Southeast Asian Economies Creating Opportunities

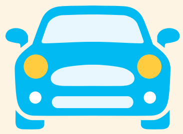
It has a population of 625 million people and boasts some of the world's most impressive growth rates along with a young, free-spending populace increasingly showcasing their fast-rising affluence. What new Asian Tiger economy is this? The answer is none of them, but rather the collective region of Southeast Asia.

Previously seen as a fragmented expanse of disparate incomes and prospects, the diverse nations of Southeast Asia have increasingly prospered with many now enjoying booming economies. Exports are flourishing – the members of ASEAN (Association of Southeast Asian Nations) collectively rank fourth among exporters worldwide, and are projected to move to third by 2018. They produce 90% of the world's palm oil, 70% of its natural rubber, a quarter of the world's rice, and large amounts of coal and gas.

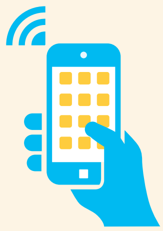
The region is also developing into a thriving market for companies and products: ASEAN already ranks in the global 'Top Five' for purchases of automobiles, and third for mobile phones. While growth in top-tier Asian markets peaked long ago in Hong Kong, Japan and Singapore, attention has spread to second and third-tier aspiring tigers, from Indonesia and Vietnam to Thailand and the Philippines. With the recent slowdown in China, that interest has escalated.

ASEAN's Growth Story

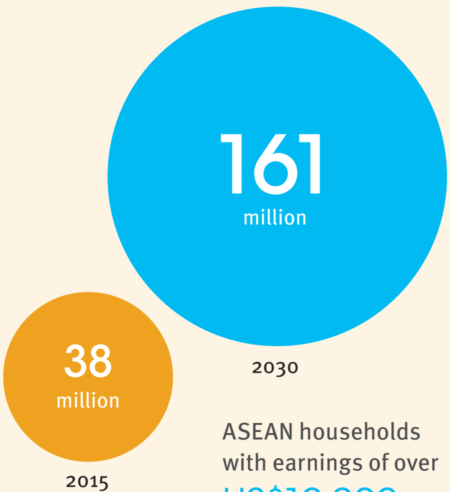
4th
largest exporter globally



Global TOP 5
purchases of automobiles



Global 3rd
purchases of mobile phones



ASEAN households with earnings of over
US$10,000 p.a.

Even before China's economic rebalance, companies had been seeking the next boom markets across Asia. The lure has always been early entry to markets with potential growth rates unseen in mature economies. Many also sought to hedge dependency on Chinese operations, and prevent over-exposure to the China market and rising costs. This means that prospects are bright for emerging nations like Cambodia, increasingly popular for labour-intensive manufacturing like textiles. Myanmar, which is nearly the size and population of neighbouring Thailand, is also attracting investment and offers a rare chance to establish an enterprise in a large, emerging market.

> *"Most of the Jardine Matheson Group's businesses are active in Southeast Asia, with a strong focus on maximizing the opportunities arising from ASEAN."*
>
> **Ben Keswick**

Meanwhile, more established Southeast Asia economies such as Thailand, Vietnam, Indonesia, Malaysia and the Philippines have moved up the value chain to enterprises ranging from the assembly of computer peripherals to outsourcing graphic design. At the same time, incomes are rising rapidly as entire middle-class populations become enabled in countries like Myanmar, Laos and Cambodia, where they did not even exist a decade ago. Households earnings over US$10,000 per year – a benchmark for what is termed the consumer class – are projected to quadruple across ASEAN, from 38 million in 2015 to 161 million by 2030. This rising affluence across the region makes Southeast Asia increasingly attractive for significant investment, particularly in retail, real estate and automobiles. Practically all the region's real estate firms and consultancies are moving into new locations such as Cambodia and Vietnam, while new car dealerships are springing up in Yangon, Myanmar, and Vientiane, Laos.

ASEAN, which celebrates its 40th anniversary this year, has a wide blend of social and policy objectives, along with bold economic goals. Founded by original members Indonesia, Malaysia, the Philippines, Singapore and Thailand, the group has expanded to a current body of ten members with the addition of Brunei, Cambodia, Laos, Myanmar and Vietnam. Together they want to streamline inter-Asian trade and tourism, partially by tackling tariffs and barriers, whether they impact movement of goods, labour or visitors.

GDP growth projections for 2017 (%)

Source: Regional Economic Outlook Update, October 2016, IMF

> ASEAN's combined GDP is estimated at approximately US$3 trillion, with growth at 5% on average, a rate that would rank sixth best globally and third in Asia.

Last year, ASEAN took a major leap, launching its long-planned common market, although experts say it faces an arduous path ahead. That is partly because countries and cultures in the region remain so diverse, while incomes vary dramatically. Singaporeans rank among the world's richest people with a per capita GDP about 70 times that of Myanmar, ASEAN's poorest member. Indonesia, with approximately 250 million people, has 600 times the population of Brunei. Increasing the overall prosperity of the block will be a major challenge, but ASEAN aims to triple average incomes by 2030.

