of a power project, which builds on the PAMEL precedent and should serve as a truly transformational project in opening up financing for future energy and infrastructure projects in Myanmar. We were on the frontier of these sorts of transformational matters in Cambodia and Lao PDR and this is what defines the DFDL character and distinguishes us from others in these markets.

**(2) You have described DFDL as an international frontier markets firm. How mature do you consider the legal environment to be in Southeast Asia. Is the Rule of Law now firmly embedded in the ASEAN community?**

The maturity of the legal markets varies widely among ASEAN members, as do many other factors, so there is no clear answer to this question. In general, I can say that considerable progress has been made over the past 10 to 15 years in the less developed member states of ASEAN. This is due primarily to domestic and international efforts, not ASEAN efforts. While enhancement of the Rule of Law is a key principal for ASEAN, it has not been of substantial focus for the Association, as explained in the article I wrote for this edition. We hope that this will change over the coming years. There's certainly a growing awareness in the less



developed countries in ASEAN that a comprehensive Rule of Law based system is required if they want to move beyond the middle income trap. The accession to the WTO by several member states and the ASEAN Charter by all states in 2007 has certainly led to the rapid implementation of new legal frameworks across the region.

**(3) Can foreign firms enter all ASEAN member countries confident that sound global standards of jurisprudence exist?**

Jurisprudence is an area of weakness in a number of ASEAN member states. All investors, foreign and local, must be aware of this fact and must ensure their legal arrangements are as solid as possible up front. They

also must be aware that ASEAN is not only diverse in religious belief, ethnicity, culture and economic systems, but also in legal systems and jurisprudence. Local jurisprudence is based on English (common law), French, German, Japanese, Socialist, Islamic (Sharia), and customary traditions. Obviously, jurisprudence is less of a concern in the more developed economies, such as Singapore and Malaysia.

**(4) How do you view the protection of intellectual property (IP) rights in the ASEAN area?**

All ASEAN member states ratified the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) just prior to the ASEAN Charter in 2007, albeit Lao PDR only as observer to the agreement. This was a significant milestone as it introduced a minimum standard for IP protection across the region. I also understand around 80% of the ASEAN IP Rights Action Plan under the AEC has been implemented and that member states that haven't already done so are working hard to accede to the Patent Cooperation Treaty as well as the Madrid Protocol for trademarks. However, implementation of international and domestic rules can be weak and there's still a long way to go at the enforcement level in some countries. There is certainly a growing awareness of the importance of a solid IP regime for trade, especially as countries become net IP producers.

**(5) What have been the principal legal changes since DFDL was formed in 1994?**

Probably the most significant legal development in the last 20 years was the accession to the WTO by most ASEAN members in 1995, with the exception of Cambodia, Vietnam and Lao PDR that ratified it more recently. WTO accession required these countries to implement a whole range of new international standard laws and regulations, thereby encouraging them to take immediate large steps towards formation of a

solid legal infrastructure. The ASEAN Charter in 2007 was also an important milestone in that it formalised many of the previous ad hoc agreements and set binding targets for many member states across a range of policy areas.

**(6) What contributions has DFDL made to legal development in the region, in the formulation and improvement of legal documentation for example?**

DFDL has contributed in two key ways: firstly by providing technical assistance in drafting laws and regulations, secondly by developing precedent for business transactions.

By partnering with the governments of Cambodia, Lao PDR, Myanmar, Thailand, and Vietnam, DFDL utilises its international regulatory expertise and regional experience to help create tailored and ethical regulatory reform measures that account for the unique circumstances in each jurisdiction where we operate. These solutions must also be able to integrate with one another on a regional level in order to help ASEAN nations recognise their economic community integration objectives.

As first movers into the less developed ASEAN countries, much of the legal documentation we have developed over the years continues to be valid precedent for business transactions today, such as contract templates for joint ventures between the public and private spheres as well as contracts for cross-border power projects in the energy sectors of Cambodia, Lao PDR and Vietnam.

**(7) What big legal issues remain to be resolved in order to encourage Foreign Direct Investment (FDI) in ASEAN?**

There are several factors that need to be addressed to increase FDI in the region. Firstly, establishment of sufficient Rule of Law to facilitate and



Interaction among ASEAN countries has already increased significantly and it will continue to grow.



protect investments and provide a stable investment environment. These include initiatives to foster good corporate governance and combat corruption. Secondly, the reduction in non-tariff barriers such as customs fees and inefficient border inspection controls. Thirdly, the reduction and removal of the many foreign ownership restrictions as set out in the ACIA is the key to give substance to the AEC's ambitions of an open and competitive investment community among ASEAN investors. Currently most countries have carved out many foreign ownership restrictions from the liberalisation requirement. This also holds true for the free flow of labour - domestic legislation needs to match the regional vision. Finally, improvement in local judicial systems and enforcement of laws and decisions is required. All these elements increase investor confidence when assessing the region for new operations.

**(8) How do you view the prospects for the legal environment following the inauguration of the ASEAN Economic Community (AEC)?**

Echoing my response to the previous question, there are substantial legal changes necessary to bring the vision for the AEC into reality. However, with the inception of the AEC planned for the end of this year I expect the business environment to change much more rapidly, in turn bringing much

needed legal reform. This is not necessarily because regional policy makers and domestic law makers will bring change. Rather, once the economic forces of free trade (i.e. free flow of goods at zero tariff, with expedited customs procedures) are truly unleashed within ASEAN, the legal system will be forced to accommodate the more open trading environment. Interaction among ASEAN countries has already increased significantly and it will continue to grow, especially in areas such as logistics.

**(9) Is it possible to develop a common law system within ASEAN given its different Muslim, Christian and Buddhist traditions as well as varied colonial experiences?**

No. Even if it were possible, I don't think it is either necessary or desirable. First, I don't think there is a strong correlation between any given religious system and the legal systems of the various ASEAN states. Even those states where the populace is primarily Muslim, the prevailing legal system is English (Malaysia) and Dutch (Indonesian) with, of course, Islamic law influences. As highlighted previously, all the countries in the region have their own deep legal traditions. A better approach would be to establish norms of the Rule of Law which should be adhered to by all member states within their own unique legal traditions.

**(10) Does DFDL have a strategic direction in ASEAN to develop beyond the Mekong region to countries such as Malaysia, Indonesia and the Philippines?**

Absolutely, in fact we are already close to achieving our strategic goals in ASEAN, with our new Philippine focused practice group which works closely with our collaborating firm in the Philippines. With this offering, DFDL covers eight of the ten ASEAN member states (only lacking Malaysia and Brunei). We have also moved beyond Southeast Asia, with a Himalaya Practice Group (Bhutan and Nepal) as well as a Dhaka office that's been open for three years now. DFDL's strategy can be best described as a series of concentric circles, starting with the Mekong Region, moving outward to ASEAN, then frontier Southeast Asia, with the last potential target being frontier markets globally. But of course that will take a lot more time and effort!

**(11) What links does DFDL have with the major global legal firms?**

We enjoy very good relationships with many global and regional firms that rely upon DFDL's in depth, local experience in Southeast Asian emerging markets. Most global firms don't have the interest, or financial imperative, to establish offices in every developing country and generally only have a presence in the key hubs, such as Singapore and Hong Kong. We also have close relationships with domestic firms in key inbound markets, such as Korea, Japan and China.

**(12) China is a growing influence in the development of ASEAN economies. What affiliates does DFDL have in the People's Republic?**

As mentioned in my previous response, China is a key inbound market for DFDL – meaning we specifically target Chinese investors in our region. We have close relationships with many Chinese law firms and have worked with them on Chinese investments throughout the region. DFDL also has a dedicated China desk, whose focus is to attract and satisfy our Chinese clients. We also have a number of Chinese lawyers and business development staff on our team. Our multilingual Chinese

and international advisors provide a full range of services to entities operating from inside and outside the Greater China region. As such, we have provided extensive advice for numerous Chinese interests in the region, including China Datang, China International Water & Electric Co., ZTE, China Huaneng Group, China Southern Power Grid, China Power Investment, Sinohydro, China Development Bank, China Exim Bank, and Bank of China.

**(13) Is Myanmar the latest development focus for the firm and how is business shaping up there?**

Actually, the Philippines is our latest focus. However, DFDL certainly has a renewed focus on Myanmar as our business is growing very rapidly there. Within a year after Myanmar “reopened” for business we grew from just three lawyers to over 20, adding a new office in Naypyidaw. Keep in mind that DFDL and its predecessor has been established in Myanmar since 1995 and have represented various local and multinational companies, government agencies and NGO's on Myanmar matters over the years. As a result, DFDL is recognised as one of the top tier firms operating in Myanmar and we are well placed to share in further prosperity there as industry continues to grow.

**(14) What can DFDL contribute to the development of Myanmar's legal system?**

The same sort of contributions that we have made to the development of the Cambodian and Lao PDR legal system. We work closely with government on legal reform projects. We develop legal precedents. DFDL has already worked closely with the Myanmar Government on several projects, including the development of the legal and regulatory framework for sector wide power reform, drafting of the implementation rules for the new Electricity Law, and establishment of an autonomous regulatory authority. As such, we have a strong record of contributing to the development of law in Myanmar, and will continue to do so in future.

## Gas resources boost ASEAN's energy strategy

ASEAN's fast expanding economies and growing populations mean a rising consumption of energy resources especially oil & gas. The problem for the region is that its crude oil resources are depleting rapidly due to rising domestic consumption resulting from sustained GDP growth.

The situation varies across the region though with Brunei Darussalam and Malaysia still net exporters of oil. In these countries oil & gas revenues are still a bulwark of their economies, notably in Brunei Darussalam where hydrocarbon exports account for 85% of the Sultanate's GDP.

Elsewhere the picture is different. Indonesia is still the largest ASEAN oil producer with 890,000 bpd of production and was once a leading member of OPEC, but became a net importer of crude oil in 2004. Overall Southeast Asia's petroleum production peaked at 2.9 million bpd in 1996. However, new crude discoveries have not kept pace with demand as the region is now a net importer of oil.

The International Energy Agency (IEA) has estimated 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 around 30% in this period.

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.

At the end of 2012, Malaysia's proven oil reserves were four billion barrels. These are located mainly offshore from 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 most promising areas for exploration are considered to be the Cuu Long, Nam Con Son and Malay Basins, offshore from southern Vietnam.

Clearly the task of securing energy and future oil supplies is a priority for countries in the region though the challenge is far less daunting in respect of gas. Southeast Asia's proven gas reserves at the beginning of 2013, mostly located in Indonesia and Malaysia, were around 7.5 trillion m<sup>3</sup> (tcm), representing 3.5% of total world reserves.

While oil production in Indonesia has been in steady decline for 20 years, its gas production has been increasing, reaching 81 billion m<sup>3</sup> (bcm) in 2011. There is substantial scope to develop production further. Indonesia'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.

Inadequate infrastructure is the biggest impediment for potential producers, as most gas resources are located in outer islands of the archipelago, a long way from customers in Java. Transportation improvements will also be the key to unlocking Myanmar's considerable potential for increased gas production.

Most of the country's current production comes from fields in the Andaman Sea which mainly supply customers in Thailand. Production is also ramping up at the offshore Shwe Field in the same area.

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

Brunei Darussalam has also sustained its gas output at 12 to 13 bcm a year, in spite of the Sultanate's declining oil production. Southwest Ampa is its largest producing gas field, though future prospects are thought to hinge on exploration in the deep waters of the Baram Delta. Most of the gas production feeds the Brunei Liquefied Natural Gas (LNG) liquefaction plant, from which it exports to Japan and Korea under long term contracts.



Malaysia, with proven gas 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 also grown steadily over the last ten years, reaching nine bcm a year. The Lan Tay field in the Nam Con Son Basin, located offshore from southern Vietnam, provides almost two thirds of the country's total output. New developments in the Non Con Son Basin are projected to boost Vietnam's total gas output in the short term. Prospects are also promising in the largely unexplored Song Hon Basin and other areas in the South China Sea.

Thailand's gas, as well as its oil deposits, is 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 North Sumatra has also 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 the balance for new refineries. Gas though requires the largest sum of US\$460 billion, reflecting the increasingly high costs of development and the need for expanded gas transmission and distribution infrastructure.

#### **ASEAN countries increase their LNG role**

The region is one of the world's main suppliers of LNG. This product, which has been reduced to 1/600th of its original volume, through a liquefaction conversion process at cryogenic temperatures, into liquid form, is ideally suited for shipment over long distances where pipelines do not exist.

The region has around 90 bcm LNG liquefaction capacity per year. This accounts 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, with 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 Southeast Asia to export LNG starting in 1972, and is still an important exporter. Malaysia and Indonesia were also early pioneers in LNG trade and both are big 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. Indonesia ranks as the world's fifth largest LNG exporter and is building two more liquefaction plants on the island of Sulawesi at Sengkang and Donggi-Senoro.

Promising new 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 areas in remote locations such as the Arafura Sea in East Indonesia, where an FLNG project is planned.

The availability of infrastructure will be an important determinant of future exploration activity and production growth. Many of Southeast Asia's production areas are located far from demand centres and will require either an expansion of transmission infrastructure or LNG liquefaction projects to ship the gas to regasification terminals at home or abroad. Singapore and Malaysia though with already sizeable facilities in place, have ambitions to become hubs for both regional and global LNG trade in the future.

## Renewable energy helping to lessen reliance on fossil fuels

Southeast Asia's demand for electricity is growing rapidly, spurred by industrialisation and the needs of communities still unconnected to any form of grid system.

Regional cooperation is providing a way forward since there is no shortage of energy resources in ASEAN member states. These range from oil, natural gas and coal to the very large potential of renewable energy particularly, solar, wind, hydro, biomass, geothermal and eventually nuclear power.

ASEAN members signed a Memorandum of Understanding in 2007, agreeing to strengthen and promote a broad framework to cooperate towards development of a common policy on power interconnection and trade, and ultimately towards the realisation of a regional power grid. There are a series of interconnection projects under consideration. Inevitably though developing a borderless electricity industry is a long term project.

However, tangible progress is being made. According to Dr Maximus Ongkili, Malaysia's Minister for Energy, Green Technology and Water, his

country's grid is now strong and sufficiently sustainable and up to international standards, for the country to participate in the ASEAN Power Grid (APG) initiative.

Near term developments could include electricity interconnections between Malaysia and the Indonesian island of Sumatra, Peninsular Malaysia and Sarawak and Sabah and between Sabah and the Philippines, Dr Ongkili said during a regional meeting of the International Council on Large Electric Systems in August 2015. Malaysia and Singapore were already able to offer mutual assistance on power supply, he pointed out.

Singapore, Thailand, Lao PDR and Malaysia launched a study in 2014 on regulatory, legal and commercial issues related to cross-border trade in electricity. (*Straits Times 30/10/14*)

Links between Thailand and Peninsula Malaysia, and from the latter to Sumatra are projected. Power supply agreements between Thailand and Lao PDR are also planned as well as between Lao PDR, Vietnam and Cambodia.

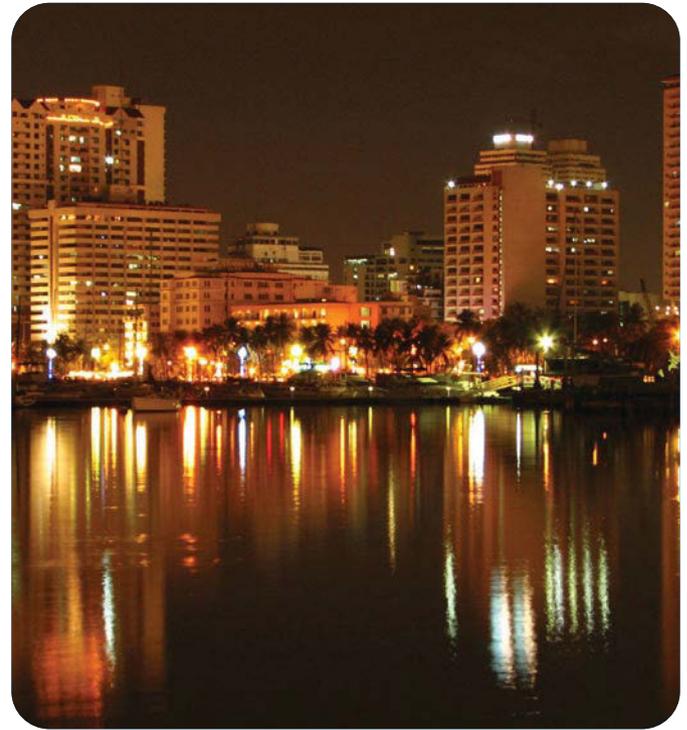
Pressure to improve the supplies of electricity is increasing both from industrial users and communities, particularly in rural areas, who at best only have intermittent supplies of electricity.

One of the most pressing issues for Southeast Asia, is that up to one fifth of its population does not have access to a power supply which holds back both economic and social development. The energy shortage is most apparent in the less developed ASEAN members such as Myanmar, Lao PDR and Cambodia. However, an electricity deficit is also felt in remote islands in Indonesia and the Philippines which are difficult to connect to mainland grids.

Another challenge for electricity sector planners is that primary energy demand for fuel used to generate electricity among ASEAN member states is projected to double by 2035 from 2010, while the rise in the Philippines is expected to be even higher.

Demand for energy in the Philippines is growing across all sectors and peak electricity consumption was starting to exceed supply in 2014. In order to address demand, coal based generation has been increasing and is expected to overtake oil as a fuel sometime after 2025, and account for the largest share of primary power supply in 2035 at 37.5%.

"This runs counter to ASEAN's desire to pursue a low carbon energy path, though the Philippines is not alone. Fossil fuels dominate in the region, with the aim for clean energy having to be weighed against an increased use of fossil fuels to sustain economic growth", says Anthony Jade, Senior Advisor at the Asian Development Bank.



However, ASEAN members recognise that over the next 20 years, they are going to have to balance energy security with environmental concerns. This is likely to lead to a number of different approaches in the region, depending on each country's individual resources.

One way forward is to use electricity more economically. A study by the European Chamber of Commerce in Singapore noted that Vietnam, Indonesia, Thailand and Malaysia consumed almost three times more energy related to GDP output compared to North America, Western Europe or Japan. The report concluded that by 2020, Southeast Asia could achieve energy efficiency gains of between 12% and 30%, a projection that would translate into power savings of between US\$15 billion and US\$43 billion.



The Philippines Department of Energy is seeking to triple output from renewable energy sources to 15,300MW by 2030, with geothermal, solar, wind and biomass projects contributing about 30% of new generation capacity.



Renewable energy projects are also beginning to gain traction in the region. While most electricity consumption is still likely to be met by coal-fired generation up to 2030, hydropower is expected to have the second fastest growth rate according to ASEAN's Centre for Energy (ACE).

China's state-owned energy company China Power Investment Corporation has plans to invest a reported US\$17 billion in a 7,000MW hydropower plant on the Kayan River in Indonesia's West Kalimantan Province in Borneo. (*Jakarta Globe 29/5/13*)

Lao PDR is also due to receive China's help in developing its extensive plans such as its projected Xayaburi 1,260MW hydropower project on the Lower Mekong River.

