asean business partners
Helping you succeed in Asia

The Review

January 2021 #1

Latest news, views and announcements affecting the ASEAN

INSIDE

Welcome aboard

Welcome to the first ever edition of our newsletter! **ASEAN Business Partners** is a multi-disciplinary professional services firm engaged in assisting international companies across industries grow their business in the ASEAN region. The first edition focusses on in-depth analysis of a diverse range of subjects impacting ASEAN as we enter a new decade.

In our first article, we highlight the impending rise of ASEAN region in a post pandemic world. We also feature global impact stories on BREXIT and the inauguration of Joe Biden in the US, and the implications on Asia. As part of our regular section, we have a round-up of news across the 10 ASEAN countries.

Our objective is to ensure that we brief you on a monthly basis on all the news that you need, to effectively manage your business in ASEAN. We at ABP would appreciate your comments and suggestions on this publication so that we can make it more relevant to you.

Happy reading and we wish you a successful and fulfilling 2021.

Regards,

Sumit Dutta

Sumit Dutta, Founder and CEO

ASEAN – A rising star in a post-pandemic world

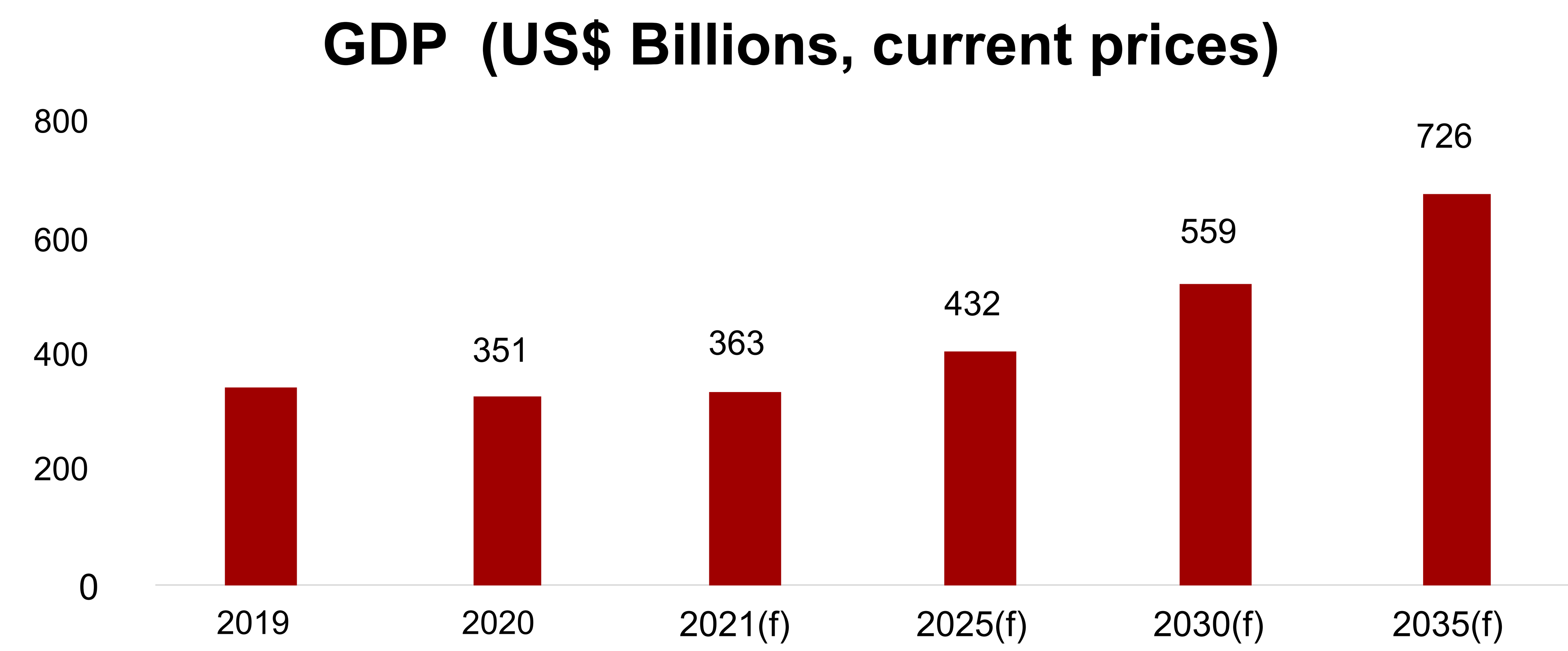
The year 2020 left the world grappling with a pandemic-induced recession, and the ASEAN member states too, are subjected to this economic downturn. However, as we progress into 2021, with vaccines on the horizon, it is important to take a look at the future prospects of each ASEAN economy, and how they might bounce back in a post-pandemic world.