The new 'common market' will be essential to this process. Initially, goods will move customs-free within the limited ASEAN-6 (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand), but special provisions will still apply for Cambodia, Laos, Myanmar and Vietnam.

Already, ASEAN's combined GDP is estimated at approximately US$3 trillion, which, if it were a country, would rank as the world's sixth largest economy. Growth too is brisk at nearly 5% on average across the region, a rate that would rank sixth best globally and third in Asia. Last year, ASEAN attracted an estimated US$130 billion in foreign direct investment and that sum should grow, due not only to increased inter-ASEAN flows, but also to a variety of agreements the body has negotiated as a block with trading partners around the Pacific-Rim and globally.

When questioned about how to best approach and succeed in this varied, still changing region, economists and business analysts caution that it is better to avoid treating ASEAN as one whole and to view opportunities individually, with a strategy that properly assesses the attractions and challenges of each unique market. Hence, international companies are increasing their presence across Southeast Asia, rather than restricting operations to regional hubs. An Economist Intelligence Unit (EIU) survey of over 300 international companies doing business in ASEAN showed that most had multiple offices across the region, and 'international companies are deepening their presence in every single ASEAN country'. They were not, however, simply targeting the obvious markets – the fastest growth was in emerging Myanmar.

As well as operating local offices, consultants advise also working with local partners. Some of the most successful international companies in Southeast Asia are the most chameleon-like, operating in different roles in different countries, and often working behind a prominent local partner, rather than projecting a single brand everywhere.

One of the key objectives of ASEAN is to smooth out obstacles to trade in different countries.

'Having a single market will also help to reduce complexity, as companies will be able to standardize products, services, business models and marketing plans,' notes the EIU report. 'As capital markets become more joined-up, companies will be able to access deeper pools of liquidity for raising money. And as labour markets become more integrated, companies will find it easier to recruit, retain and manage their workforce on a regional basis.'

As a genuine single common market is still some way off, companies need to continue to navigate the unique challenges in each marketplace. For those prepared to take the risks, however, there are potentially high rewards.

Take the automotive industry as an example. While Malaysia boasts rates of car ownership that top 80%, equal to Japan, Thailand comes in at just over 50%, according to the Pew Research Center. At the other end of the scale, only 6% of households in the Philippines claim car ownership, and 2014 figures for Indonesia and Vietnam are 4% and 2% respectively.

Dairy Farm

In Indonesia, Malaysia, Brunei, Singapore, the Philippines, Vietnam and Cambodia, where Dairy Farm's market-leading supermarkets and hypermarkets have a broad footprint, modern retail still accounts for only a modest share of total food retail activity, thus providing significant growth potential as living standards improve and consumers become more demanding about standards of food safety.

Likewise, Dairy Farm's Health and Beauty brands enjoy strong positions in a number of markets across the region. The company's diverse ranges of locally and internationally sourced beauty and skincare products are proving compelling buys for customers. This is exemplified by increasing consumer demand for organic skincare products such as Dairy Farm's private label brand, Botaneco Garden, making it a true Asian brand.

Home improvement is another rising sector as reflected by the success of Dairy Farm's first IKEA store in Indonesia, which opened in 2014.

"We will continue to benefit as ASEAN consumers acquire higher levels of disposable income and place more emphasis on their personal well-being," said Graham Allan, Dairy Farm Group Chief Executive Officer.

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Jardine Cycle & Carriage

Jardine Cycle & Carriage (JC&C) will benefit from the robust growth of the ASEAN economy as it seeks new investment opportunities. As more middle-income consumers can afford to own cars in developing countries, JC&C's direct motors business, which operates in Indonesia, Malaysia, Myanmar, Singapore and Vietnam, will be a winner.

Urbanization across the region will have a similar impact on Siam City Cement (SCCC), the second largest cement manufacturer in Thailand.

"As people move from rural to urban areas to live and to work, cement will be in demand for building their homes and factories," said JC&C Group Managing Director Alex Newbigging. "This will create tremendous business opportunities ahead as we continue to support SCCC's expansion into new markets such as Bangladesh, Cambodia, Sri Lanka and Vietnam."

Hongkong Land

Hongkong Land is extending its ASEAN presence with projects that set new benchmarks for quality and design. In Indonesia, Hongkong Land has introduced resort-style developments and is targeting the top tier market with projects such as Anandamaya Residences in Jakarta, its first joint venture with Astra. A growing middle class in the Philippines is reflected in the high take-up rate for Hongkong Land's joint venture premium waterfront development in Cebu.

"Residential property buyers in the Philippines, like many others in the region, have a penchant for premium quality and are seeking comfortable living environments and exclusive locations," said Hongkong Land Chief Executive Robert Wong. "This demand plus easy access to favourable financing is having a positive effect on the property market there."