Myanmar also has plans for a major hydroelectric dam venture at Myitsonne on the Irrawaddy River. Future generation is also likely to feature a variety of other renewable forms. ACE expects nuclear energy to be introduced in the region. Geothermal energy will also be developed in the Philippines and Indonesia, while biomass will grow at a slow rate it believes.

Thailand has a particular need to embrace new forms of energy since its once plentiful gas resources are expected to run out within the next ten years. This means it will become as dependent on imported fuel as

Singapore, but with a much larger population and manufacturing base to provide for.

The challenge has been taken up and Thailand will have more solar power capacity than all of Southeast Asia combined, as record funds are poured into the sector. Thailand aims to increase solar capacity to 6,000MW by 2036, accounting for 9% of total electricity generation. This new energy source will help to drive the region's second biggest economy. A sharp fall in the cost of solar components as well as a subsidised tariff scheme has also helped encourage investment in the sector.

In the region of 1,200 to 1,500MW of solar capacity is expected to be connected to the Thai National Grid in 2015, involving US\$2.7 billion in investment according to Pichai Tinsuntisook, Chairman of the Federation of Thai Industries Renewable Energy Division. This will bring the country's solar power capacity to around 2,800MW. The Philippines is also starting to prepare similar plans. (*Reuters 13/7/15*)

Elsewhere in Thailand, the largest wind energy farm in Southeast Asia was inaugurated in 2013, in the north eastern province of Nakhorn Ratchasima. The US\$211 million project is designed to be capable of producing 103.5MW of electricity. The country is also promoting bio-fuel and bio-diesel production from bio-mass and solid waste for electricity production and transport.

Enhancing energy security and keeping power costs down, have also been the main drivers for the Philippines to set goals for renewable energy sources.

As a result, the Philippines Department of Energy is seeking to triple output from renewable energy sources to 15,300MW by 2030, with geothermal, solar, wind and bio-mass projects contributing about 30% of new generation capacity.

Indonesia has great potential to develop geothermal energy. There are an estimated 276 geothermal sites in the country, with at least 37 of these probably capable of significant development.

Paul Wolfowitz, a former US ambassador to Indonesia, has said that Indonesia has the potential to be a renewable energy powerhouse, with 40% of the world's known geothermal resources.

While the region's nuclear power plans are at an early stage, these are expected to go forward within the next five years according to a recent World Nuclear Association study.

Vietnam is reported to be the most active of ASEAN members in exploring nuclear power, having undertaken site preparation, workforce training and moving to establish a legal framework. The plan is to install three Russian reactors at Phuoc Dinh in Ninh Thuan Province in the south of the country, with construction scheduled to start in 2019. These plants would be followed by more power stations providing 6,000MW of nuclear power by 2030.

Plans for a nuclear programme were due to be presented to the Malaysian Government in 2015. In 2014, it announced a feasibility study involving public acceptance on the construction of the first nuclear plant

to operate by 2024. The aim is to have three to four reactors supplying 10% to 15% of the country's power needs by 2030. Indonesia plans a small experimental reactor near Jakarta and has proposed four nuclear power stations.

Thailand's interest in nuclear power has been stimulated due to forecasts that demand for electricity will grow 7% annually over the next 20 years. About 70% of electricity is generated presently by power stations fuelled by natural gas.

Thailand's Power Development Plan 2010 to 2030 envisages the installation 5,000MW of nuclear capacity, with construction of the first 1,000MW units in 2020, with completion scheduled for 2028. Due to the country's very limited indigenous energy resources, the World Nuclear Association expects Thailand to start producing electricity from nuclear power plants before 2030.

However, in the medium term ASEAN countries, especially Indonesia, are likely to rely more on coal in the same way as China, which produces 80% of its energy from coal fired plants. Bloomberg has reported that coal currently provides about 30% of ASEAN's energy and is expected to rise in the energy mix and could fuel 50% of ASEAN members' power generation by 2035.

Solar and wind power, together with other renewable sources such as bio-mass will be useful and growing additions to the region's energy mix, but coal as well as natural gas, will remain the main sources of fuel for electricity generation for the next 10 to 15 years. Nevertheless, the adverse effects of burning fossil fuels will be mitigated by the promise of cleaner technologies and a much more efficient use of energy, resulting from ASEAN's economic integration.

## ASEAN's manufacturers have a window of opportunity

Southeast Asia continues to assert its growing credentials as a global manufacturing powerhouse with its wide spectrum of production ranging from electronics, textiles, to chemicals, vehicles and food & beverages. Increasingly there are moves toward higher end manufacturing with Singapore already established as a world centre for bio-medical sciences.

ASEAN member states now have a window of opportunity to capture a greater share of world manufacturing, particularly from multinationals seeking a lower cost base than China, where labour costs can be four times as high.

There has also been tangible progress towards ASEAN economic integration with the near elimination of tariffs between Indonesia, Malaysia, the Philippines, Singapore and Thailand, a major incentive for long term investment in Southeast Asia.

A trend is already clear with Southeast Asia's major economies drawing more Foreign Direct Investment (FDI) combined than China for the second straight year in 2014. FDI into Singapore, Indonesia, Malaysia, the Philippines, Thailand and Vietnam rose to a record US\$128 billion compared to US\$119.6 billion that flowed into China, according to

estimates by Thomson Reuters. The fastest rise of FDI by an ASEAN member was experienced by the Philippines, which saw a 66% increase. (*Thomson Reuters*)

Southeast Asia's manufacturing industry plays a significant role in international trade and is a major contributor to ASEAN economies. The Organisation for Economic Cooperation and Developments (OECD) latest Economic Outlook for Southeast Asia says growth in Indonesia, Malaysia, the Philippines, Thailand and Vietnam remains robust while Cambodia, Lao PDR and Myanmar are emerging as engines of regional expansion.

The 2014 World Bank's figures show that Thailand's manufacturing sector accounts for around 30% of GDP and has reached 22% in Indonesia, 21% in the Philippines and 24% in Malaysia. It is also expanding fast in Cambodia and Vietnam where it represents 16% and 17% respectively.

Thailand's exports have traditionally been led by agricultural and food products, yet in little more than 20 years there has been a remarkable transformation, with its manufacturing sector accounting for the highest percentage of any ASEAN member state. Thai production capacity is

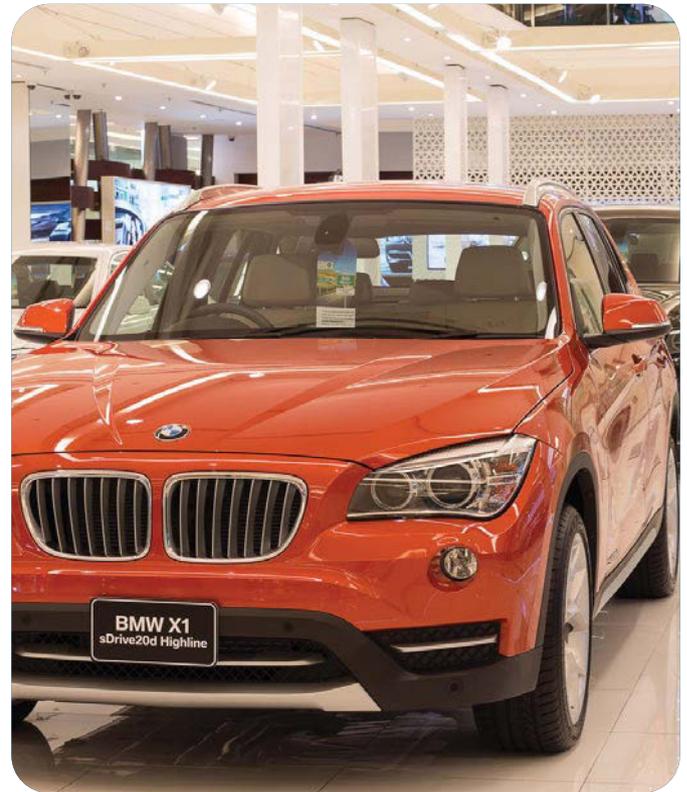
comprehensive including, electronic goods, garments, computers, furniture, petrochemicals and a wide range of vehicles.

Global companies have been attracted by the country's infrastructure and investment incentives as well as its potential as a production base. In 2014, Bloomberg named Thailand the fifth most promising market in the world and second in Southeast Asia after Malaysia.

A big factor accelerating Thailand's development as a manufacturing hub has been the emergence of its automotive industry. Many of the world's leading manufacturers have set up Thai car and motorcycle production.

Around 14 companies and joint ventures employ nearly 100,000 workers. An additional 250,000 people are employed by an estimated 600 companies in the components supply chain and a further 175,000 are estimated to work in smaller scale manufacturing operations serving the country's automotive industry.

Global manufacturers such as Toyota, Honda, Ford, Nissan, Mitsubishi, BMW and Mazda are among leading companies which form the foundation of Thailand's flourishing industry. This industry, with its expansion of manufacturers, is considered a classic example of the benefits arising from development of areas allowing clusters of related industries to develop and feed off each other.



Thailand accounts for 55% of ASEAN members' vehicle production, with around 2.5 million units per year. Indonesia produced an estimated 1.3 million vehicles in 2014, accounting for 27% of the region's production. Malaysian production of around 600,000 units represented 14%.

The assembly of cars and the production of automobile parts constitutes a growing activity in Indonesia and a growing share of inward investment is being directed to the sector. This includes a US\$250 million investment from Nissan and US\$800 million from Suzuki, US\$246 million from Daihatsu as well as US\$100 million from Chrysler to build production plants.



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 country their regional hubs.



The Philippines and Vietnam also have low unit assembly operations measured of not much more than 50,000 vehicles a year, but both countries are keen to expand production to serve their local markets, which will increase as incomes rise.

Suzuki Motor Corporation is reported to have plans to build a factory on a 20 hectare site in Myanmar's Thilawa Special Economic Zone by 2015, which would be able to produce up to 30,000 cars a year. The Japanese company already produces a small number of mini trucks at a factory in Yangon. 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.

Malaysia meanwhile 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 accelerate manufacturing along the value added chain.

Malaysian output is focused on electrical and electronic components, including high end consumer electronic goods, photovoltaic cells,

modules and ICT products. These sections of production make up a third of its total exports, which also include machinery, appliances, optical and scientific equipment, as well as specialist chemical and petroleum products.

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

The number of international companies establishing a base there, continues to rise. In 2014, the US' Amgen inaugurated a new US\$142 million bio-medical facility at Tuas Biomedical Park (TBP), the company's first Asian production venture. Another US company, AbbVie, also plans to invest US\$320 million in a manufacturing complex in TBP to be completed in 2019.

Overall, ASEAN member states now host a range of manufacturing operations for an estimated 227 of the world's largest companies, each

with more than US\$1 billion in annual revenues. However, as Singapore illustrates, 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\$3,725 a month at the beginning of 2015. In spite of this, the island's manufacturing sector remains highly competitive, reflecting a growing knowledge based economy which other ASEAN members are on the road to emulating.

Clearly there are a number of reasons why foreign manufacturing companies are attracted to the region and no longer all hinge on low labour costs. Singapore's corporate tax rate of 17%, for example, is the lowest of any ASEAN country.

Vietnam has also made great strides as a manufacturing hub, with a growing number of producers relocating from China, where wage rates are 50% higher. Manufacturing now accounts for 25% of Vietnam's GDP, with the country emerging as a regional leader in low cost manufacturing ventures.

This process will be enhanced as the result of the EU-Vietnam Free Trade Agreement, which was agreed in principle in 2015, as well as the proposed Trans-Pacific Partnership. The country's participation in the ASEAN Economic Community is another crucial element attracting investors, as tariff free access to the entire Southeast Asia region beckons.

However, there are other considerations for foreign manufacturers contemplating moving into the region. Singapore occupies seventh place, Malaysia 33rd and Thailand 48th in the Global Innovation Index,

published by the UN's World Intellectual Property Organisation in conjunction with Cornell University and Institut Europeen d'Administration des Affaires (*INSEAD*).

Singapore is also the highest ranked ASEAN state in the 2014 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 and Malaysia in leading positions, while Indonesia and Vietnam occupy 17th and 18th places respectively. Looking five years ahead, Deloitte's report forecasts that both the latter countries will move further upwards in the Index to be ranked 11th and 10th respectively.

McKinsey Global Institute (MGI) says that the region's cross-border trade flows will deepen and accelerate as the AEC is successfully implemented. In addition, as China's labour costs continue to increase, multinational companies will search for new production sites. This will provide an opening for ASEAN members to become much larger manufacturing hubs.

The predicted expansion of manufacturing will have beneficial effects on employment and living standards within ASEAN member states. A study conducted by the Asian Development Bank and International Labour Organisation estimates that up to 14 million new jobs could be generated within ASEAN by 2025.

The latest MGI Connectedness Index, which ranks 131 countries tracking their inflows and outflows of goods, services, finance, data and communications relative to the size of their economies, illustrates where ASEAN members stand in terms of integration into the global economy.

It shows Singapore in top place in Southeast Asia and ranking fourth worldwide. Several other ASEAN countries are in the top 50 with Malaysia at 18th, Thailand 36th, the Philippines 45th and Vietnam in 48th place.

The future for ASEAN export manufacturing growth looks optimistic, and is also due to be stimulated by the development of industrial clusters, in dedicated export oriented Zones of Development. A number of these are at various stages of completion. They include the Batam Free Trade Zone between Singapore and Indonesia, Thailand's Southern Regional Industrial estate, Indonesia's Tanjung Emas Export Processing Zone, Malaysia's Port Klang Free Zone, Vietnam's Than Thuan Export Processing Zone and Myanmar's Thilawa Special Economic Zone.

Concerns over any perceived fragility in export markets is balanced by firm expectations of increased intra-ASEAN trade, following the implementation of the AEC in 2015. Foreign companies are showing that they share this confidence.

There is now a growing emphasis on developing more value added production in the region, 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 European Union.



The region 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.

Observers are very bullish about the region's future prospects. Capital Economics' economist, Dan Martin, says that rising wage costs in China are leading low end manufacturing to look for other low cost locations for their factories, with countries such as Vietnam and the Philippines looking like attractive alternatives. "ASEAN is also a large market in its own right and with good long term prospects," he says. (16/3/15 Reuters)



# JEBSEN & JESSEN



*Manufacturing*



*Engineering*



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CABLE TECHNOLOGY | INGREDIENTS | LIFE SCIENCES | MATERIAL HANDLING | OFFSHORE | PACKAGING | TECHNOLOGY

# At home in ASEAN

## Jebsen & Jessen (SEA)

Over half a century ago, long before the world took notice of ASEAN, Jebsen & Jessen Group of Companies laid its roots in the region. Since then, it has worked hard to establish an integrated regional presence that is unique to Southeast Asia. Registered in Singapore and Kuala Lumpur, Malaysia in December 1963, the Group began as a distribution company that steadily grew into a fully fledged manufacturing, engineering and distribution group.

Today, Jebsen & Jessen (SEA) has more than 50 subsidiaries and associate companies with operational entities in nine of the ten ASEAN member states. With a staff of 4,500, it serves over 20,000 customers in, and beyond, the region. Its network now spans 73 locations, including 20 manufacturing facilities. This is its story.

### Charting growth

Jebsen & Jessen (SEA) is an industrial conglomerate. From its core expertise in distribution, it has pursued a focused diversification strategy. Over the years, this has guided the Group in achieving steady growth in its sector presence, business activities and geographical footprint, while balancing organisational stability with market agility.

### Growing in key sectors

Unlike other conglomerates that venture into unrelated businesses, Jebsen & Jessen (SEA) maintains a clear focus on the industrial sector. Recognising that this is key to the economic future of many developing countries, the

Group has chosen a business path that, in benefiting itself, its partners and its customers, also propels the growth of the region.

To do so, it has created seven key regional business units - Cable Technology to serve the manufacturing, construction, utilities and transportation industries; Ingredients to offer Coatings & Resins, Plastic & Rubber, Performance Chemicals, Feed Ingredients, Food Ingredients, and Pharma & Personal Care Ingredients solutions; Life Sciences to lead technology innovation and process development for oleo plants; Material Handling for industrial cranes, warehouse loading bays and building maintenance solutions; Offshore to provide specialist equipment, cables and after sales response services to the marine and offshore industry; Packaging to deliver total packaging solutions and innovative foam products to the region; and Technology for cross industry equipment and turnkey solutions in Energy, Industrial Services, Pumps, Scientific Equipment and Turf & Irrigation.

With these seven key regional business units giving it significant breadth of expertise, the Group pursues depth through the diversification of business activities within each sector.

### Growing beyond distribution

Having established itself as a leading marketing and distribution organisation, Jebsen & Jessen (SEA) then ventured deeper into several industrial sectors. This began as early as the 1970s when Demag Cranes

& Components offered it exclusive agency in Singapore and Malaysia, on one condition: the Group was to invest in production facilities to manufacture crane structures locally.

Accepting this offer marked the Group's first entry into manufacturing. Through the material handling joint venture, now known as MHE-Demag, it began building deeper internal capabilities - from agency distribution to licenced fabrication, to local design and manufacture, and to the production of increasingly complex material handling products such as explosion-proof cranes. Forty years later, MHE-Demag is regarded as a leader in its sector with 11 manufacturing facilities and 60 sales and service offices across Asia Pacific.

This strategic shift into manufacturing affords the Group greater quality control while translating into multiple benefits for customers. As European technology is utilised locally for, and manufactured within, the region, customers enjoy more cost-effective access and shorter waiting times.

The strategy applies to the Group's Cable Technology, Ingredients and Offshore businesses as well. JJ-Lapp Cables, a joint venture with Germany's Lapp Group, has expanded its portfolio from cable distribution to manufacturing via facilities in Indonesia. JJ-Muntions, a joint venture established to supply malted food ingredients to Southeast Asia's growing premium food and beverage industry, has also invested US\$17.5 million in a state-of-the-art manufacturing plant in Thailand.

Moving along the value chain has enabled the Group to stay competitive by building new competitive advantages. This is true with JJ-Lurgi, an engineering joint venture between the Group and Lurgi GmbH (now known as Air Liquide Global E&C Solutions) of Germany. Originally established to design relatively simple refinery and extraction plants based



on Lurgi technology, JJ-Lurgi has grown its capabilities to provide more complex fatty acid and biodiesel plants, transforming itself into Lurgi's global competence centre for vegetable oil processing technology. In the offshore industry, the Group has similarly invested in a Norwegian technology company to enhance its capabilities in building cranes with active heave compensation.

### **Growing with emerging markets**

As Jebsen & Jessen (SEA) adds higher value business activities to its portfolio, it also has its sights trained on geographical expansion. With the conviction that serving ASEAN means being present in ASEAN, the Group has established an operational presence in nine member states.

It recognises the tremendous growth potential of frontier markets like Myanmar and seeks to help fast track the economic development of such countries through high quality and high technology industrial solutions. JJ-Pun is a clear example.

In the four years since the joint venture with Serge Pun & Associates was established, it has already become a trusted name in Yangon's business community. It employs 120 people and generates a turnover of US\$20 million. As a market focused business, JJ-Pun brings the Group's wider expertise to Myanmar. It contributes to the country's development in a variety of ways, from crop protection for the agricultural community, to lighting, mobile harbour cranes and brick manufacturing.