UK's Centre of Economic and Business Research (CEBR) recently published the 2020 World Economic League Table in December 2020, highlighting ASEAN as a high growth region. This could be attributed to several factors including (but not limited to) the region's growing middle class, increasing digital penetration across its population, rising average income levels, and the region's increasingly important role in global supply chains.

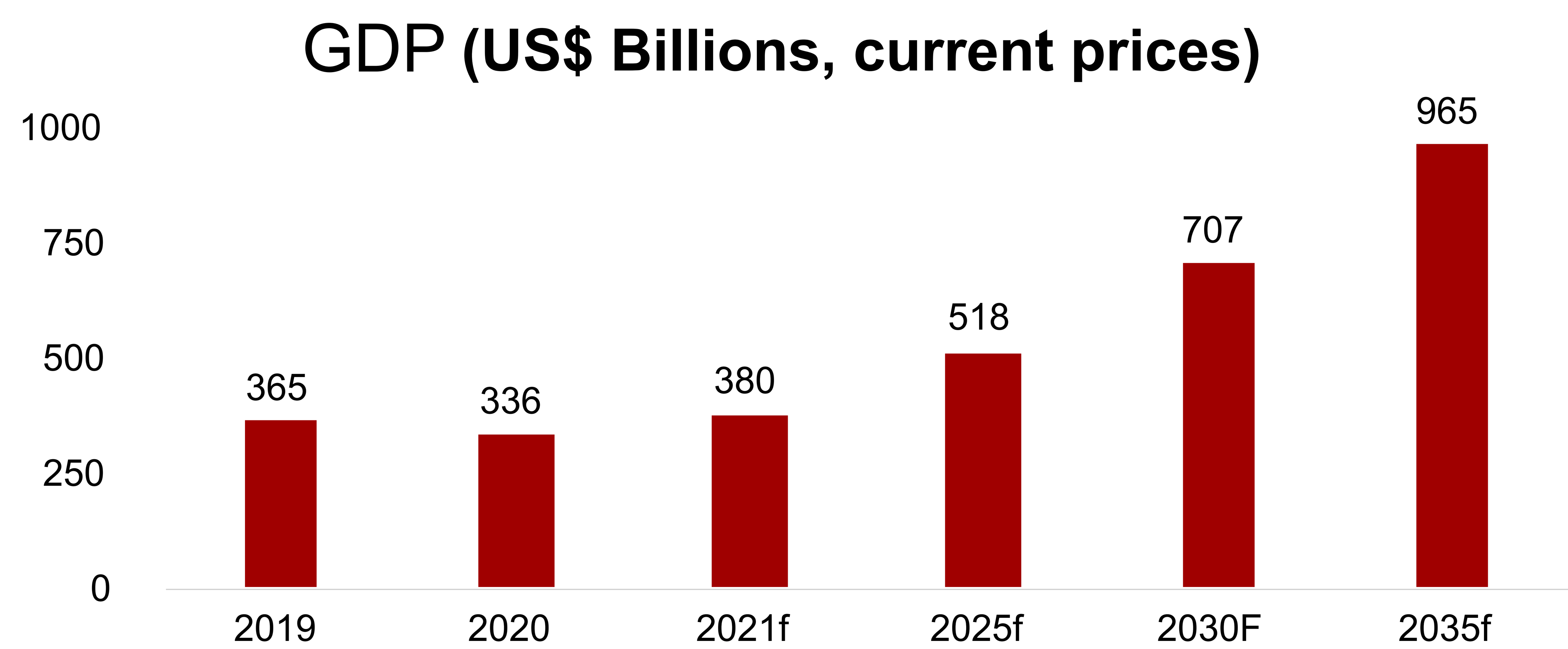
Covid-19 has affected long term GDP growth and economic momentum globally, with Asia doing best and Europe worst. Globally, severe impact will be seen on rising government debt, interrupted global supply chains and slowing consumer demand. However, it has also heralded a momentum in scientific research unheard of in the past, in way of vaccine development. A widespread availability of vaccine will help restart global growth stories especially in the ASEAN region which is expected to come out of this pandemic relatively unscathed. The table below displays the predicted average annual GDP growth rates of some ASEAN economies over the 2021-2025 period, as per the above mentioned report.