Confidence in the property market in Vietnam is also robust, as evidenced by the strong pre-sales for Hongkong Land's luxury apartment development in Ho Chi Minh City. In Thailand, rising affluence is creating more demand for higher-end apartments, which should produce keen interest in the group's first residential development in downtown Bangkok.

Astra

With approximately 248 million people and a rapidly increasing middle class, which is expected to double by 2020 to approximately 141 million, Indonesia is an enormous potential market. For Astra, urbanization and an increase in consumer purchasing power are seen as the key drivers of its seven business lines. This is particularly so in the automotive sector where the demographics underpin Astra's market lead in both the car and motorcycle segments, and related financial services.

"The rising middle class and a young workforce who like to own cars and motorcycles are good for business," said Astra President Director Prijono Sugiarto. "This is evident in increased sales of Astra's low cost green cars, which have proved to be especially popular with Indonesia's young consumers."

These favourable demographics are also having a positive impact on Astra's new property line, where sales are strong. In the future, Astra will benefit too from the predicted millions of first-time homebuyers.

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> **Prijono Sugiarto**

Car ownership rates across much of Southeast Asia actually declined in the aftermath of the Asian Financial Crisis, according to 'Riding Southeast Asia's Automotive Highway', a report from PricewaterhouseCoopers (PwC). Recovery has been slow, impacted not only by reduced savings and earnings, but import policies and trade restrictions that put up prices.

Different countries have taken different approaches to nurturing their car industries. Malaysia, for instance, mounted an aggressive programme to develop its own car industry, but in spite of large investment it failed to produce a viable model, according to Asian Development Bank economist Jayant Menon.

Thailand, however, has taken an alternative approach and become a power in the Asian automotive industry. Over 1.1 million cars are produced in Thailand each year and, according to PwC, an estimated 60% are exported. This still leaves ample room, notes the report, to meet demand in ASEAN, which stands at about four million vehicles annually.

While domestic car manufacturing has not proven viable in parts of the region, support industries have. Mr Menon notes that Thailand not only makes vehicles for foreign companies, but has also become a major producer of auto parts and components. In addition, the country has invested heavily in infrastructure, and drafted supportive regulations. As car buying accelerates across the region, similar enterprises could prove lucrative to other Southeast Asian nations, particularly if positive intra-ASEAN trade rules follow.

Two other markets to watch are the Philippines and Indonesia, where rising incomes are propelling increased car ownership, while in the less advanced, but rapidly developing economies, there are tremendous opportunities for leveraging leapfrog industries. Anyone visiting Myanmar five to ten years ago would have seen the profusion of junkyard taxis shipped as scrap, mostly from Japan, to circumvent the embargo that curtailed car shipments to the then isolated country. Now, following the lifting of sanctions, streets are flooded with recently imported vehicles.

Even stronger growth can be seen in Myanmar telecoms. Just five years ago, only the elite had mobile phones as fees to obtain a sim card were prohibitive, representing years of average wages. Internet service was not allowed in private homes or businesses, and email and browsing were closely censored by the long-reigning military government.

Following the change to a more democratic system, Myanmar allowed in foreign telecoms companies, with revolutionary results. Since Norway's Telenor and Qatar-based Ooredoo launched in late 2014, the price of sim cards has plunged to under US$2, including online service. Both firms pledged billion-dollar investments and practically overnight, an entire generation was lifted into modern times, complete with Facebook and online shopping.

Such transitions are not commonplace, however, and the business landscape across the region remains challenging and convoluted. For example, while retail is booming across Southeast Asia, markets offer stark contrasts, reflecting not only the disparate income levels across the region, but also legal structures that often restrict foreign competition. Myanmar is currently in the midst of a shopping frenzy fuelled by consumers long deprived of real product choice. Malls are going up around Yangon and convenience stores popping up on every corner, but these are restricted to local brands such as Grab and Go, ABC and City Express, rather than international convenience store leaders such as 7-Eleven. This is due to laws that bar foreign players from the industry.

Similar restrictions apply to many other industries in Myanmar, which is just starting to launch modern financial services. International insurers have already opened local offices in anticipation, but laws restrict the business to local companies and that is unlikely to change.

Even in the more advanced economies such as Thailand, restrictions still exist. There, the major construction of numerous high-end luxury malls, including some of the biggest projects in Thai history, are all being carried out by local firms.

Across Southeast Asia, the same nationalistic structure persists in many other countries too, but it is hoped that this will be one of the advantages of the common market as laws liberalize rules on competition in ASEAN and restrictions are gradually lifted.

Sustained economic growth and the emergence of large and growing aspirational middle classes across the entire region are expected to accelerate intra-regional trade in consumer goods, while further liberalization of trade in services will add momentum in the years ahead. In the long term, all ASEAN countries will have to work together to achieve their shared goal to create more opportunities and a more open economic landscape, from which everyone can benefit.