### **Efficiency in a fragmented market**

Operating in nine ASEAN markets has allowed Jebsen & Jessen (SEA) to develop keen insights into each market and the region as a whole. ASEAN, in reality, is a collective of ten different markets, regulations, cultures and business dynamics. If it must be regarded as a single market, then it should be seen as a highly fragmented one. This poses many challenges to foreign companies.

Keen but cautious about entering the region, many have chosen to partner with Jebsen & Jessen (SEA). The reason for this was summed up succinctly by Group Chairman, Heinrich Jessen in a media interview: "We make ASEAN look as if it is one country because we provide a uniform and integrated platform across the region."

The platform he referred to is the organisational backbone of the Group. Its seven regional business units are allowed to operate

autonomously, guided by a strategic framework and corporate standards established at the Group level.

Within its corporate headquarters is a shared services centre that forms the core of the Group. Acting as a strategic partner rather than a support function, the Business Services Centre provides Human Resources, Finance, IT, Risk Management, Audit, Legal Services and Marketing & Communications to all regional business units. While it is common to adopt such an approach to optimise internal processes and reduce operational costs, the Group uses it to deliver front-line economies of scale to its customers.

The centralisation of these services ensures the highest levels of quality and compliance across the Group while easing the administrative burden of each regional business unit. Internal cost savings in this respect have enabled the Group to invest strongly in service delivery - eg. recruiting highly trained technical experts to consult with customers across borders and business lines.

### **Partnering the world**

With over 600 million people, ASEAN's market potential has been described by the Asian Development Bank as larger than that of the European Union or North America. For many foreign companies, it is a region of economic promise but the path to, and within, ASEAN remains fraught with challenges. Having been founded as a conduit of trade between East and West, Jebsen & Jessen (SEA) continues to offer technology owners access to the growing ASEAN market in a simplified, integrated and cost effective manner. And in doing so, it takes pride in building an even brighter future for ASEAN.

## Infrastructure spending set to grow with more funding

All ASEAN members recognise the vital importance of prioritising investment in infrastructure, in order to boost economic and social development by improving basic necessities such as power, water and connectivity throughout Southeast Asia.

Each country has its own infrastructure priorities, though transportation and electricity improvements are common themes. Indonesia reflects this with plans for eight seaports, two airports, eight railways, five power stations and 11 waste water treatment plants, as well as new railway links and roads.

Indonesia's largest port development project is at Jakarta's Tanjung Priok, which handles more than half the country's imports and exports. A multiphase US\$4 billion improvement launched in 2013, involves building three new terminals. Completion is scheduled for 2023, when the port's annual shipping capacity is due to be tripled. (*Project Management Institute Nov 2014*)

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 transit 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.

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 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.

The first phases of Malaysia's Klang Valley Mass Rapid Transit and Light Rail Transit extension projects are under construction. Many more railway related projects have been proposed at an estimated cost of US\$44 billion from 2013 to 2020. (*Xinhua 25/4/15*)

Such mega projects are hugely expensive and take time to assess and implement, but they cannot be shelved if the region is to maintain the economic growth patterns of the last decade.

The World Economic Forum ranks Singapore second in the world for the overall quality of its infrastructure, while Malaysia ranks 23rd and Thailand is in 47th place. The larger member states have some way to go, with Vietnam in 68th place, Indonesia in 82nd and the Philippines in 113th.

In its 2014 Logistics Performance Index, the World Bank placed Singapore, Brunei, Malaysia and Thailand in the top quarter of its global ranking for logistics infrastructure. Indonesia and the Philippines are ranked 56th and 75th respectively.

All informed estimates point to a need for an acceleration in infrastructure investment. The region will need to spend US\$950 billion by 2020, to see its economies grow and develop, according to Stephen Groff, Regional Vice President of the Manila based Asian Development Bank (ADB). The need to roll out transport projects is doubly important given that 120,000 people are moving into the cities on a daily basis. The urban populations are predicted to double by 2020, Groff says.

Goldman Sachs has estimated the projected needs for infrastructure spending from 2013 to 2020 in Thailand, Malaysia, Indonesia and the Philippines totals US\$550 billion, with 40% of this required for power development. Roads and railways will account for 23% and 22% of this total respectively, it says.

Two of the major transport projects for the region as a whole include the ASEAN Highway Network (AHN) and Singapore-Kunming Rail Link (SKRL). Considerable progress has been made on the AHN, which is designed to link Southeast Asia's highways and roads. While there are some upgrading works still to be finished and some missing links in the network still to be addressed in Myanmar, the overall project is on target for completion by the end of 2015.

Efforts to progress the ambitious SKRL are much longer term, due to the immense investment challenge. The plan involves linking Singapore to China's southwest city of Kunming. This requires around 5,400km of



track through Malaysia, Thailand, Lao PDR, Vietnam and Cambodia. It is vastly expensive, requiring linking and upgrading existing railways and building new track across often very difficult terrain, rivers and involving substantial tunnelling.

These projects typically require a huge advance of capital resources and a range of investors, from governments, multilateral agencies, funds, banks and donors. It is helping that private financing is beginning to become more prominent in infrastructure projects within the region.

This process has been helped by the Asian bond market initiative, involving ASEAN member states together with China, Japan and South Korea (ASEAN+3). Its launch in 2003, has seen substantial growth in local currency denominated bond markets in the region.

More recently, in 2013, a Credit Guarantee & Investment Facility scheme was launched by the ASEAN+3 countries and the ADB, to provide up to US\$700 million in guarantees to investors involved in the region's corporate bonds.

The ASEAN Infrastructure Fund (AIF), which is co-financed and administered by the ADB, was also launched in 2012, with an initial lending target of up to US\$300 million a year. A year later, its first loans were directed to power projects in Indonesia and Vietnam. ADB co-finances every AIF project, with 30% contributed by the Fund and the remaining 70% from ADB. The ADB says it is able to leverage up to US\$1 billion a year through this arrangement.

The AIF is structured to be financially self sustaining. In addition to equity contributions from its members, it plans to raise additional funds from 2017, by using high investment grade debt which central banks will be able to purchase using their Foreign Exchange Reserves. The availability of greater capital will allow the AIF to also lend to the private sector or state-owned enterprises undertaking Public Private Partnerships (PPPs). (*Reuters 23/5/14*)

Considerably more money is likely to be available as a result of the formation of the Asian Infrastructure Investment Bank (AIIB). In October 2014, representatives of 21 Asian countries met in Beijing to inaugurate the AIIB. The new institution, which is due to be established by the end of 2015, is focused on providing funding specifically for Asian infrastructure projects including Southeast Asia.

The AIIB's initial capitalisation is US\$50 billion, half of which is provided by China. The bank has an authorised capital of US\$100 billion. A number of other countries outside the region have become members

of the bank including the UK, France, Germany, Switzerland, Russia, Brazil, South Korea and Turkey.

With a focus on very large scale infrastructure projects, such as the SKRL, the AIIB is expected to lend a much needed hand to developing countries such as Indonesia. "We have more than US\$450 billion of infrastructure financing needs for the next five years. With that kind of need, I don't think a single multilateral agency, such as The World Bank or AIIB can fulfil that kind of requirement," comments Indonesian Finance Minister, Bambang Brodjonegoro. (*CNBC 30/6/15*)

International assistance and long term loans on preferential terms are also helping accelerate improvements for ASEAN's less developed members. Japan has agreed a soft loan of US\$135 million to Cambodia to help with the country's electricity grid and road improvements.

The private sector can play a significant role through PPPs to close infrastructure funding gaps. Private financing is already playing a bigger role, alongside individual governments' support, multilateral development banks and regional initiatives.

The World Bank and Lao PDR's Ministry of Public Works and Transport are looking to private and public sector investors for a PPP aimed at enhancing the traffic capacity of the country's dual land highway, that serves as the main north-south thoroughfare in the country. The project aims to increase the volume of trade and tourism in the country.

Whatever the funding mechanisms chosen, ASEAN's massive infrastructure overhaul is well underway and due to build considerable momentum over the next few years, generating multiple long term investment opportunities.

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## A new railway age begins in Southeast Asia

Almost since their inception, Southeast Asia's railways have been restricted to mainly freight haulage, on metre gauge single-track lines, drawn by locomotives proceeding at a leisurely 20-70kmph. However, times are changing and railways are now a key part of infrastructure development throughout the region.

Given the complexities and the multibillion dollar investment involved, the process of expanding rail isn't necessarily long term but it is improving steadily. Since the region's GDP growth continues to be robust, development of transport infrastructure is a growing priority.

Construction of new lines, double tracking, as well as the electrification now taking place, will speed up the development of networks. In addition, the pending projects for High Speed Rail (HSR) systems with trains travelling in excess of 250kmph also promises to revolutionise ASEAN transportation.

A key element in Thailand's railway development plans is to ease the strain and congestion on the country's roads and improve logistical efficiency by increasing the share of rail in freight transport from less than 2% to 8% by 2020. The authorities also want to see trains accounting for 40% of public transit compared to the current 6%.

Thai railway projects include 767km of double tracking of existing routes as well as the 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.

Indonesia has similar aims, with the Indonesian Logistical Association expecting the completion of the Jakarta-Surabaya double track railway, to make the train the logistical backbone in Java.

There is huge scope for expanding Indonesia's railway system which covers 5,108km, all of which is narrow gauge. Most of the rail network is operated by the state through PT Kereta Api (Persero). A few freight-carrying railways are privately owned and operated in Sumatra and Kalimantan.

The Ministry of Transportation has allocated a US\$17.3 billion budget to build railway infrastructure in Java, Sumatra, Kalimantan (Borneo), Sulawesi and Irian Jaya (West Papua). This budget was originally to be disbursed up to 2030. However, the Government now wants railway developments outside Java to be accelerated and completed by 2019.

Vietnam's railway system is to receive US\$9 billion of investment over the next 15 years to improve the 2,237km network. According to state-owned

Vietnam Railways, the focus will be on the 1,726km north-south railway linking Hanoi with Ho Chi Minh City.

The Ministry of Transport has said that the overhaul will be funded through a combination of the State Budget, a Government bond issue, official development assistance as well as investment from the private sector, in Build-Own-Transfer (BOT) schemes.

In Malaysia, 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, was officially opened in July 2015. It is one of the country's largest ever infrastructure projects.

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 network. There is growing demand to develop efficient transportation networks between the rural hinterland and the principal urban centres of Yangon and Mandalay. It currently takes almost twice as long to travel by train between Yangon and the capital Nay Pyi Taw than by road.

Japan has completed a feasibility study on the proposed US\$1.7 billion modernisation of the Yangon-Mandalay railway link, a major attempt towards developing the network.

There are also plans to establish a rail 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 also 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.

The HSR route is a highly attractive option for Southeast Asia. However, there are many challenges, not least cost. Thailand has plans for four high



speed rail 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 is also envisaged that would extend to Nong Khai Province and also serve as a gateway to the Lao PDR capital of Vientiane. Another line is planned to 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.

Initiation of the HSR concept could begin Indonesia where the Government was reported in September 2015 to have awarded a contract



Projects to construct and extend urban railways, an indispensable mode of transportation in major cities, are underway or planned throughout the region.



to China Railway International (CRI), for a new high speed 150km line connecting Jakarta and Bandung, West Java's main city.

China Development Bank is reportedly providing 75% of the estimated US\$5.5 billion cost of the project, with the balance provided by CRI. Construction is set to begin in 2015, and be completed in 2018, with operations commencing the following year. The track will be ground breaking in that it will be Indonesia's first high speed line. (*Reuters 30/9/15*)

One of the most ambitious proposals in the region is for a high speed system to connect five Malaysian cities with Jurong East in the west of Singapore. While the initial deadline for completion of works in 2020 has been put back, the project is still to go ahead. When the line is completed it will take 90 minutes to travel the 300km route compared to four hours by road.

The process of developing high speed railways across mainland Southeast Asia is 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 engineer the feasibility of the costliest projects ever undertaken in the region.

The ultimate concept is for a series of HSR lines radiating through mainland Southeast Asia as far as Singapore and connecting with China's own high speed network at Kunming in Yunnan Province.

#### **Mass transit projects aim to end region's urban congestion**

ASEAN's major cities are expanding fast. Bangkok's population, for example, is more than eight million. In Ho Chi Minh City the population is fast approaching this figure. Projects to construct and extend urban railways, an indispensable mode of transportation in major cities, are underway or planned throughout the region.

Investment in urban transportation needs is a priority in Thailand, with six new mass transit systems either proposed or being built in and around the city of Bangkok. However, the Government would like this urban railway network to eventually cover 515km linking the capital with outlying areas. A 26.3km elevated railway line is also under development in Bangkok, which is planned to be connected to a separate high speed track linking the city's airports.

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.

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

Such long term capital intensive projects are often beyond national budgets. As a result, increasingly the PPP route is seen as the most viable means of reviving long dormant transportation ventures throughout the region.

Vietnam is also proceeding with a bold programme of urban railway construction in Hanoi and Ho Chi Minh City, where there are plans for eight new lines.

Japan is funding most of the cost of a US\$2.5 billion project to build the first of these, a 19.7km light railway running from Ben Thanh Market, the city's commercial centre to Suoi Tien in the northeast. The project includes a 17km elevated section.

The Asian Development Bank, German Development Bank and European Investment Bank are also helping to fund a second line with

eleven stations, which will include a 9.3km underground section and run from Ben Thanh Market to Tham Luong Depot.

Singapore is also 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's Land Transport Authority aims to expand the MRT system to 360km by 2030, doubling the existing length.

One of Malaysia's most important and strategic rail projects involves development of two north east and south west radial lines and a circular line forming a wheel and spoke system around Kuala Lumpur and the surrounding Klang Valley region.

The project encompasses Malaysia's central Selangor State, which includes the capital Kuala Lumpur and is the heartland of the country's industry and commerce. It was launched in 2011, and is due to be completed in 2017. Three railway lines will form the backbone of Klang Valley's transport system. The first, a 51km line, from Sungai to Kajang is nearing completion and will have 31 stations. Four major interchange stations are an integral part of the plan.

## Focus on ports development will strengthen ASEAN's global reach

For centuries Southeast Asia has been the crossroads of global seaborne trade and as the regions' economy expands, this role is becoming steadily more important. The creation of the AEC emphasises the dependency on a free flow of goods and people. Member countries realise that this flow hinges on their continuing efforts to establish an efficient and integrated maritime transport sector.

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 with shipping services, ports, shipbuilding and seafaring, core activities in many parts of the region. The need for a modern and well managed maritime sector is increasingly seen as crucial to ASEAN countries' connectivity and economic progress.

Possessing access to the world's oceans is of little advantage without modern ports, sound logistics facilities and effective management of maritime facilities. However, there are many areas requiring improvement in order to promote a safe, modern, efficient and competitive shipping sector. In a competitive regional and global trading world, those nations with access to efficient and reliable shipping services have the edge.

The UN Conference of Trade and Development (UNCTAD) Liner Connectivity Index records how well integrated countries are with global

container shipping networks. In 2015 this shows Singapore, Malaysia, Thailand and Vietnam as the most well connected ASEAN countries.

The Port of Singapore, with its daily sailings and connections to 600 ports in 123 countries, remains paramount as a transshipment port, handling one fifth of the world's shipping containers. Half the world's supply of crude oil is also shipped via the Port.

In the more developed areas of Southeast Asia, huge investments are being made to keep pace with demand and regional competition. At Singapore Port, a US\$2.8 billion investment at its Pasir Panjang Terminal will see the facility expanded with the latest technology to allow operation of unmanned gantry cranes to handle some 15 million twenty feet equivalent units (TEUs) a year. When the additional work is completed, the terminal's total handling capacity will have increased to 50 million TEUs a year.

Meanwhile the Maritime and Port Authority of Singapore (MPA) is installing 4G access in port areas on and offshore in territorial waters and introducing free wi-fi services in its terminal areas. It is also introducing a mobile application to permit port users to access information on ship departure and arrival times, tidal data and other port and marine information.

According to MPA Chief Executive, Andrew Tan “The maritime sector is undergoing significant transformation with smarter ships, just-in-time logistics and more intelligent ports being built. We envisage a more interconnected port with high speed internet, extensive use of data and innovative mobile solutions to enhance our port’s overall competitiveness.”

Singapore faces significant competition from Malaysian ports such as Tanjung Pelepas on the mouth of the Pulau River. It handled 10.4 million TEUs in 2014, just 14 years after becoming operational. Maersk Sealand and Evergreen Marine Corporation, the largest shipping companies in the world, have based their regional operations there.

Malaysia also intends to improve access to Port Klang, its other major maritime hub, under the country’s Logistics and Trade Facilitation Masterplan. Implementation of the Plan is designed to strengthen Malaysia’s position as a logistics gateway to Asia, according to Prime Minister, Najib Tun Razak. Work at Port Klang involves improving road and railway access as well as the port’s traffic management systems.

Vietnam is seeking some US\$2 billion of private sector investment to develop 19 port projects throughout the country. The country’s Prime Minister, Nguyen Tan Dong, has indicated that greater foreign investment will be invited and foreign ownership allowed in the state controlled ports sector in order to attract the investment needed.

Thailand has more than 3,000km of coastline as well as nearly 4,000km of rivers and waterways. Exploiting these geographical attributes is a priority for the Port Authority of Thailand in its efforts to improve connectivity within the region and allow Thailand to become a competitive maritime gateway to the rest of Asia.



As part of this strategy, Thailand’s two main ports of Bangkok and Laem Chabang are undergoing major upgrades and modernisation programmes to improve their competitiveness. The Kingdom’s busiest port is Laem Chabang in Chon Buri Province. Currently it handles around 10.8 million containers a year - the intention is raise this capacity to 18 million TEUs.

The aim is to turn Laem Chabang into a maritime gateway for the Greater Mekong sub-region and compete more effectively with Singapore. It currently handles more than half of Thailand’s exports and imports. As planned investments take shape this volume could increase dramatically. This would mean expansion to allow larger vessels to use the port as well as a range of transport improvements involving building roads, railways and a mass public transit system.



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There are growing pressures on other countries in the rest of the region to also enhance port facilities, particularly their 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 since 1980. Containerised cargoes have also become a significant part of intra-ASEAN trade. Many commodities including rice, for example, previously moved as bulk cargoes, are now moved in containers.

However, in less than a decade container ships have almost doubled in size. Ships able to carry 18,400 containers began to enter service in 2014. Essentially, such newer vessels no longer carry their own cranes to offload TEUs and depend on seaports to provide specialised handling equipment. This trend poses a challenge to smaller ports, especially in developing countries, UNCTAD says.

Port infrastructure needs to be improved comprehensively in the region, in order to allow shipping lines to use these larger vessels and create economies of scale, according to Jason Chiang, Director of Drewry Maritime Research.

However, the region has other challenges apart from modernising port operations. Land access to ports is also a crucial factor in their operational efficiencies. The problem with road congestion is that it generates a reduction in the productivity of trucks and delays the moving of supplies. In the Philippines, clearance times with physical inspection of cargoes was five days compared to two days in Vietnam, according to The World Bank's Logistics Performance Index (LPI).

This Index measures the efficiency of a country's customs, transport infrastructure, the efficiency of trucking and freight forwarding operations, delivery times, tracking and tracing consignments. The 2014 Index, ranking 160 countries, shows Singapore ranked the fifth most efficient globally with Malaysia in 25th place. Thailand and Vietnam are ranked 35th and 48th respectively.