Country	Forecasted Annual Growth Rate (2021-2025)
Malaysia	6%
Indonesia	5.4%
Singapore	3%
Philippines	6.7%
Cambodia	7.1%
Vietnam	7%
Myanmar	6.2%

Singapore – The Lion City, though one of the most secure and virus-free places in the world today, has had a slightly unsteady journey through the pandemic. Having contained the virus well in initial months, Singapore experienced a sudden and rapid rise in cases during the summer, and this prompted a nationwide lockdown that lasted till the end of June. As an economy that is heavily dependent on entrepot trade and travel, the pandemic predictably had a significant impact on Singapore's economy, with its GDP shrinking by 5.8% in 2020. However, there is reason for optimism on the horizon. Given that the domestic and global economy are opening back up and the government is implementing policies to raise employment and productivity, the report by the Centre for Economics and Business Research predicts that over the next five-year period Singapore's GDP is set to grow at an average of 3%, after which it will slow down slightly to an average of 2.5% per year between 2026 and 2035. As exhibited in the figure below, the Singaporean economy is expected to show steady growth in the long run, with GDP reaching USD 726 billion by the year 2035.



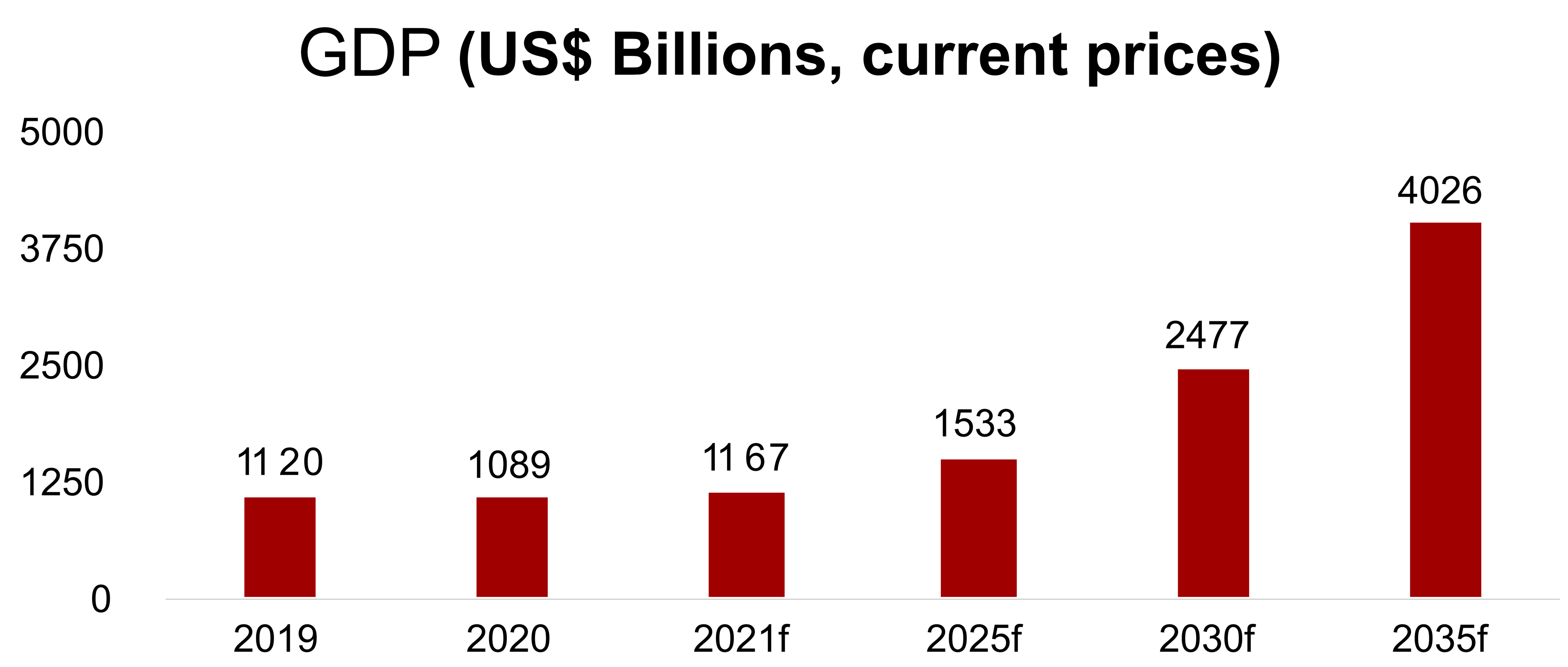
Malaysia – Among the easiest places in the world to do business (given that Malaysia ranks 12th out of 190 countries in the World Bank's Ease of Doing Business ranking), Malaysia is one of the leading economies in Southeast Asia, but it too bore the brunt of the COVID-19 pandemic. According to Asia Pacific Investment Bank (APIB) the Malaysian economy is expected to contract by 6% in 2020, owing in large part to a contraction of over 17% (Y-o-Y) in Q2 of 2020. Despite this economic blow that Malaysia has suffered at the hands of the pandemic, it is