Given an efficient logistics environment, larger ports can allow bigger ships to berth and an increased volume of cargo throughput achieved. This in turn draws more manufacturing enterprises to adjacent areas stimulating industrial development and broadening a country's economy.

Myanmar's ports have the potential to become regional transportation hubs serving markets in China, India and the Indochina region. Growth in imports and exports as a result of increased demand for the country's agricultural commodities, minerals and natural resources could act as catalysts to stimulate development of port infrastructure in the country.

Myanmar occupies a long eastern seaboard where new ports could provide faster access to Thailand, Cambodia, Lao PDR and Vietnam. One of the main proposals is the development of a new industrial and ports area at Dawei. In the north of the country, Kyaukpyu is already under development with China's assistance. The port is designed to link with a oil & gas pipeline linked to China's Yunnan Province. In addition to Dawei, sites in Thilawa, Sittwe, Kalegawk and Bokpyin have been identified for potential port developments.

Contracts for work on the US\$8.6 Dawei project have still to be finalised. Nevertheless, once it takes off, the giant venture promises to transform logistics in the region. Plans include an oil transshipment port, a refinery, steel mills, petrochemical 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 its north-south transport network.



Ports are also seen as crucial to the future development of the Philippines' transport system. The country has nine major ports that handle most domestic and international cargo. These are Manila, Subic, Batangas, Cebu, Davao, Zamboanga, Cagayan de Oro, Iloilo and General Santos. There are also another 1,300 smaller mostly Government owned ports. Increasingly the Government is seeking to develop Public Private Partnerships to accelerate the improvement of the country's maritime infrastructure.

Nowhere is the increasing focus on regional ports development more important than in Indonesia, where President Joko Widodo has announced an “Ocean Highway” plan to develop a coordinated network of ports throughout the country’s vast archipelago. In particular the plan includes building new ports in the underdeveloped eastern parts of Indonesia.

Indonesia is seeking to invest US\$3.5 billion to build its new ports with the first eight operational by the end of 2018. Each is planned to have a capacity to handle 2.5 million containers.

“The expansion of Indonesia’s ports is extremely important, not just for the connectivity of Indonesia’s islands but also to bring down logistical costs and to raise competitiveness,” according to Sarvesh Suri, Indonesia Country Head of the International Finance Corporation (IFC). The IFC, which acts as The World Bank’s private sector investment arm, has previously provided finance for the Hutchison Port Holdings investment in the International Container Terminal and Koja Container Terminal at Jakarta’s Tanjung Priok port.

A big effort is now underway in Indonesia to build up container handling capacity. Until recently, weak operational performance of its ports’ and a low level of investments in port infrastructure have tended to hold back development of the country’s maritime sector, according to the Organisation for Economic Cooperation and Development (OECD).

Many of Indonesia’s ports also have shallow draft with its largest port, Tanjung Priok in north Jakarta on the northwest coast of Java, having a maximum draft of 11.5m, which means the largest ships that can dock there carry a maximum load of 5,000 containers. This makes them only

suitable for intra-Asia services and as far as Australia, but nowhere large enough for voyages to the US or Europe.

The time when Indonesia’s ports lagged behind others in the region though is ending, with the Government’s resolve to invest heavily to improve, expand and modernise the country’s ports’ infrastructure.

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. The World Bank estimates that two thirds of Indonesia’s trade volumes route through Jakarta’s port. The modernised 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 Port of Rotterdam Authority meanwhile, signed an agreement in September 2015, with the state ports operator to begin development of the deep-draught Kuala Tanjung Port near the city of Medan. The port and associated infrastructure is estimated to involve investments totalling US\$1.2 billion, with a new terminal expected to cost US\$344 million. The development also involves a container handling area and industrial estate. Significantly, the port is strategically located near the Malacca Straits, a key regional shipping route.

According to Eka Cahyana, a Director of the State Ports Operator, once the port is fully operational, larger vessels on their way to Europe will be able to transit at Kuala Tanjung Port instead of making diversions to Singapore or Malaysia. Indonesia’s ports modernisation programme has stepped up a gear, which will help position the country at the forefront of the region’s maritime infrastructure development.

## ASEAN aims high in aerospace manufacturing

In addition to their growing capacity to address the technical servicing requirements of airlines in the region, ASEAN countries are also developing increasingly sophisticated aerospace assembly and manufacturing operations as well as research and development activities.

ASEAN based aerospace companies are steadily moving up the value chain taking on increasingly more complex work. As a result a new global force in aerospace is emerging, able to provide engineering services, electronics, composite materials, manufacturing and systems integration, for both the region's airlines and international clients.

Malaysia is seeking to become Southeast Asia's leading aerospace nation within the next 15 years, when the sector is predicted to contribute US\$7.7 billion in revenues and provide 32,000 high income jobs. A National Aerospace Blueprint (2015-2030) was launched in 2015 by Malaysian

Prime Minister, Najib Tun Razak, to further this aim by developing talent for the country's aerospace sector. (*thestar.com 19/3/15*)

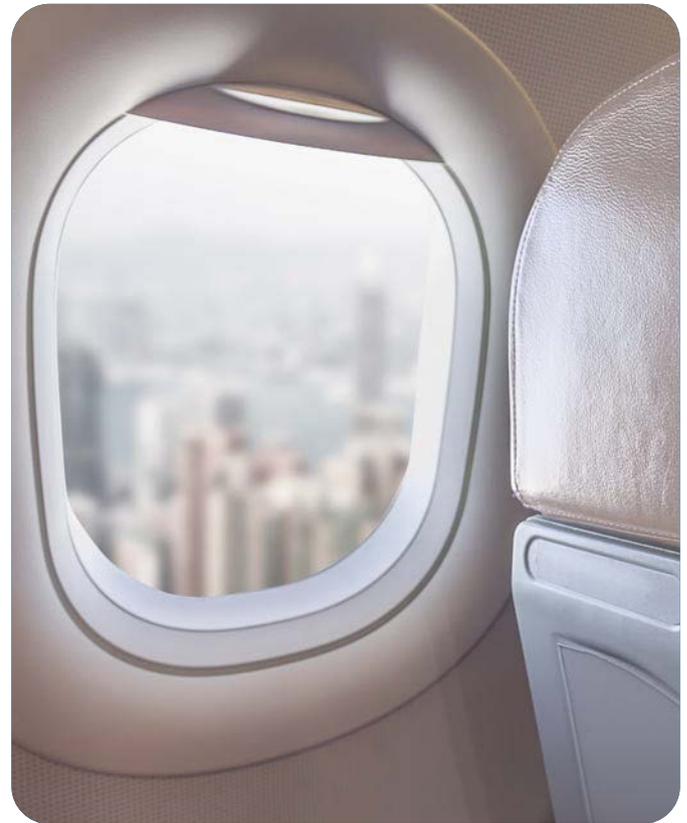
Malaysia is placing a particularly high priority on training which has seen numerous new academic institutions and aerospace curriculums established in recent years. These include the Advanced Composite Training Centre at UniKL-Malaysia Institute of Aviation Technology and the Advanced Aeronautics Technology Centre, in addition to related diploma and degree level courses at public universities.

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

CTRM, 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 intends eventually to move into fuselage work to further enhance its role in airliner production.

Singapore is already established as a world class aerospace design location with some of the biggest global original equipment manufacturers having a presence there. 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) chose Singapore to establish its first research and technology centre outside Europe.

By 2018, its aerospace output is expected to more than double to at least US\$9 billion, according to projections by Singapore's Economic Development Board (EDB). Production of engine casings, gears, valves and electrical power systems are among a range of products already made in Singapore factories. On the research and development (R&D) front, Boeing EADS, Pratt & Whitney and Rolls-Royce are all involved in major engineering programmes.



Rolls-Royce carries out engine assembly and testing and training as well as R&D at Seletar. The company produces Trent 900 engines there. The engines, which are among the most powerful in the company's range, power the giant Airbus A380 airliner.

The strategic move by Rolls-Royce to Seletar 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.



The Philippines aerospace industry is a well established supplier of aircraft interiors and equipment. The sector, not including MRO activities, expects to generate US\$1 billion in revenues in 2015.



Several other leading international aerospace companies have also set up operations in Seletar Aerospace Park. These include the US' Pratt & Whitney and ST Aerospace, which has opened hangars for airframe maintenance and modifications, including passenger to freighter conversions.

Pratt & Whitney started development of their geared turbo fan hybrid blade and turbine disk manufacturing plant at Seletar in 2013. With nine units at Seletar, they employ 2,500 people. Current investment is focused on producing components for the company's new generation turbofan engine, which is intended to reduce fuel consumption by up to 16%.

The Philippines aerospace industry is a well established supplier of aircraft interiors and equipment. The sector, not including MRO activities, expects to generate US\$1 billion in revenues in 2015, up by 25% from US\$800 million in 2014, according to the country's Aerospace Industries Association.

In Indonesia, PT Dirgantara is a licenced assembler of Airbus' Super Puma helicopters as well as Messerschmitt-Boelkow-Blohm's BO105 light helicopters.

Uli Kaiser, President of the Thai-European Business Association (TEBA) says that for Thailand to surpass the lead taken by Singapore and

Malaysia in the aerospace sector was a challenge. However, ASEAN's open skies policy along with forecast growth in the demand for aviation services in the region meant that the country is well positioned "to develop a sustainable and sizeable aerospace and aviation industry."

According to Dr Watana Manon, Vice President of Thailand's Civil Aviation Training Centre, the country's aviation and aerospace industry employs more than 104,000 people, 23% of whom are involved in manufacturing activities.

Thailand wants its aerospace industry to emulate its highly successful automotive sector. A number of prominent foreign aerospace companies, including GE, Senior Aerospace, Triumph Group, Chromalloy, Ducommun, Aeroworks, Eurocopter, Driessen and Minebea, have already established Thai based manufacturing operations.

Thailand's Board of Investment is placing special emphasis on developing the country as a major aviation parts supplier to original equipment manufacturers. This strategy is to be built on the technical skills and knowledge already available in the country's manufacturing of stainless steel, aluminium parts and polymer products. There are also plans to develop an aerospace industrial zone where companies undertaking the manufacture, repair or conversion of aircraft would be eligible for an eight year tax break and other incentives.

## ASEAN aviation support industries are global players

The Maintenance Repair & Overhaul (MRO) market is driven by the phenomenal expansion of Southeast Asia's aviation industry. Lufthansa Technik Philippines, for example, estimates that more than 37% of global commercial aircraft will soon be based in the Asia-Pacific region, with many of them in service due to rapidly expanding low-cost carriers.

Much of the future servicing requirements for these aircraft will also be in Southeast Asia, where regional airlines are among the fastest growing in the world. Boeing forecasts that ASEAN airlines' fleets will triple in size to 3,500 aircraft by 2032 .

ASEANs surging aviation expansion is being accompanied by a rapid development of MRO service providers and not just in established hubs such as Singapore, Malaysia and the Philippines. Indonesia, Thailand and Vietnam are all keen to expand their MRO sectors.

Singapore is currently the leading hub for MRO services, accounting for 25% of the market and is expected to be a one of the beneficiaries of the region's fast expanding aviation growth. The sector already generates annual turnover of some US\$5.8 billion and employs more than 18,000 people.

There are now more than 100 MRO operations in Singapore alone and more are developing throughout the region. These are being established to provide services to ensure aircraft safety and airworthiness through joint ventures with foreign companies that include original equipment manufacturers and airlines.

International aerospace companies active in MRO operations in Singapore include Raytheon, Pratt & Whitney, Rockwell Collins, Honeywell Aerospace, Hamilton Sundstrand, Nordam, Lockheed Martin and Goodrich, and GE Aviation is also manufacturing components at its plant at Loyang in Singapore. France's Safran Electronics Asia and SIA Engineering are also setting up an avionics components repair centre.

The largest local MRO player is Singapore Technologies Aerospace which has been operating since 1976, when it was established to service military 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.

In July 2014, Boeing and SIA Engineering Company (SIAEC) were established to service the US manufacturer's aircraft in the region. The

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

Malaysia is also a major aerospace engineering hub, 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*)

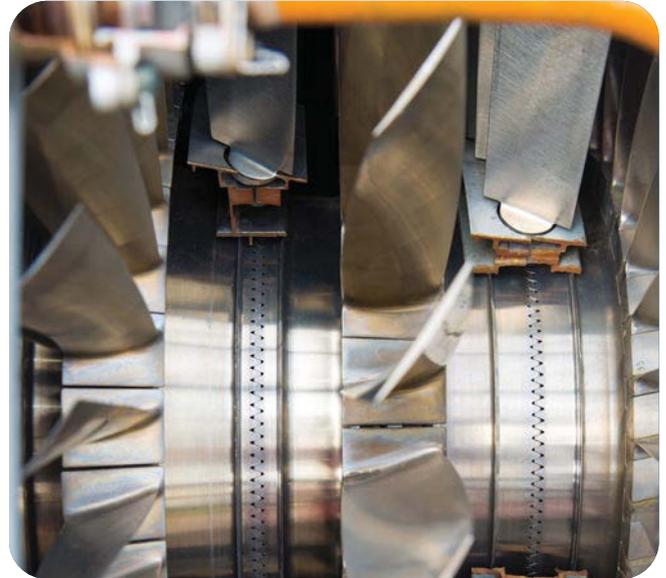
Malaysia complements Singapore as a major hub, with its aerospace centres located at airports in Subang, Sepang and Senai. The Government's commitment to developing Malaysia's aerospace industry is attracting a growing number of international companies.

Other parts of the region are also seeking to develop as MRO hubs. VietJet is considering setting up an MRO operation in either Ho Chi Minh City, Hanoi or Da Nang. In the Philippines, Lufthansa Technik is providing MRO services for Air France's Airbus A380 fleet, which has necessitated building a third hangar to accommodate its growing volume of work.

Thailand also intends 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 at 10% per year over the next decade, according to projections by GMF AeroAsia, Indonesia's largest MRO company.

Indonesia's spending on aircraft maintenance in 2015, is expected to reach US\$900 million and reach US\$2 billion by 2020. Richard Budihadianto, Chairman of the Aircraft Maintenance Services Association, says the local MRO industry needs to develop more



capacity to meet this demand. There are plans for an aerospace park to be built in Bintan which would accommodate training services, workshop activities and engine maintenance. Bintan is the chosen site because of its proximity to Singapore, the hub of the Asian aviation industry, says Budihadianto.

The future for MRO throughout Southeast Asia is bright. However, the region will need to keep investment high in new technology together with training an ever increasing number of engineers and technical staff. There is a need for technicians to speak and read good English which is the global language of the aviation industry and MRO manuals, says Heinz Freimann, General Manager for Swiss firm SR Technics, which has its regional base in Malaysia.

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 will cope best.

## ASEAN airlines are flying high again

Southeast Asia has been one of the fastest growing markets in the world for aviation services for several years. In spite of the challenging environment faced by the sector in 2014, causing slowdown, the region's aviation industry was back in profit during the first half of 2015. It was boosted by improved market conditions, and lower fuel prices which feature highly in the industry's costs.

Driving the region's aviation market is the continuing expansion of the middle classes, who with greater disposable incomes are able to contemplate air travel, often for the first time.

The region's 16 publicly traded airlines, including affiliates or subsidiaries who report financial figures, had a combined operating profit of about US\$640 million in the first half of the year. The same group of airlines, included carriers such as Singapore Airlines, Thai Airways, Thai Air Asia, Garuda Indonesia and Citilink, incurred losses of more than US\$500 million during the comparable period of 2014.

Half of the world's aviation traffic growth over the next 20 years is expected to arise from flights within or to and from the Asia-Pacific region, and ASEAN will be at the very centre of this development.

Driven by the development of Low Cost Carriers (LCCs), Indonesia has become the world's largest domestic aviation market after the US, China, Brazil and Japan, with around 100 million passengers travelling by air each year, according to Indonesia's Ministry of Transport. As incomes rise throughout the fast growing economies of the region, demand for air travel is set to continue its growth curve, especially in the highly populated archipelagic areas of Indonesia and the Philippines.

San Francisco based research firm, Strategic Airport Planning, predicts passenger traffic in Southeast Asia rising 7.6% annually in the 20 years to 2031, outpacing a global average of 5%. Travel between Southeast Asia and South Asia is expected to grow even faster, at 9.5% a year.

Other industry forecasts also predict impressive growth. Aircraft manufacturer Boeing, projects air travel to and from the region expanding at an average annual rate of 6.7% over the next 20 years. (*Boeing Market Outlook 2013-2022*)

The region's huge aviation expansion is witnessed in Indonesia's airline development, a growth reflected in the more than 800 new aircraft on order by the country's carriers. Within the next 20 years some 270 million

passengers are expected to fly to and from and within the country. This figure represents three times the size of the present market, according to Tony Tyler, Director General of International Air Transport Association (IATA).

Airlines from the Asia Pacific region will take delivery of 12,470 new aircraft with 100 or more seats, valued at US\$2 trillion over the next 20 years, says Sean Lee, Regional Head of Communications at Airbus. These deliveries are expected to account for half the world's demand for mid-size and very large airliners. ASEAN countries are experiencing annual growth in passenger numbers in excess of Asia's average of 5.7%, with some countries recording double digit growth. This reflects economic growth and an increasing propensity to fly, says Lee.

The trend was illustrated at the 2015 Paris Air Show, with Indonesia's national carrier Garuda placing orders for 60 Boeing and 30 Airbus airliners, valued at US\$20 billion. Garuda's President, M. Arif Wibowo said his company's order was for both long and short haul aircraft including 30 long distance twin-aisle Boeing 787s. Acquisition of the latter is designed to expand the airline's international route network, including to the US.

Much of the huge expansion in passenger numbers has been facilitated by the rise of Southeast Asia's low-cost airlines such as Malaysia's Air Asia and Indonesia's Lion Air. These carriers and dozens of other budget airline start-ups have grown rapidly in popularity and are now estimated to have a 58% share of the total seats sold each year in ASEAN member states. The gradual but ongoing removal of visa requirements for short term travel by ASEAN citizens in member states is likely to be a further stimulus to growth.



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. Malaysia based Air Asia is currently the largest LCC group in the region with an in-service fleet, including its subsidiaries of 188 aircraft. It is already branching out from the region with routes to North Asia and Australia.

Air Asia has established several subsidiary airlines. These include Indonesia Air Asia and Thai Air Asia. The airline group also operates from the Philippines as both Air Asia and Zest Air. In Malaysia, another franchise Air Asia X has been set up to operate long range budget routes. Air Asia Japan is also due to commence operations in 2016.



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Garuda Indonesia's budget subsidiary, Citilink, is another fast growing LCC. 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 the Indonesian archipelago, with the result that fleet acquisitions including Boeing twin-aisle 787s and Airbus A350 aircraft are being considered.

New LCCs have continued to develop with Indonesia's Air Asia and Singapore based Tigerair's affiliate Mandala. However, the biggest entrant by far has been 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.

Established LCCs such as Malaysia's Air Asia 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 Thailand's Nok Air are purchasing 90 Airbus A320s and 15 Boeing 737s respectively.

Vietnam's leading budget carrier Vietjet meanwhile confirmed a US\$9 billion order involving 63 Airbus A320 and A321 single-aisle airliners and options to acquire a further 30 aircraft of the same types at Singapore's 2014 Air Show. Orders for six more A321 aircraft were confirmed at the 2015 Paris Air Show in June.

State-owned carrier Lao Airlines has acquired further Airbus A320s while privately owned Lao Central Airlines is also starting 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*)

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

According to CAPA Centre for Aviation, nine out of 15 of the world's busiest low-cost international routes are now based in Southeast Asia. ASEAN airlines' accelerating development has resulted in being the only region where there are more aircraft on order than exist in current fleets.

A number of 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 and Australia's Jetstar, Singapore Airlines' subsidiary Scoot and Air Asia are branching out to Australia and North Asia.

Singapore Airlines and Thai Airways affiliate 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 Mueang International Airport.

Lion Air has established Malindo Air, a joint venture airline with Malaysia's National Aerospace and Defence Industries. Based at Kuala Lumpur airport, the new carrier operates Boeing extended range 737-900 airliners and is expected to develop routes covering China, Japan and India as well as within the ASEAN area. (*AIN online Singapore Air Show 2014*)

Vietnam's fast growing economy and increased popularity as a tourism destination is also supporting the expansion of the flag carrying airline Vietnam Airlines.

Following a partial IPO of 3.74% of its stock in 2014, Vietnam Airlines is due to sell one fifth of its shares to a strategic investor, which is expected to be a foreign airline, according to Chief Executive, Pham Ngoc Minh. The carrier has embarked on a fleet renewal and expansion programme

involving the delivery of 33 Boeing 787-9 airliners and 14 Airbus A350-900s. It says it expects to have a fully modernised fleet of 100 aircraft by 2020. (*Reuters 12/3/15*)

The less developed Southeast Asian countries are also embarked on major improvements to their aviation sectors. Myanmar, while it is also one of ASEAN's most populated and largest member states is also the most under served aviation market in Southeast Asia. However, this situation is changing and the country's aviation services are developing fast to accommodate growing numbers of international passengers. These rose from 49,392 in April 2012, to 110,000 by January 2014. Frequency of flights across Myanmar airspace has also increased from 400 flights a day to 600 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, is the introduction of direct flights to destinations in Europe, Australia and the US, which will save travellers going via Bangkok, Singapore or the Middle East.

Myanmar has three domestic airlines providing international services comprising Myanmar National Airways (MNA), Air Bagan and Golden

Myanmar. However, the latter two serve just one cross-border route to Chiang Mai in Thailand. MNA, the national carrier, is undergoing an expansion and has begun taking delivery of ten leased Boeing 737 aircraft. These are expected to serve routes to Singapore, Thailand, China, Hong Kong, Japan and South Korea.

The region ultimately seeks to create a single aviation market. This would mean an airline registered in one country could have a majority share in a carrier based in another and carriers could merge. This process is taking time, though ASEAN carriers are now flying with fewer restrictions.

The ASEAN Multilateral Agreement on Air Services and the ASEAN Multilateral Agreement on the Full Liberalisation of Passenger Air Services is designed to allow the region's airlines to serve any international route within the ASEAN area, though they do not apply to domestic routes and have yet to be ratified by all member states.

Airlines in the region already have the right to fly over each other's airspace without landing and the right to land to refuel or carry out maintenance. Further progress will be needed to emulate the common aviation market seen in Europe where airlines, especially LCCs, can fly cross-border routes that do not originate or connect with an airline's country of origin.

Nevertheless an easing of market restrictions has already encouraged established flag carrying airlines, 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 LCCs have developed across borders by establishing separate, partially owned subsidiaries in different ASEAN countries so as to gain access to the local market.

There are other issues still to be addressed. In Europe and the US there are already unified regional standards in terms of safety policies and flight control is managed through the US Federal Aviation Administration and European Aviation Safety Agency. In aviation, harmonised standards simplify day to day operations and lower transaction costs. ASEAN is working towards establishing these by creating a common aviation authority and implementing regional standards.

These are times of expansion in the region's aviation sector which will accelerate further with the moves to follow the liberalised aviation environments that have been established in other parts of the world. The drive towards an ASEAN Single Aviation Market is designed to foster a competitive aviation market and to propel the region's airlines into bigger regional and global markets.

## Southeast Asia sees huge expansion in broadband access

A huge number of people in the region have gained access to the internet in recent years through their mobile devices. While the uptake varies, across Southeast Asia the fast improving trend is clear in every ASEAN member state.

Around 78.5% of Singapore's population is estimated to have access to the internet, Brunei 74.2%, Malaysia 67% and Vietnam 44%, the Philippines 41%, Thailand 29.6%, Indonesia 28.5%, Lao PDR 13%, Cambodia 6% and Myanmar 1.2%, where commercial cellular services have only been available since 2014.

Internet services for the mass of the region's population have become available for the first time through low cost smartphone devices. Figures compiled by German research company GfK indicate consumers in Singapore, Malaysia, Thailand, Indonesia, Vietnam, Cambodia and the Philippines purchased 120 million handsets in 2014. The fastest growing markets in the last year were Indonesia, Vietnam and Thailand, which saw rises of 70%, 56% and 44% respectively.

The proliferation of increasingly advanced mobile devices is bringing internet access including social media to an ever increasing number of people, in addition to opening up opportunities for Government services, medicine and banking.

Sam Saba, Head of Ericsson's Southeast Asia region, says that the increasing availability of affordable smart phones, internet access and mobile telephony is enabling more consumers to access the benefits of the networked society. In Indonesia, Thailand and the Philippines, smartphones are now the primary means of getting online, he says.

The internet combined with advanced ICT represents the most essential modern element in social and material progress, as well as a bridge to the most advanced global economies. The sector is also critical for providing digital building blocks for growth in other sectors, including financial services, business services, utilities and logistics.

Potential opportunities provided by broadband services extend beyond commerce and include education, transportation and healthcare.

Singapore's Communications and Information Minister, Dr Yaacob Ibrahim commented at the 14th ASEAN Telecommunications and IT Ministers (TELMIN) meeting in January 2015: "We all recognise the potential of ICT to positively transform the way we work, live and play. Sensors, for example, can be placed in homes. This allows hospitals and clinics to monitor their patients' health and wellbeing remotely, changing the way we deliver healthcare needs to the community."

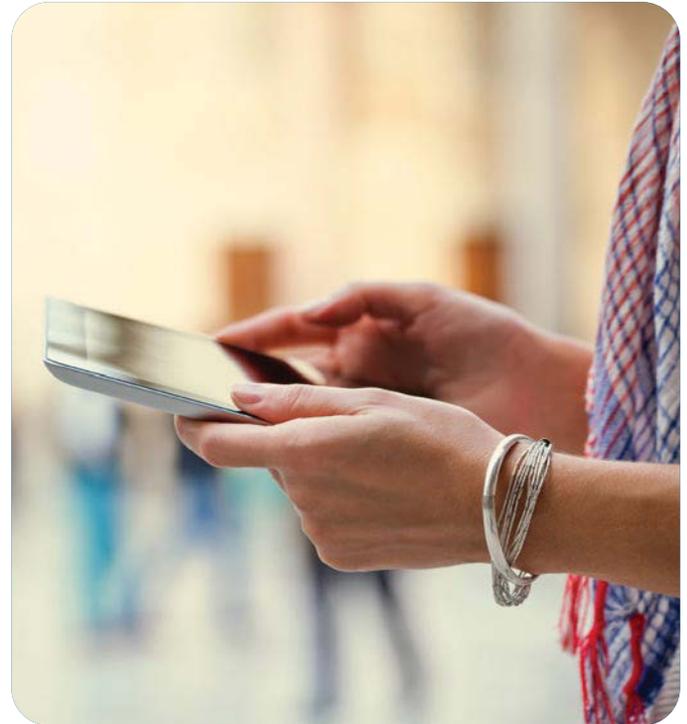
The benefits of the digital economy continue to be seen in the Philippines, as the country's Business Process Outsourcing (BPO) sector moves from contact centres to more knowledge based businesses such as back office systems development, accounting, medical transcription and other IT enabled back office support enterprises, including media services.

The Philippines BPO industry has grown 25% a year over the last decade, employing few people in 1999 to 800,000 people in 2015, and is expected to employ one million people by 2016, The World Bank estimates.

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 as well as 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.

In a short period, Cambodia has reaped the benefits of a successful roll-out of mobile services. The latter has avoided a costly rebuilding of fixed line telecoms infrastructure by its launch of cellular services.

This process is being replicated in Myanmar. At present, the country of 60 million has one of the lowest rates of telecoms and internet access in the world. Reform of the sector is an integral part of lifting millions of



people out of poverty, says Ulrich Zachau, The World Bank Country Director for Myanmar. Bold new investments are already helping to accelerate the process.

Japan's mobile operator KDDI and the trading house Sumitomo Corporation signed an agreement with Myanmar Posts and Telecommunications (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 commented: "We have entered what could be called the last rapidly growing market. With our telecoms infrastructure expertise, we hope to greatly contribute to the development of Myanmar's economy." (*The Japan Times* 17/7/14)



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In 2014, Norway's Telenor and Qatar owned Ooredoo, began launching new mobile networks in Myanmar. It recognised the potential of investing in the development of Myanmar's mobile telecoms. The company's strategy has been fully vindicated and by July 2015, Telenor said it had secured more than ten million subscriptions giving it around 30% of the market. The number of data users has also been much higher than expected, according to Petter Furberg, the company's Myanmar Chief Executive Officer.

"The biggest surprise is that 55% of our customers are data users on a monthly basis, most of them on smartphones. Voice traffic grew 93% from January to June, but data usage grew 196% over the same period," he says.

As a result, Telenor's expansion plan now calls for all its transmitting masts to be equipped to provide 3G signals to accommodate greater data traffic. By the end of June 2015, Telenor had installed 2,308 towers, giving access to half the country's population. However, the coverage is mainly in cities with the next phase of the expansion being much more

challenging, as it involves reaching rural inhabitants. Nevertheless, the company aims to have more than 3,500 towers by the end of 2015 eventually rising to 8,000 says Furberg. (*Myanmar Times* 23/7/15)

The take up of 3G services in Myanmar has a great deal to do with the pricing packages offered by Telenor and others in the market, such as Ooredoo which, in April 2015 started charging at less than 10 cents per minute.

The Philippines Digital Strategy is also seeking to lower average prices for broadband access by 5% per year and provide a minimum of 20 mega bytes per second (Mbps) to all central business districts by 2016 and all rural areas by 2020.

At the same time the region is likely to experience vastly enhanced broadband services. Ericsson predicts that by 2020, smartphone subscriptions will grow three times to almost 800 million in the region, while 4G subscriptions will constitute almost 25% of mobile subscriptions with the remainder mostly operating to internet compatible 3G standards by then.

Broadband users increasingly demand faster download speeds. These differ considerably through the region. The median download speed using mobile data in Vietnam is 160 kilobits per second (kbps) compared to an average of 21,870kbps in Singapore and in Thailand 2,380kbps, according to the 2015 Ericsson Mobility Report.

Latest 4G technology offers download speeds three times faster than 3G connections which are the most advanced available in the region at present. Ericsson estimates that 4G technology usage will expand from around 15% to 60% by the end of 2019. (*Jakarta Post* 1/7/14)

Vietnam is planning to introduce 4G by 2016. According to Thieu Phuong Nam, Head of Qualcomm Indochina, 4G is developing strongly, with conditions in the country sufficient to deploy the technology both in terms of government policies and infrastructure. The cost of 4G has fallen substantially, with the cost of delivering data per byte becoming lower than from 3G technologies, he says. The country's state-owned and largest mobile network provider Viettel Group, has said it will begin to trial 4G services by the end of 2015.

Indonesia will need to start moving towards 4G, as cellular data traffic is expected to expand more than tenfold by 2019, according to The Ericsson Mobility Report.

The Report says that Indonesia had the most mobile subscriptions of any Southeast Asian country, with 330 million subscriptions in 2014. The Report also predicts that Indonesia will have as many as seven million new mobile subscriptions within the next four years.

A willingness to invest heavily in technology has been important in the development of digital economies in Singapore and Malaysia. The introduction of a national high speed broadband network has been a priority in Malaysia, with the country committing US\$3.7 billion to install fibre optic cable links to 1.3 million homes over the last four years.

In Malaysia, the Multimedia Development Corporation is encouraging the use of cloud services among SMEs in the country's Multimedia Super



Corridor. The latter is a special economic zone extending 15km from central Kuala Lumpur to the city's international airport.

Malaysia has invested US\$2.6 billion in its high speed broadband project to provide broadband connectivity to 2.3 million homes, offices and businesses. Under Malaysia's tenth Development Plan, the Government's target is for 75% of households to receive broadband by 2015.

Singapore has also invested heavily and now ranks as one of the world's most advanced digital societies. It is way ahead of other countries both in the region, and globally, when it comes to fast internet access with average speeds of 61Mbps.

The speed of broadband connectivity is increasingly a pre-requisite consideration in capturing the possibilities of e-commerce and emerging technologies such as cloud computing. The latter is useful for SMEs since it allows them to reduce costs by subscribing to online solutions rather than having to invest in expensive hardware systems.

In ASEAN, eight of the ten member states have national broadband strategies including Cambodia, which unveiled an ICT masterplan in 2014, to further extend the country's online penetration rate.

Indonesia has established a National Broadband Network strategy under its Masterplan for Acceleration and Expansion of Indonesia Economic Development 2011-2025 (MP3EI). Under this plan, the wired access target for a 20Mbps connection is set to rise from 21% in 2010 to 75% by the end of 2015.

Thailand aims to extend basic broadband services to 80% of the population by 2015, and 95% by 2020. The strategy also aims to provide 100Mbps fibre optic services to key cities and regional areas of commerce by 2020.

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, faster development provides a greater opportunity to join the digital world.

Regional infrastructure projects will also boost telecoms advances. Launched in 2009, Indonesia's Nusantara Super Highway project, also known as the Palapa Ring, will form a nationwide fibre optic cable network which will be the backbone of its ICT development. It is destined to propel the country into an advanced digital age and ranks as one of Asia's most ambitious telecoms projects.

Eventually the Ring will cover 36,000km with cable both underwater and overground. According to Indonesia's Ministry of Communications and Information, the project aims to reach 440 cities and will link the main islands of Sumatra, Java, Kalimantan (Borneo), Nusa Tenggara,

Papua, Sulawesi and Maluku. The Ministry invited consortiums to bid for the project in August 2015, and hopes it will be completed in 2018.

Cross border initiatives are also of strategic importance. The agreement signed in Kuala Lumpur in March 2014, to build the SEA-ME-WE 5, a 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 regions. Existing cable links do not have sufficient capacity to accommodate projected internet traffic.

The 20,000km 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. The cable is due to be operated by a consortium of 15 companies resident in countries along the route including SingTel, Telekom and Malaysia Myanmar Posts and Telecommunications.

The new cable will also serve to ease the strain 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," according to Bill Chang, Chief Executive Officer of Singapore Telecommunications (*SingTel PR*)

The region'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 and will continue to be so.

## The region's mining sector has bright future

Asian countries possess vast untapped mineral resources, both precious metals and industrial ores, with coal the most abundant fossil fuel in the region. The proven coal reserves, for example, are sufficient to supply 80 years of production at present levels, according to estimates by the International Energy Agency.

Many other key industrial ores including iron, copper, bauxite and nickel are also available in abundance. In recent years this has drawn substantial Foreign Direct Investment (FDI) to the region, eager to extract these natural resources with more than 90% of foreign investment in Lao PDR going into mining ventures. Significant investment has also gone into Indonesia and Malaysia.

The exploitation of mineral resources is challenging though as well as costly, especially in remote areas lacking transportation and electricity. Apart from commercial considerations, the income generated from projects has in most instances served to provide employment and to bring improvements to basic infrastructure such as power supplies and roads to isolated communities.

A decline in commodity prices over the last 12 months, accelerated by a cooling of the Chinese economy, the world's leading consumer of metals, is tending to slow investment in mining globally, including Southeast Asia.

However, the situation is far from depressed in the mining sector. Resilient demand from a fast expanding power sector is continuing to support growth in coal production, while Indonesia's export ban on unprocessed ores will also help support bauxite prices, according to BMI Research.

Vietnam and Indonesia also possess 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 each importers of steam coal, which fuel their growing number of coal fired power stations.

The main impediment for coal producers and other mining operations is a lack of transportation infrastructure in remote areas where much of the larger reserves are located. To bring potential projects to the investment stage is a lengthy process. Huge upfront capital commitments

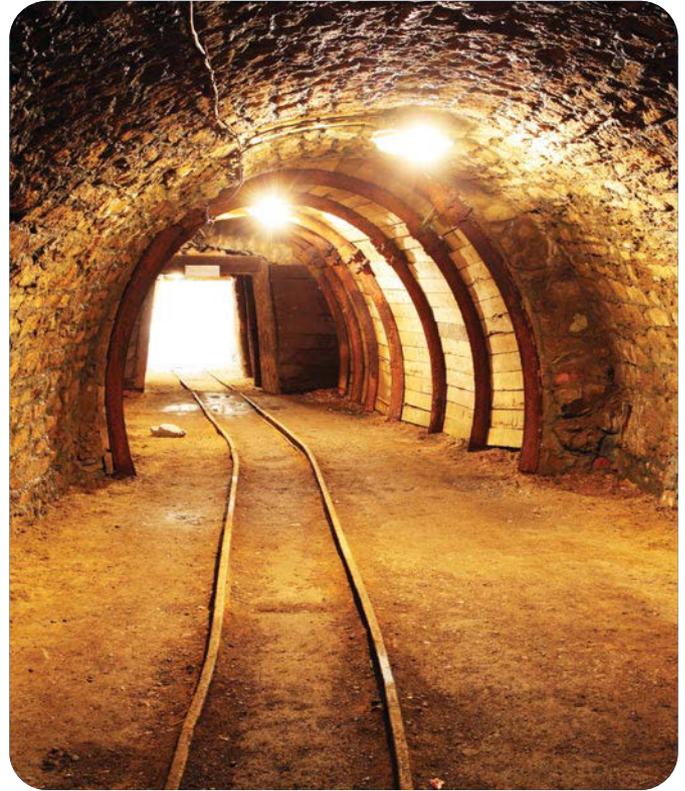
are needed from developers who face considerable risks when calculating the return on their investments, requiring a dialogue with governments and local administrations.

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 largest reserves of nickel, gold and copper, according to the country's Mines and Geosciences Bureau (MGB).

The Philippines mineral exports were valued at US\$4 billion in 2014, with the sector directly and indirectly, providing employment for an estimated 235,000 people. The country's mining sector has been stimulated recently by an increased demand for nickel, following Indonesia's decision to curtail exports following its Government insistence that a range of minerals, including nickel, should be refined and processed within the country, rather than exported as ore.

Some 60% of the Philippines' land area of 30 million hectares has high mineral potential according to the MGB. In 2013, the Philippines Government, valued its mineral deposits at around US\$850 billion. It describes the southern part of the Philippines as a treasure trove of mineral resources that includes gold, copper, nickel, manganese, chromite, silver, lead, zinc and iron ore. The MGB also estimates that up to 70% of the mineral resources could be located in the southern province of Mindanao.