expected to make a resurgence in 2021, with the country's Finance Ministry projecting growth between 6.5%-7.5%. Furthermore, the Malaysian economy is forecast to exhibit continued growth in the years to follow – with a projected average annual growth rate of 6% between 2021 and 2025, and an average growth rate of 4.5% between 2026 and 2035. This growth could eventually see the Malaysian economy grow to USD 960 billion by 2035, as showcased in the figure below



Indonesia – ASEAN's largest economy has had the regions highest number of Covid19 cases. However, given the challenges associated with a massive population, it has weathered the pandemic with relative efficiency compared to other populated countries such as India. Also, the number of cases/million population has been on the lower side when compared to other ASEAN countries such as Singapore.

Indonesia's government has introduced a COVID-19 related package worth 4.3% of GDP to boost the economy. With Indonesia stepping into a post-pandemic world, President Jokowi and his government are prioritising the country's economic stability and are thus taking measures to improve its overall business and investment climate. A very recent example of this is the passing of the Omnibus Law on Job Creation which through its broad ranging reforms aims to increase investment flows to the archipelago, and in doing so aims to spur sustainable economic growth for Indonesia.

While the GDP has contracted by 1.5% in 2020, the Indonesian economy is set to witness strong growth over the next five years, with average annual growth reaching 5.4% between 2021 and 2025. In the subsequent ten-year period growth will decrease slightly but still remain stable with GDP growing at an average annual rate of 5.3%. Through such sustained growth Indonesia could eventually cross the USD 4 trillion mark by 2035, as illustrated in the figure below.