Given the mining potential in the Philippines and other parts of Southeast Asia, the long term future of the sector is assured. Attracting foreign investment interest is not a problem, even at a time of depressed ore prices but fulfilling the sector's potential will take time.



A slow down is giving time to take stock. Philippines Finance Minister, Cesar Purisima, says the Government wants to organise the industry in the same way as advanced countries such as Canada, where plans exist from the start on how to mitigate environmental damage caused by mining ventures.

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

"I believe ASEAN mining companies can fully embrace corporate social responsibility and become trendsetters and model corporate citizens in environmentally sustainable mining and the rehabilitation of land they exploit," Purisima says.

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

The mining industry has been one of the key areas supporting Indonesia's economic growth for a number of years. The sector makes a significant contribution to its GDP, exports, government revenues, employment and perhaps, most importantly, the economic development of the country's remote regions where mining operations are located.

Indonesia has extensive mineral resources with deposits distributed throughout the country. As a result, mining has become 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 until recently, the third and fourth major exporter of copper and nickel respectively. The mining sector's total output is predicted to rise to US\$146 billion per 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 growth rates of around 10%.

The deliberate decision to curtail exports of selected ores, has drastically reduced the value of the country's mineral export income. According to a 2015 report by UN Conference on Trade and Development

(UNCTAD), the value of Indonesia's minerals exports fell from US\$15 billion in 2013, to US\$9.4 billion in 2014, reflecting a halt to copper ore exports for seven months during that year.

It is a strategy designed to absorb short term loss for longer term gain. The reduction in export earnings reflects Indonesia's decision to implement legislation banning the export of unprocessed minerals in an effort to stimulate investment in the still limited processing and refining industries. Major mineral ores that are affected by the ban include nickel, bauxite and copper. Several large mining companies have temporary exemptions from the regulations on the basis that they have committed to build smelters in the future.

In other moves, foreign investors in Indonesia's mining are also required to divest at least 20% and 51% of their stakes respectively by the fifth and 20th years of a mine's production. The divestment schedule is applicable to all minerals.

Indonesia and other countries in the region will need to find accommodations with investors over time. Given the capital intensive and long term nature of the mining business, investment will be needed from the global market, to fund the exploration and mine development required to boost government and export revenues, spur economic growth and expand regional prosperity.

As mining exploration and production companies profits are squeezed, frontier regions will be the first places where mining developers withdraw their investments, as projects located in areas providing greater infrastructure, power supplies and mature regulatory frameworks take precedence. Nevertheless, the vast and still to be exploited minerals potential in the region will continue to be a powerful magnet for investors.

## Economic integration will improve food security

Despite the rise of flourishing new industries in the region, which is becoming steadily more urbanised, most people continue to reside in rural areas, rising to 80% in the case of Lao PDR. This means that farming continues to be a vital focus for ASEAN members, many of whose populations continue to rely on agriculture for their livelihoods.

In 2014, the sector contributed 37.1% of Myanmar's GDP, 32.7% in Cambodia, 23.7% in Lao PDR, 17.9% in Vietnam, 14.2% in Indonesia, 11.1% in the Philippines and 9.3% in Malaysia (*CIA World Factbook 2015*)

The sector's output derives almost entirely from smallholdings which dominate Southeast Asia's agricultural landscape. Many farms occupy less than two hectares of land 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. (*World Economic Forum on East Asia 21/5/14*)

As a result, there is a drive to improve farming methods and grow more food. This effort is made more urgent due to 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-Regional Centre for Graduate Study and Research in Agriculture.

Population expansion and changing food consumption patterns, as demand for more dairy and meat products grows, is making food security a primary challenge for Southeast Asia. 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 soya bean, according to Belinda Chng, Research Fellow at Singapore's Nanyang Technological University.

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.

There is considerable scope for improving yields, including better growing methods, reducing waste and post harvest losses resulting from poor storage and bringing produce to markets in more timely ways.

New methods of cultivation are proving successful. Indonesia's rice partnership is a Government and industry initiative to engage smallholder rice farmers with the aim of increasing rice growing through the supply of new technologies and innovative financing programmes. A first trial has resulted in 17% higher yields for farmers participating and at the same time, 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 NGOs and research agencies. The initiative has helped farmers to increase yields by 10%, profits by 14%, reduced water usage by 40% and greenhouse emissions by 54%.

Affordable microfinance 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.



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 and seeks to bring together both private and public sectors to work on market based solutions in 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



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.



areas of focus are inefficiencies in supply chains, access to finance by farmers, encouraging the use of technology and attracting investors to the sector.

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

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, that are able to cope better with very dry conditions.

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 (AIFS) Framework and the ASEAN Multi-Sectoral Framework on Climate Change: Agriculture Fisheries and Forestry Towards Food Security (AFCC), among others.

AIFS, for example, is designed to integrate programmes that stabilise national and regional food prices and supplies as well as providing

improved and updated mechanisms that quickly help member countries to cope with food emergencies.

Rice, for example, is the most important crop in the region and where the need for regional cooperation is paramount. According to research carried out by The World Bank, despite the importance of the commodity as a basic staple, only 6.5% of rice produced in the world 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.

Another initiative designed to increase cooperation is the ASEAN Food and Beverage Alliance (AFBA). It was launched in 2013, to help harmonise food policy and standards to enhance the trade of safe, high quality food across the region. A lack of harmonisation in food standards between countries has posed a significant technical barrier to trade. The implementation of such new measures and ASEAN economic integration, is likely to increase food and agricultural exports between member countries, resulting in increased food security in the region.

## Focus on healthcare yields impressive results

ASEAN members have made healthcare improvement a major priority alongside economic development. This is illustrated by the rising level of expenditure to improve health outcomes in the region.

Spending is estimated to have grown from US\$69 billion in 2010 to US\$111 billion in 2014, and is expected to rise to US\$150 billion by 2016, driven by government initiatives to improve access to healthcare services. The results have been impressive. As primary provision has increased in recent decades, the health of Southeast Asia 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 advances the region has made in little more than a generation to improve the health of its citizens, advancing from caring for the sick to huge preventative initiatives.

The number of births attended by skilled health personnel for instance and immunisation coverage of children for measles in ASEAN countries, is now at least equal to the US and UK. Neonatal mortality rates are the

lowest and case detection rates for tuberculosis are the highest in the region, according to a CIMB ASEAN Research Institute report.

Improvement is particularly evident in the least developed countries. Cambodia, for example, has made substantial strides in improving maternal health and early child care, and has also proved successful in HIV/AIDs prevention and treatment. At least 95% of those infected have access to antiretroviral 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 2014, that polio had 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.

In recent years most countries 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 and Health Equity Funds in Cambodia and Lao PDR. Singapore also supplies a subsidised system for its nationals.

Singapore has the highest per capita spend on healthcare in Southeast Asia. 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 expenditure for the system, with the rest provided via healthcare insurance packages.

However, sound levels of care are by no means evenly distributed within Southeast Asia and the region still faces challenges. According to the WHO, health spending per capita is around 4% of GDP in ASEAN countries compared to an average of 9.5% in the leading 34 world economies and members of the Organisation of Economic Cooperation and Development (OECD).

At the beginning of 2014, Indonesia launched its Jaminan Kesehatan Nasional (JKN), it's first national health insurance programme. It initially covers half the population, and will be extended to the whole country by 2019. In 2013, the Philippines introduced a national insurance law providing that all citizens, regardless of social and economic status, should be covered by national health insurance protection via the Philippine Health Insurance Corporation.

Vietnam's Universal Health Coverage scheme is due to cover 70% of its population in 2015, rising to 80% by 2020. Thailand has had a universal programme in place since October 2001. Its Universal Health Coverage Scheme, is widely known as the 30 Baht scheme, referring to its less than one dollar cost for low earners. Malaysia's 2010 Economic Transformation Programme, has prioritised healthcare as one of 12 key national economic areas for development.



The Malaysian Government is committed to universal provision, accounting for 60% of expenditure. Its public system is already considered one of the best in Asia, 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 providers.

Facing rapid population growth and a rising demand for quality services, ASEAN nations will still need to substantially increase their level of spending. However, there are many other demands on public

expenditure. As a result, all countries in the region are seeking to expand and develop provision through cooperation with the private sector. PPPs will be a necessary and growing tool to bridge the gap, a report by PriceWaterhouseCoopers predicts.

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

According to Dr Milind Sabnis, a healthcare specialist with industry analyst Frost & Sullivan, demand for hospital beds especially outside Jakarta cannot be met by public hospitals alone. Indonesia has 73 major private hospitals with 42 of them located in the Jakarta area. Dr Sabnis says he expects more to be developed in cities such as Makassar, Pekanbaru and Balikpapan. He also envisages more partnerships and cross-ownership of such facilities among ASEAN countries. The Royal Rattanak Hospital in Phnom Penh, Cambodia's first private hospital offering international standards, for example, is financed by Thailand's Dusit Medical Services.

Indonesia's plans are focused on stimulating PPPs to develop hospitals and other essential 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. The law has also been changed to allow greater ownership by foreign companies in hospitals across the country.

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 Medical Corporation, the country's largest hospital group.

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.

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*)

Improvements though will not result merely from more expenditure. ASEAN leaders have identified healthcare as a priority sector for region wide integration. This will mean 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).

# Educational development is key to economic progress

The potential rewards of a single market in the region are attractive with the promise of even greater and faster economic expansion. Governments recognise though that to be competitive against other trading blocs, will depend on ASEAN providing workforces with the necessary skills needed for businesses and industries operating in a global economy.

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 innovations.

In 2014, Education Ministers and officials who comprise the Southeast Asian Ministers of Education Organisation (SEAMEO), declared seven priority areas that will be the focus of cooperation in SEAMEO over the next 20 years.

The areas comprise; early childhood care and education, addressing barriers to inclusion and access to basic learning opportunities, preparing

school leaders, teachers and students towards resilience in emergencies, promoting technical and vocational education and training among learners and their parents, reforming teachers education and making the teaching profession a first choice career, harmonising higher education and research and adopting a truly 21st century curriculum.

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 young, well educated 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.

An increasing availability of personnel capable of training, is helping to attract international technology based industries to Vietnam. The Ministry of Science and Technology is now trying to develop a high tech cluster of

SMEs in the country. The move is already showing some success with the decision made by almost 80 Japanese ICT firms to invest in the country in 2013.

However, 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 in the region. It states that on average, more than 90% of the region's population can read and write, while net school enrolment rates increased from 2000-2011 in all member countries.

The focus on educational development beyond secondary school is particularly important, in order that countries avoid being caught in the middle income trap. The expression is used to describe a situation where a country that attains a certain income will get stuck at that level without moving upwards. Those caught in the trap occupy predominantly lower value added niches of manufacturing, such as assembly and processing.

As the region 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 high end sectors.

Malaysia's Government is committed to transform 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, Mathematics 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 improved teacher training and enhanced terms for those achieving the standards required. More ICT systems are to be introduced for distance and self paced learning programmes.

One of the principal reforms will see new Secondary and revised Primary curricula rolled out 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, 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 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 by 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 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, at most, only 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.

Indonesian strategy is to provide universal access to senior secondary education through a compulsory 12 years of education and doubling enrolment in higher education by 2020. Under reasonable assumptions, the total number of Indonesians who are educated beyond early secondary school level will more than double over the next ten years, The World Bank concludes.

The Indonesian education system has undergone massive improvements, which is also leading to further demand for higher level

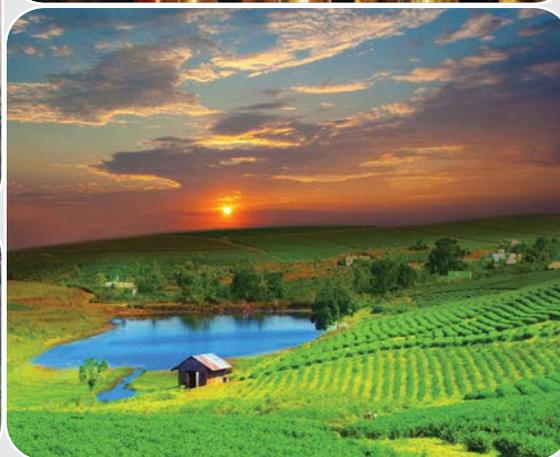
and higher quality education, especially regarding science and engineering, according to a Danish Government survey.

One of Indonesia’s priorities is to expand vocational courses to meet employment needs. As a result 500 community colleges are to be developed over the next five years, in addition to a range of technological universities. English language training is also a necessary development in Indonesia and in other parts of the region.

The Philippines, with its pool of English speaking low cost workers has been able to build the world’s largest business process outsourcing industry, which 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 educational development in the country where its budget is due to be increased from 5.43% to 5.92% over the next year. 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 guide educational policy reform in the country.

It will be the countries displaying higher levels of education and those able to push the technological frontiers of the future who will reap the economic benefits. Southeast Asia’s rich reserves of highly skilled workers will spur the introduction of new and advanced technologies for making high value goods. This can place ASEAN countries at the hub of innovation and industrial growth in global markets.



## Southeast Asia's tourism potential is immense

Foreign tourists from all over the world continue to be enticed by Southeast Asia, with year on year growth in visitor numbers continuing to be recorded. For those who know the region, this is not surprising. Few regions of the world possess such a diversity of attractions from beaches to rainforests, as well as newer attractions, offering five star resorts, entertainment and shopping opportunities.

According to the Madrid based UN World Travel Organisation (UNWTO) the region experienced a 2% growth in international visitors in 2014 with 96.6 million visitors compared to 94.3 million in 2013.

Industry indicators continue to be encouraging in 2015. UNWTO forecasts suggest that Southeast Asia's international visitor numbers will grow 75% to 123 million by 2020, and 187 million by 2030.

In view of this trend, ASEAN member states see the travel and tourism industry sector as crucially important for the region's development. Malaysian Prime Minister, Najib Razak says that "Tourism is vital for the socio-economic benefits because it promotes people to people connectivity, one of the key strategies towards achieving the ASEAN Community by 2015."

Growing investments and cooperative efforts augur well for a continuing expansion in Southeast Asia's share of world tourism. According to the UNWTO's Secretary General, Taleb Rifai: "The tourism sector has shown a remarkable capacity to adjust to changing market conditions, fuelling growth and job creation around the world," adding that the region has shown considerable resilience in recent times, to health scares, natural disasters, financial crises and political upheavals.

This positive trend is illustrated by Thailand's tourism sector, which has shown healthy growth in 2015 with visitor numbers up to 12.4 million between January and May, an increase of 25% over the same period of 2014. (*Tourism Authority of Thailand*)

Vietnam received 7.8 million visitors in 2014, an increase of 4% over the previous year. While there has been some decline in 2015, as a result of fewer Russian visitors, the country's hospitality sector continues to expand robustly.

Visitor numbers to the Philippines increased 3.25% to 4.8 million in 2014, providing revenues of US\$4.8 billion. In the first seven months of 2015, some 3.1 million visitors were recorded. These contributed to

tourism earnings of US\$2.8 billion as reported by the country's Department of Tourism.

According to the London based World Travel & Tourism Council (WTTC), which represents the global industry's private sector, the direct contribution of travel and tourism to GDP in the region is highly significant with the WTTC, forecasting that this contribution will reach US\$216 billion by 2024.

In 2014, the sector's GDP contribution amounted to US\$31.9 billion for Thailand, US\$27.5 billion for Indonesia, US\$18.6 billion for Malaysia, US\$14.8 billion for Singapore, US\$8.6 billion for Vietnam and US\$2.3 billion for Cambodia. It also estimates the sector provides 2.2 million jobs in Thailand, 3.3 million in Indonesia, 1.9 million in Vietnam, 985,000 in Cambodia and 152,700 in Singapore.

It expects Southeast Asian countries to attract an increase of 5.8% in capital investment for travel and tourism projects in 2015. The travel body estimates the region received US\$49.9 billion in capital investment during 2014, a figure WTTC sees rising to US\$96.4 billion in 2025. (*Travel & Tourism Economic Impact 2015: Southeast Asia*)

The sector is also a major employment generator with 11.2 million jobs supported by travel and tourism in Southeast Asia during 2014, according to the WTTC. This employment is generated by hotels, airlines, travel agencies, visitor passenger transportation services as well as restaurant and leisure industries. The figure is predicted to rise 3% over the next ten years to 15.5 million, according to the WTTC, which expects the direct contribution of travel and tourism to account for an average 5% of GDP in the region in 2015.



According to the OECD, tourism offers large numbers of unskilled workers the opportunity to enter the workforce easily. In the Philippines, a stimulus to this has come with social tourism initiatives, of which the most recent is the Bangon Tours Project. It was put in place by the Government with the support and coordination of the private sector. The Project is designed to stimulate domestic tourism in the Philippines, to raise funds for the rebuilding of the Eastern Visayas islands, an area that was most affected by Hurricane Yolanda in 2013.

The Philippines received some 4.8 million tourists in 2014, but is keen to reach a target of ten million visitors by 2016. However, while the country



While attracting more high spending international visitors to the region, much of Southeast Asia's dramatic growth in tourism has come from the increase in travel between ASEAN countries.



has prioritised development of its tourism sector, this is being held back by insufficient infrastructure, particularly the number of airports able to accommodate long haul flights.

In the last three years, Myanmar has started to receive greater investment in its own spectacular visitor appeal with tourism expanding rapidly. Myanmar's President, Thein Sein, has said that three million visitors came to the country in 2014, almost a 50% increase over 2013, providing revenues of US\$3 billion. "The latter figure includes direct, indirect and induced effects of tourism," says Aung Zaw Win, Director General of Myanmar's Directorate of Hotels and Tourism.

Myanmar's tourism masterplan is targeting 7.4 million visitors by 2020. As a result, considerable hotel development is underway with various commitments by leading international groups to develop new hotels in Yangon and resort areas in the country. Much of this is at the high end of tourism such as the Inle Lake Sanctum, a 96 room luxury resort on the eastern shoreline of Inle Lake southeast of Mandalay.

Connectivity is also a key factor and a number of major airlines now have scheduled services to Myanmar, including Thai Airways, Singapore Airlines, Malaysian Airlines, Qatar Airways, ANA, Korean Air, Vietnam Airlines, Air China, China Southern, Asiana Airlines and Air India. This number will rise as tourism numbers increase and demand grows for new routes.

Making things easier for travellers is also an important factor in developing the travel and tourism sector. Vietnam estimates that tourist numbers from France, Germany, Italy, Spain and the UK will grow 15% as a result of its move in June 2015, to exempt nationals from these countries from a need to obtain a visitor's visa.

A central part of the ASEAN tourism strategy is also creation of a single entry visa to the ten member countries. The strongest proponents of the single ASEAN 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 a phased introduction. The latter now allows two countries visas obtained in either country to be valid for both.

This joint visa scheme was implemented through the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS), a joint development project involving Cambodia, Lao PDR, Myanmar, Thailand and Vietnam. One of the principal reasons why Cambodia and Thailand have been able to go ahead with the joint visa is that the two countries' computer networks are compatible. This is not the case with Lao PDR, which was also originally going to join the scheme.

While attracting more high spending international visitors to the region, much of Southeast Asia's dramatic growth in tourism has come from the increase in travel between ASEAN countries. This has been helped by

rising incomes and the fact that airline schedules and route capacities have all expanded since deregulation of the region's aviation industry began ten years ago. More competition has in turn helped to reduce prices and provide more direct flights between countries in the region.

An accelerating development is focusing the attention of governments. Member states are keen to help the region's tourism by developing a free flow of services and trained personnel. Malaysia's Tourism and Culture Minister, Mohammed Nazri Abdel Aziz has said that he and his counterparts in the region are determined to press ahead with building up 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 has been 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 associated training institutions, as well as an ASEAN Tourism Professional Registration System.

Following the signing of the ASEAN MRA in November 2012, Indonesia, Malaysia, Myanmar, Singapore, Thailand and the Philippines have established Tourism Professional Qualification Boards and National Tourism Professional Boards. The types of employment cover more than 30 occupations ranging from front office, housekeeping, food & beverage services to tour operators and travel agencies. (*Economic Research Institute for ASEAN and East Asia*)

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 in the region, and also to relieve pressures on traditional and increasingly overcrowded visitor sites. In terms of millions of tourists received, Southeast Asia's 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, aims 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 potential.

Another priority is to develop a strategic plan for ecotourism. This aims at promoting sustainable economic development through conservation of nature based environments. 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 attractions and ports. Assistance is also being given by UNWTO to identify opportunities for river based tourism routes.

The region's attractions embrace a wide clientele, many of whom are keen on entertainment and shopping opportunities as much as beaches and cultural sites. One Thai retail developer, Central Group has invested US\$50 million in the Central Embassy mall in Bangkok's commercial district. This project is typical of the growing number of high end ventures, designed to bring new upmarket global brands to Thailand and other countries for the first time.

In the Philippines, a private sector project Entertainment City Manila, commenced in 2008 and is targeted for completion in 2017. The development is located on 100 hectares of reclaimed land in Manila Bay. The promoters aim to position the resort as a rival vacation centre to classic gambling resorts such as Las Vegas or Monte Carlo. The ambitious US\$5 billion project includes four casino resorts, one of which opened in 2013, as well as housing, amusement parks, theatres, conference facilities and sports stadiums.

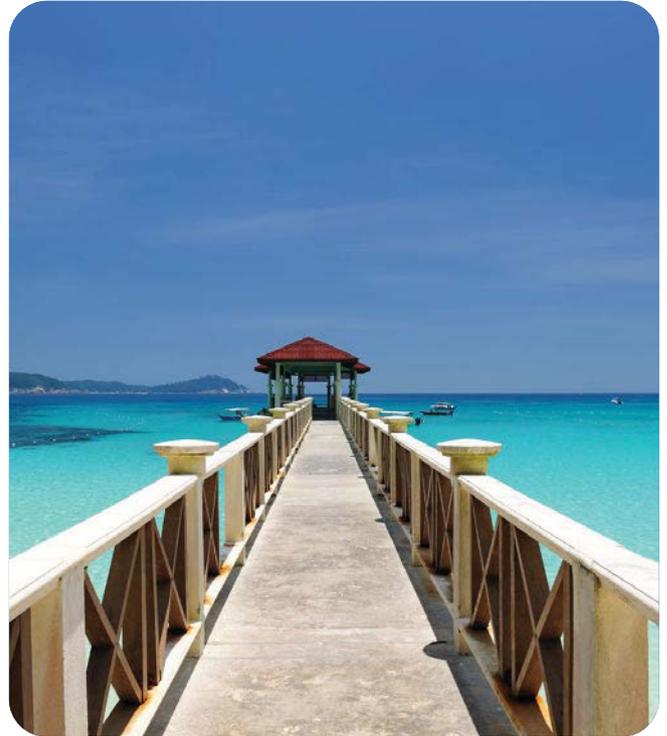
Foreign hotel groups are also extending their reach. In June 2015, the Spanish hospitality group, Melia Hotels International, said it had agreed to operate a new 400 room hotel in Yangon. The project is being developed by the local real estate company Hoang Anh Gia Lai Myanmar, and will include an office complex, apartments and a commercial centre.

Melia Hotels Vice President Asia Pacific, Bernardo Cabot, commented that the hotel would boost the company's brand awareness within the region and be an opening to enter other destinations within Myanmar. *(Melia Hotels International 3/6/15)*

Hilton Worldwide Holdings has already announced plans to open more hotels in Myanmar over the next three years. This follows the opening of the Hilton Nay Pyi Taw and Hilton Ngapali Beach Resort in Rakhine State in 2014. These are to be followed by the opening of hotels in Bajan, Mandalay and a resort hotel at Inle Lake in Shan State. Hilton says it is proceeding with its planned projects in conjunction with the local Eden Group. *(11/6/14 Hilton PR)*

A shortage of top end accommodation has also attracted interest from a range of other 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. This investment will see a dramatic improvement in overall standards. Until 2013, Myanmar only had six hotels considered to be of an international five star standard.

Vietnam's surging tourism industry is also proving attractive to developers. In 2014, the US Rose Rock Group, announced a cooperation agreement with the local Vung Ro Petroleum Company. This aims 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.

Indonesia is also a target for many developers. Sofitel Asia Pacific Vice President, 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 in both Bali and Jakarta."

The lure of Southeast Asia's exotic tourism potential continues to draw astute investors who recognise the vast long term opportunities in a still largely untapped sector.

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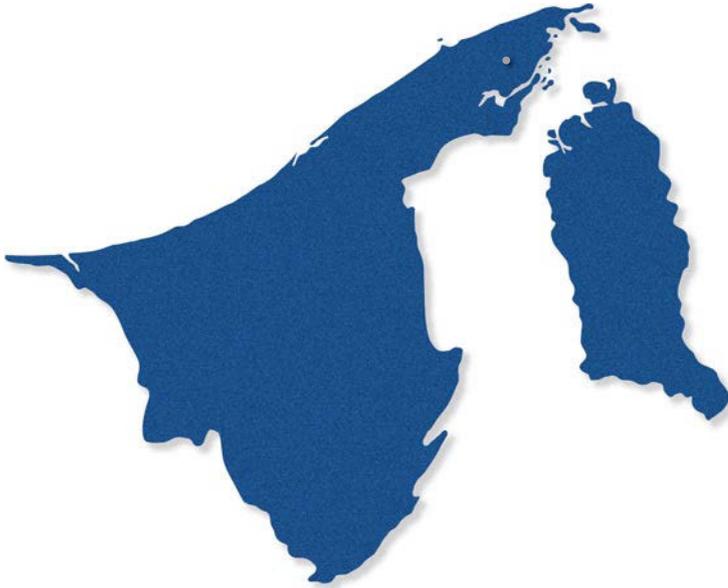
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# Member country profiles...



## BRUNEI DARUSSALAM



The slide in global hydrocarbon prices has inevitably had a knock on effect on the country's economy even though production levels recovered in 2014. As markets improve the Government anticipates that offshore exploration will allow a substantial increase in future output of crude oil & gas. While the oil industry is the main economic sector, the construction industry stimulated by infrastructure developments is performing well.

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. Brunei Economic Development Board has set up a 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. This has been boosted by the expansion and modernisation of Royal Brunei Airlines, which includes the acquisition of the latest Boeing 787 airliners, which are deployed on routes to Dubai and London. Additional modern airliners are being bought to expand regional routes. Brunei International Airport's recently completed

overhaul, has doubled the airport's handling capacity from 1.5 million to three million passengers a year.

Located on the northern shore of the island of Borneo, Brunei Darussalam consists of two unconnected parts, with a total area of 5,765km<sup>2</sup> 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 161 km 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 Saifuddin Mosque, a tribute and indication of the nation's deep rooted Islamic faith.

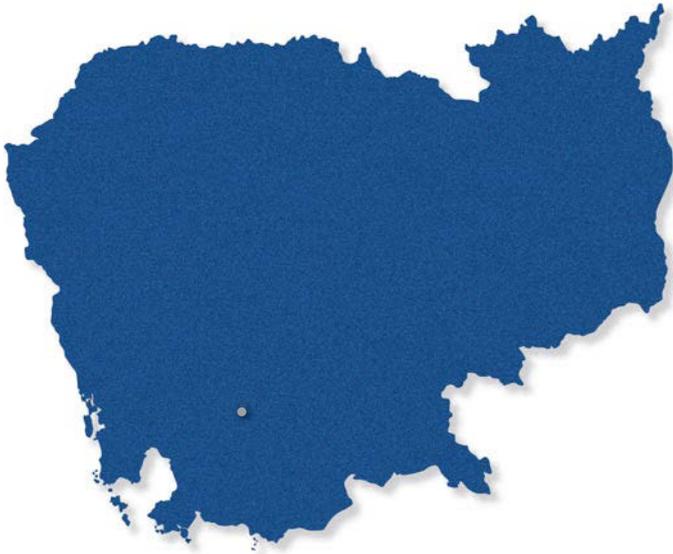
Brunei joined ASEAN on 7 January 1984, becoming the sixth member and hosted the 23rd ASEAN Summit in October 2013.

# BRUNEI DARUSSALAM

<b>Joined ASEAN:</b>	7 January 1984
<b>Head of State:</b>	His Majesty Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaulah
<b>Area:</b>	5,765km <sup>2</sup>
<b>Border countries:</b>	Malaysia
<b>Coastline:</b>	161 km
<b>Capital city:</b>	Bandar Seri Begawan
<b>Total population:</b>	430,000
<b>Population of capital:</b>	140,000
<b>Climate:</b>	Tropical, hot, humid and rainy
<b>Languages:</b>	Malay, English, Chinese
<b>Religions:</b>	Muslim 67%, Buddhist 13%, Christian 10%, other 10%
<b>Ethnic groups:</b>	Malay 66.3%, Chinese 11.2%, indigenous groups 3.4%, other 19.1%
<b>Monetary unit:</b>	Brunei Dollar (BND)
<b>Natural resources:</b>	Petroleum, natural gas, timber
<b>Major exports:</b>	Crude oil, natural gas, garments
<b>Major export trading countries:</b>	Japan 39%, South Korea 12.5%, Australia 9.7%, India 9.2%, Thailand 6.4%.
<b>Major imports:</b>	Machinery and transport equipment, manufactured goods, food, chemicals
<b>Major import trading countries:</b>	Singapore 29.2%, China 26.9%, Malaysia 13.2%, US 8.5%, South Korea 4.5%, UK 4.1%.
<b>Internet domain:</b>	.bn
<b>International dialling code:</b>	+673



## CAMBODIA



Driven by the country's garments manufacturing industry, construction, agriculture and its fast developing tourism sector, Cambodia's economy is displaying robust growth with GDP increasing by 7% in 2014. The garments sector, which produces clothing for many of the world's leading brands, employs around 400,000 people and accounts for some 70% of Cambodia's total exports. The country is also an increasingly popular tourism destination. Its world heritage sites have established the country on the tourist map and attracts 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. A promising economic outlook is balanced by considerable challenges to build basic infrastructure and develop educational and healthcare services. International donor assistance continues to play a significant part in development efforts.

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 4.5 million visitors in 2014, 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.

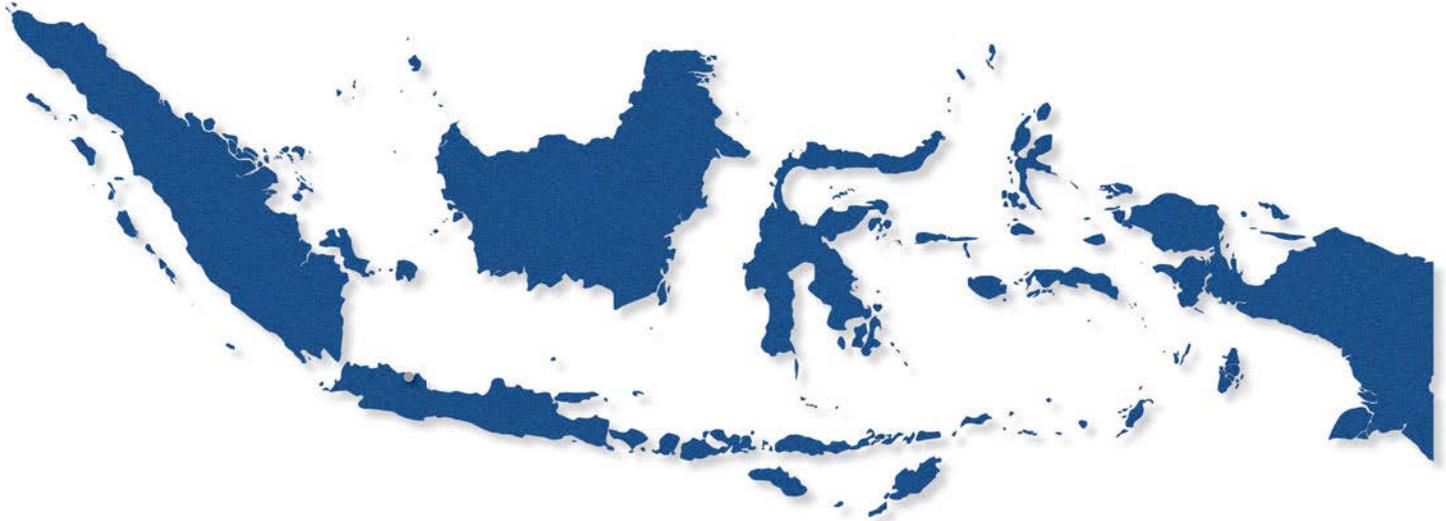
Cambodia joined ASEAN on 30 April 1999, making them the tenth member and hosted the 21st ASEAN Summit in November 2012.

# CAMBODIA

<b>Joined ASEAN:</b>	30 April 1999
<b>Head of State:</b>	His Majesty King Norodom Sihamoni
<b>Area:</b>	181,035km <sup>2</sup>
<b>Border countries:</b>	Lao PDR, Thailand, Vietnam
<b>Coastline:</b>	443km
<b>Capital city:</b>	Phnom Penh
<b>Total population:</b>	15.708 million
<b>Population of capital:</b>	1,519,000
<b>Climate:</b>	Tropical and humid. Monsoon season May to November. Dry season December to April
<b>Languages:</b>	Khmer, French, English
<b>Religions:</b>	Buddhist 96.4%, Muslim 2.1%, other 1.3%, unspecified 0.2%
<b>Ethnic groups:</b>	Khmer 90%, Vietnamese 5%, Chinese 1%, other 4%
<b>Monetary unit:</b>	Riel (KHR)
<b>Natural resources:</b>	Oil & gas, timber, gemstones, iron ore, manganese, phosphates, hydropower potential
<b>Major exports:</b>	Clothing, timber, rubber, rice, fish, tobacco, footwear
<b>Main export trading countries:</b>	US 24.1%, Hong Kong 8.7%, Germany 8.1%, Canada 7%, Japan 6.5%, Vietnam 5.3%, Thailand 5%, China 4.1%
<b>Major imports:</b>	Petroleum products, cigarettes, gold, construction materials, machinery, motor vehicles, pharmaceutical products
<b>Main import trading countries:</b>	Thailand 28.1%, China 20.6%, Vietnam 16.8%, Singapore 7%, Hong Kong 5.7%, South Korea 4.1%
<b>Internet domain:</b>	.kh
<b>International dialling code:</b>	+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 has taken the helm of a vast country spanning an archipelago of approximately 18,000 islands, stretching from Asia to Australia, and an economy that needs to continue to develop rapidly in order to support a population of more than 250 million people. 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. In 2014, GDP grew 5.02%, maintaining the growth trajectory achieved over the last decade. Poverty levels though still high have fallen considerably from 23.4% to 12.5% since 1999, The World Bank says. Indonesia's economy already the largest in Southeast Asia, is projected to be the seventh largest global economy by 2030, though very large investments in infrastructure and education will be required to achieve this.

The island's of Indonesia are spread 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.

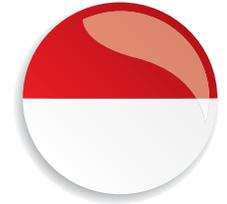
Indonesia has at least 150 active volcanoes, including Krakatoa and Tambora. Volcanic ash is a major contributor to the vast agricultural fertility that has historically sustained the high population densities of Java and Bali.

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 hosted the 19th ASEAN Summit in November 2011.

# INDONESIA



<b>Joined ASEAN:</b>	8 August 1967 (Founder Member)
<b>Head of State:</b>	President Joko Widodo
<b>Area:</b>	1,904.569km <sup>2</sup>
<b>Border countries:</b>	Timor-Leste, Malaysia, Papua New Guinea
<b>Coastline:</b>	54,716km
<b>Capital city:</b>	Jakarta
<b>Total population:</b>	256 million
<b>Population of capital:</b>	9,121,000
<b>Climate:</b>	Tropical, hot and humid. More moderate in the highlands
<b>Languages:</b>	Bahasa Indonesia, English, Dutch, local dialects (of which most widely spoken is Javanese)
<b>Religions:</b>	Muslim 86.1%, Protestant 5.7%, Roman Catholic 3%, Hindu 1.8%, other 3.4%
<b>Ethnic groups:</b>	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%
<b>Monetary unit:</b>	Rupiah (IDR)
<b>Natural resources:</b>	Petroleum, tin, natural gas, nickel, timber, bauxite, copper, fertile soils, gold, silver, coal
<b>Major exports:</b>	Oil & gas, coal, electrical appliances, plywood, textiles, rubber
<b>Main export trading countries:</b>	Japan 13.1%, China 10%, Singapore 9.5%, US 9.4%, India 7%, South Korea 6%, Malaysia 5.2%
<b>Major imports:</b>	Machinery and equipment, chemicals, fuels, foodstuff
<b>Main import trading countries:</b>	China 17.2%, Singapore 14.1%, Japan 9.6%, South Korea 6.7%, Malaysia 6.1%
<b>Internet domain:</b>	.id
<b>International dialling code:</b>	+62



Lao PDR recorded 7.4% GDP growth, the highest by any ASEAN economy in 2014, 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. There are two main mining ventures operated by China's MMG Sepon and Australia's PanAust respectively, which are exploiting copper and gold deposits in the southwest of the country. The Government is also anticipating increasing returns from its Nam Theun dam project, which is intended to generate electricity for sale to Thailand. 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 is situated between Myanmar, China, Vietnam, Cambodia and Thailand. Its thickly forested landscape 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.