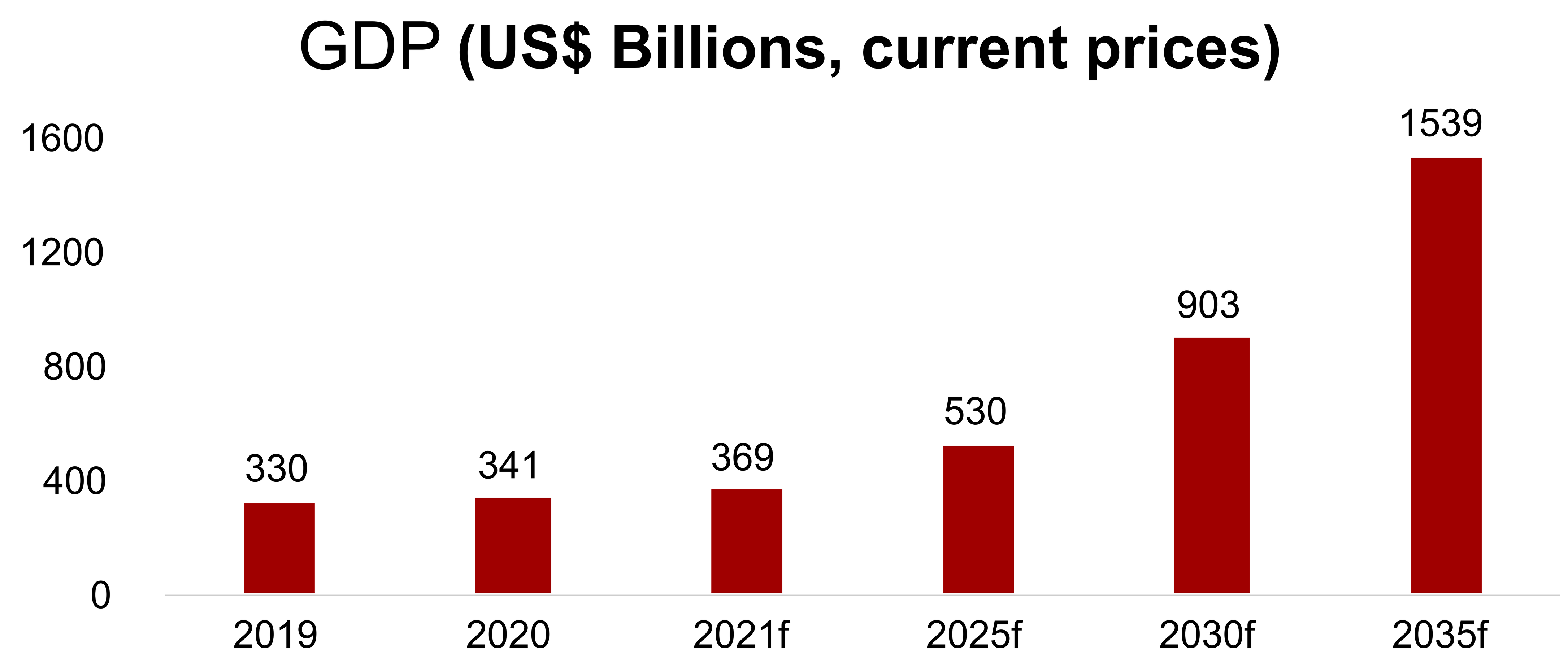


Vietnam – This rising economic heavyweight has tackled the pandemic with astounding efficiency thus far. Despite having a population of over 96 million people, Vietnam has recorded only 1505 COVID-19 cases and 35 virus related deaths as of 7th January, 2021. The country's prowess in containing the spread of the virus has also been reflected in its economic performance for the year.