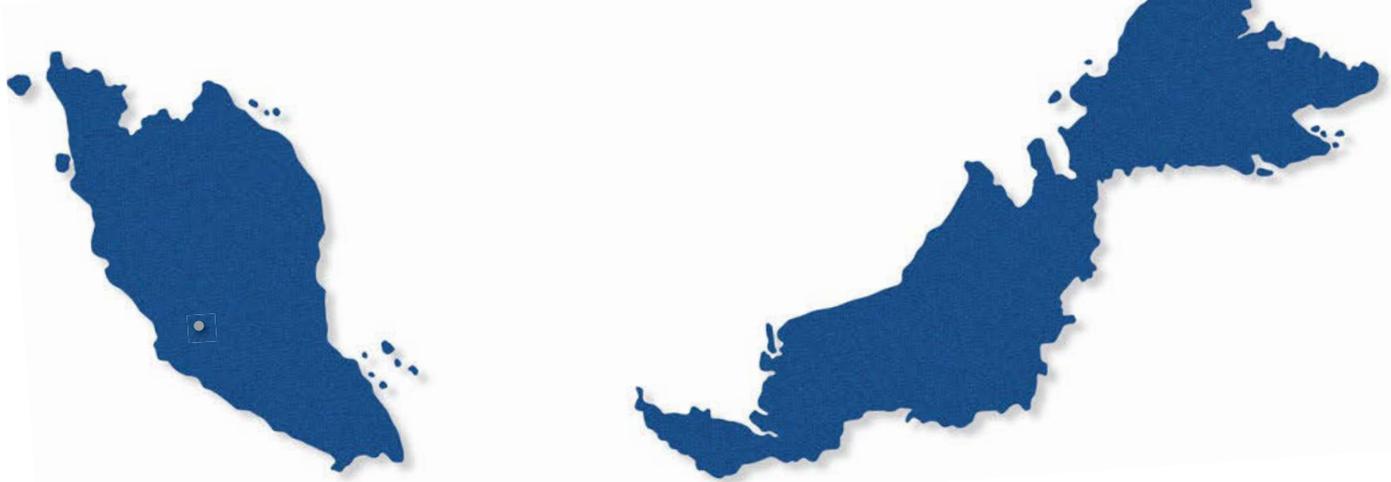
Lao PDR joined ASEAN on 23 July 1997, along with Myanmar and will be the host of the 29th ASEAN Summit in 2016.

# LAO PDR

<b>Joined ASEAN:</b>	23 July 1997
<b>Head of State:</b>	President Choummaly Sayasone
<b>Area:</b>	236,800 km <sup>2</sup>
<b>Border countries:</b>	Myanmar, Cambodia, Thailand, Vietnam, China
<b>Coastline:</b>	Landlocked
<b>Capital city:</b>	Vientiane
<b>Total population:</b>	6.9 million
<b>Population of capital:</b>	799,000
<b>Climate:</b>	Tropical. Monsoon season May to November. Dry season December to April
<b>Languages:</b>	Lao PDR, French, English, various ethnic languages
<b>Religions:</b>	Buddhist 67%, Christian 1.5%, other 31.5%
<b>Ethnic groups:</b>	Lao PDR 55%, Khmou 11%, Hmong 8%, other 26%
<b>Monetary unit:</b>	Kip (LAK)
<b>Natural resources:</b>	Timber, hydropower, gypsum, tin, gold, gemstones
<b>Major exports:</b>	Wood products, coffee, electricity, tin, copper, gold
<b>Main export trading countries:</b>	China 34.2%, Thailand 27.4%, Vietnam 15.7%
<b>Major imports:</b>	Machinery and equipment, vehicles, fuel, consumer goods
<b>Main import trading countries:</b>	Thailand 55.2%, China 25.6%, Vietnam 6.6%
<b>Internet domain:</b>	.la
<b>International dialling code:</b>	+856



## MALAYSIA



Malaysia's GDP grew 6% in 2014. 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 that 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 is in the southern third of the Malay Peninsula and East Malaysia which occupies 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, 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 hosted the 27th ASEAN Summit in November 2015.

# MALAYSIA

<b>Joined ASEAN:</b>	8 August 1967 (Founder Member)
<b>Head of State:</b>	Sultan Abdul Halim Mu'adzam Shah
<b>Area:</b>	329,847km <sup>2</sup>
<b>Border countries:</b>	Brunei Darussalam, Indonesia, Thailand
<b>Coastline:</b>	4,675km
<b>Capital city:</b>	Kuala Lumpur
<b>Total population:</b>	30.513 million
<b>Population of capital:</b>	1,493,000
<b>Climate:</b>	Tropical. Southwest monsoons April to October, northeast monsoons October to February
<b>Languages:</b>	Bahasa Malaysia, English, Chinese, Tamil, Telugu, Malayalam, Panjabi, Thai
<b>Religions:</b>	Muslim 60.4%, Buddhist 19.2%, Christian 9.1%, Hindu 6.3%, Confucianism, Taoism and other Chinese religions 2.6%, other 1.5%
<b>Ethnic groups:</b>	Malay 50.4%, Chinese 23.7%, indigenous 11%, Indian 7.1%, other 7.8%
<b>Monetary unit:</b>	Ringgit (MYR)
<b>Natural resources:</b>	Tin, petroleum, timber, copper, iron ore, natural gas, bauxite
<b>Major exports:</b>	Electronic equipment, petroleum and liquefied natural gas, wood and wood products, palm oil, rubber, textiles, chemicals
<b>Main export trading countries:</b>	Singapore 14.2% China 12%, Japan 10.8%, US 8.4%, Thailand 5.3%, Hong Kong 4.8%, Australia 4.3%, India 4.2%, Indonesia 4.2%
<b>Major imports:</b>	Electronics, machinery, petroleum products, plastics, vehicles, iron and steel products, chemicals
<b>Main import trading countries:</b>	China 16.9%, Singapore 12.6%, Japan 8%, US 7.7%, Thailand 5.8%, South Korea 4.6%, Indonesia 4.1%
<b>Internet domain:</b>	.my
<b>International dialling code:</b>	+60



## MYANMAR

According to World Bank estimates, Myanmar's economy grew 8.7% in 2014, an indication that the country is fast emerging from its previous isolation. 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. Combined with an end to conflict in border areas, these significant changes in direction have the potential to create opportunities and more broadly distributed prosperity for the country's people. This will allow Myanmar to resume its place as one of the most dynamic economies in Asia.

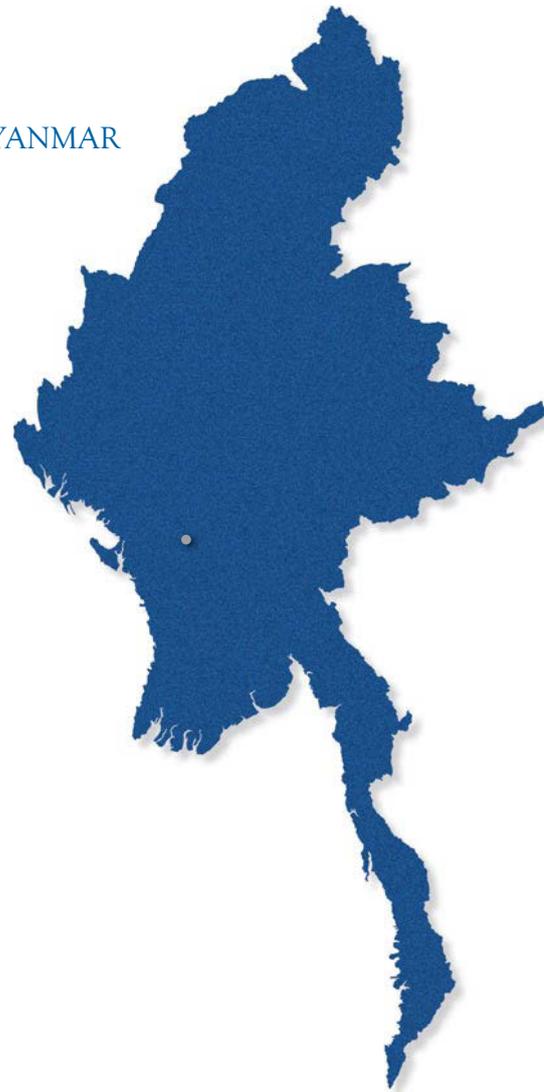
The country has one of the lowest population densities in the region with fertile lands and untapped agricultural potential, in addition to huge unexploited natural resources. Its geographic location connecting China and India, two of the world's most powerful economies, makes Myanmar well positioned to resume its traditional role as a trading hub and major supplier of minerals, gas and agricultural produce.

Since 2010, a reform programme has been rolled out to make the economy more efficient including floating the currency and introducing new fiscal regulations. 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. They 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.



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 and hosted the 25th ASEAN Summit in November 2014.

# MYANMAR

<b>Joined ASEAN:</b>	23 July 1997
<b>Head of State:</b>	President Thein Sein (at date of print)
<b>Area:</b>	676,578km <sup>2</sup>
<b>Border countries:</b>	Lao PDR, Thailand, Bangladesh, China, India
<b>Coastline:</b>	1,930km
<b>Capital city:</b>	Naypyidaw
<b>Total population:</b>	56.3 million
<b>Population of capital:</b>	992,000
<b>Climate:</b>	Summer is tropical, cloudy, hot and humid. Southwest monsoon June to September. Winter less cloudy with lower humidity. Northeast monsoon December to April.
<b>Languages:</b>	Burmese
<b>Religions:</b>	Buddhist (89%), Christian (4%), Muslim (4%), other (3%)
<b>Ethnic groups:</b>	Burman 68%, Shan 9%, Karen 7%, Rakhine 4%, Chinese 3%, Indian 2%, Mon 2%, other 5%
<b>Monetary unit:</b>	Kyat (MMK)
<b>Natural resources:</b>	Petroleum, timber, tin, antimony, zinc, copper, tungsten, lead, coal, marble, limestone, precious stones, natural gas, hydropower
<b>Major exports:</b>	Natural gas, wood products, pulses, beans, fish, rice, clothing, jade, gems
<b>Main export trading countries:</b>	China 63%, Thailand 15.8%, India 5.7%.
<b>Major imports:</b>	Fabric, petroleum products, fertiliser, plastics, machinery, transport equipment, cement, construction materials, crude oil, food products
<b>Main import trading countries:</b>	China 42.4%, Thailand 19%, Singapore 10.9%, Japan 5.4%
<b>Internet domain:</b>	.mm
<b>International dialling code:</b>	+95



## THE PHILIPPINES

The Philippines saw GDP growth of 6.1% in 2014, following 6.6% growth the previous year. The country remains among the fastest expanding economies in Southeast Asia averaging GDP growth of about 5% since 2002, much higher than that achieved in the previous two decades. While the effects of Typhoon Hainan have been severe, the Philippines has proved remarkably resilient, not just to the impact of climate disruptions but also global recession. 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 km 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 the Filipino family. 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 and last hosted the Summit in January 2007.

# THE PHILIPPINES



<b>Joined ASEAN:</b>	8 August 1967 (Founder Member)
<b>Head of State:</b>	President Benigno S. Aquino III
<b>Area:</b>	300,000km <sup>2</sup>
<b>Border countries:</b>	None
<b>Coastline:</b>	36,289km
<b>Capital city:</b>	Manila
<b>Total population:</b>	101.1 million
<b>Population of capital:</b>	11,449,000
<b>Climate:</b>	Tropical marine. Northeast monsoon from November to April and southwest monsoon May to October
<b>Languages:</b>	Filipino, English
<b>Religions:</b>	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%
<b>Ethnic groups:</b>	Tagalog 28.1%, Cebuano 13.1%, Ilocano 9%, Bisaya/Binisaya 7.6%, Hiligaynon Ilonggo 7.5%, Bikol 6%, Waray 3.4%, other 25.3%
<b>Monetary unit:</b>	Peso (PHP)
<b>Natural resources:</b>	Petroleum, gold, silver copper, nickel, cobalt, timber, salt
<b>Major exports:</b>	Semi-conductors and electronic products, transport equipment, garments, copper products, petroleum products, coconut oil, fruits
<b>Main export trading countries:</b>	Japan 22.5%, US 14.1%, China 13%, Hong Kong 9.1%, Singapore 7.2%, Germany 4.3%, South Korea 4.1%.
<b>Major imports:</b>	Electronic products, mineral fuels, machinery and transport equipment, iron and steel, textile fabrics, grains, chemicals, plastic
<b>Main import trading countries:</b>	China 15%, US 8.7%, Japan 8.1%, South Korea 7.8%, Singapore 7%, Thailand 5.3%, Saudi Arabia 5%, Malaysia 4.8%, Indonesia 4.7%, Germany 4.2%.
<b>Internet domain:</b>	.ph
<b>International dialling code:</b>	+63



## SINGAPORE



Singapore is one of the wealthiest countries in Asia. Its highly globalised economy grew by 2.9% in 2014. The country's strong manufacturing and services sectors are the twin pillars of its economy. Singapore, even with relatively high salary levels, continues to be an attractive destination for FDI, particularly high tech 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. Strong manufacturing and services sectors are the principle elements of an economy that features electronics production, financial services, oil drilling equipment, refining, pharmaceutical manufacturing, processed food and beverages, rubber products and ship repair. 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.

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, Singaporians 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 and hosted the 13th Summit in November 2007.

# SINGAPORE

<b>Joined ASEAN:</b>	8 August 1967 (Founder Member)
<b>Head of State:</b>	President Tony Tan Keng Yam
<b>Area:</b>	697km <sup>2</sup>
<b>Border countries:</b>	None
<b>Coastline:</b>	193km
<b>Capital city:</b>	Singapore City
<b>Total population:</b>	5.7 million
<b>Climate:</b>	Tropical, hot and humid with two monsoon seasons. Northeastern monsoon from December to March, southwestern monsoon June to September
<b>Languages:</b>	Mandarin, English, Tamil, Malay, Hokkien, Cantonese, Teochew
<b>Religions:</b>	Buddhist 42.5%, Muslim 14.9%, Taoist 8.5%, Hindu 4%, Catholic 4.8%, other Christian 9.8%, other 0.7%, none 14.8%
<b>Ethnic groups:</b>	Chinese 76.8%, Malay 13.9%, Indian 7.9%, other 1.4%
<b>Monetary unit:</b>	Singapore dollar (SGD)
<b>Natural resources:</b>	Fish, deepwater ports
<b>Major exports:</b>	Machinery and electronic equipment, consumer goods, pharmaceuticals, chemicals, refined petroleum products.
<b>Main export trading countries:</b>	China 12.6%, Malaysia 12.%, Hong Kong 11%, Indonesia 9.4%, South Korea 4.1%.
<b>Major imports:</b>	Machinery and equipment, foodstuffs, consumer goods, mineral fuels, chemicals
<b>Main import trading countries:</b>	China 12.1 %, Malaysia 10.7%, US 10.3%, South Korea 5.9%, Japan 5.5%, Indonesia 5.1%, UAE 4.2%, Saudi Arabia 4%.
<b>Internet domain:</b>	.sg
<b>International dialling code:</b>	+65



## THAILAND

Thailand is the second largest economy in Southeast Asia. Its GDP at US\$985.5 billion in 2014, 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 tourist sector has been one of the world's fastest growing over the last decade. The Kingdom ranks as a popular choice for foreign investors, ranking 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 320,000km<sup>2</sup> and is fed by the Chao Phraya, Mae Klon, Bang Pakong and Tapi Rivers.

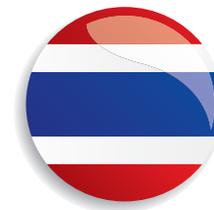


Thailand is a stronghold of Buddhism. Many of the rules of etiquette are by-products of the Buddhist religion. Great emphasis is placed on outward forms of courtesy and politeness. The family is the cornerstone of Thai culture. Thailand has a strong hierarchical social structure.

Thailand is a founder member of ASEAN and hosted the 14th Summit in 2009.

# THAILAND

<b>Joined ASEAN:</b>	8 August 1967 (Founder Member)
<b>Head of State:</b>	His Majesty King Bhumibol Adulyadej
<b>Area:</b>	513,120km <sup>2</sup>
<b>Border countries:</b>	Myanmar, Cambodia, Lao PDR, Malaysia
<b>Coastline:</b>	3,219km
<b>Capital city:</b>	Bangkok
<b>Total population:</b>	68 million
<b>Population of capital:</b>	6,902,000
<b>Climate:</b>	Tropical, rainy, warm, cloudy southwest monsoon from May to September. Dry, cool northeast monsoon, November to March
<b>Languages:</b>	Thai, English, ethnic and regional dialects
<b>Religions:</b>	Buddhist 94.6%, Muslim 4.6%, Christian 0.7%, other 0.1%
<b>Ethnic groups:</b>	Thai 75%, Chinese 14%, other 11%
<b>Monetary unit:</b>	Baht (THB)
<b>Natural resources:</b>	Tin, rubber, natural gas, tungsten, tantalum, timber, lead, fish, gypsum, lignite, fluorite, arable land
<b>Major exports:</b>	Textiles and footwear, fishery products, rice, rubber, jewellery, automobiles, computers, electrical appliances
<b>Main export trading countries:</b>	China 11%, US 10.5%, Japan 9.6%, Malaysia 5.6%, Hong Kong 5.5%, Singapore 4.6%, Indonesia 4.2%, Australia 4.1%
<b>Major imports:</b>	Capital goods, intermediate goods and raw materials, consumer goods, fuels
<b>Main import trading countries:</b>	China 16.9%, Japan 15.6%, US 6.4%, Malaysia 5.6%, UAE 5.6%
<b>Internet domain:</b>	.th
<b>International dialling code:</b>	+66



During the last 25 years, Vietnam has emerged as one of Asia's great success stories. GDP growth of 6% was recorded in 2014, 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 WTO 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. At its eleventh congress in 2011, the ruling Communist Party declared that the country would engage proactively in international integration and put greater emphasis on market processes and restructuring of state-owned enterprises.

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 Gia 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 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 28 July 1995, making it the seventh member and hosted the 17th Summit in 2010.

## VIETNAM



# VIETNAM

<b>Joined ASEAN:</b>	28 July 1995
<b>Head of State:</b>	President Truong Tan Sang
<b>Area:</b>	331,210km <sup>2</sup>
<b>Border countries:</b>	Lao PDR, Cambodia, China
<b>Coastline:</b>	3,444km (excluding islands)
<b>Capital city:</b>	Hanoi
<b>Total population:</b>	94.3 million
<b>Population of capital:</b>	2,668,000
<b>Climate:</b>	Tropical in the south, monsoons in the north with the hot, rainy season May to September. Warm and dry October to March
<b>Languages:</b>	Vietnamese, English, French, Chinese, Khmer
<b>Religions:</b>	Buddhist 9.3%, Catholic 6.7%, Hoa Hao 1.5%, Cao Dai 1.1%, Protestant 0.5%, Muslim 0.1%, none 80.8%
<b>Ethnic groups:</b>	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%
<b>Monetary unit:</b>	Dong (VND)
<b>Natural resources:</b>	Phosphates, coal, manganese, rare earth elements, bauxite, chromate, timber, hydropower
<b>Major exports:</b>	Clothes, shoes, marine products, crude oil, electronics, wooden products, coffee, rice, machinery
<b>Main export trading countries:</b>	US 20%, China 10.4%, Japan 10.3%, South Korea 5%
<b>Major imports:</b>	Machinery and equipment, petroleum products, steel products, raw materials for clothing and shoe industries, electronics, plastics, automobiles
<b>Main import trading countries:</b>	China 30.4%, South Korea 15%, Japan 8.9%, Singapore 4.7%, US 4.4%
<b>Internet domain:</b>	.vn
<b>International dialling code:</b>	+84



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A photograph of a construction site. In the foreground, a man in a white shirt and yellow hard hat is walking towards the left. In the background, several other workers in hard hats are standing near a building under construction, which is heavily scaffolded. The ground is dirt and concrete. The sky is clear and blue.

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