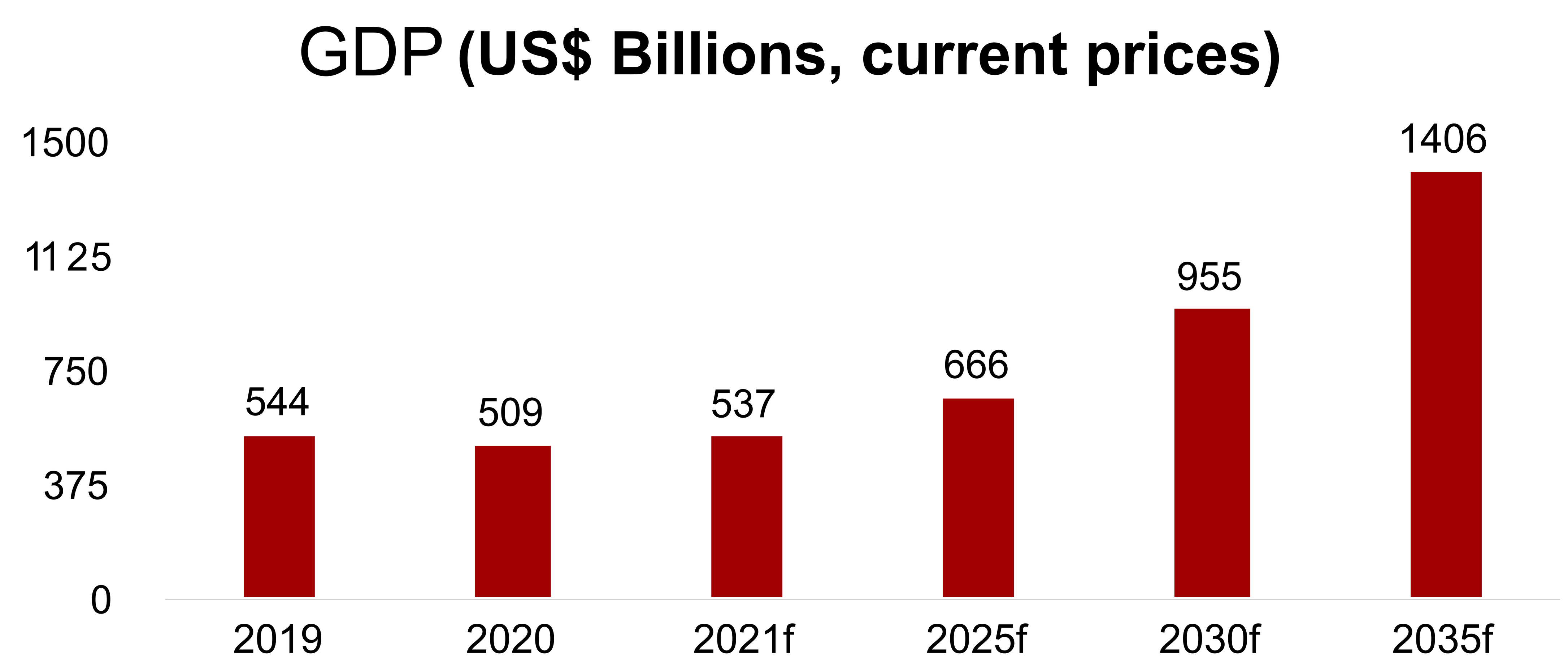
According to estimates by the Centre for Economics and Business Research, its economy expanded by 1.6% in 2020. This is particularly impressive in a year where most economies have struggled to accomplish growth due to the pandemic. And further growth is expected in the future. As per the report by the Centre for Economics and Business Research, the average annual rate of GDP growth is predicted to rise to 7% between 2021 and 2025. Furthermore, in the following ten years from 2026 to 2035, the country's GDP is predicted to grow at an average annual rate of 6.6% per year. This sustained growth could be spurred by multiple factors such as increasing digital penetration and connectedness in the country, a shift in global manufacturing and supply chains as companies look for a 'China plus one' strategy, and increasing global connectivity through the ratification of trade agreements like the recently passed RCEP and the FTAs inked with EU and UK at the end of 2020.

As Vietnam's economy continues to witness strong and stable growth, its GDP could eventually grow to a mammoth USD 1.54 trillion by 2035, as showcased in the figure below.

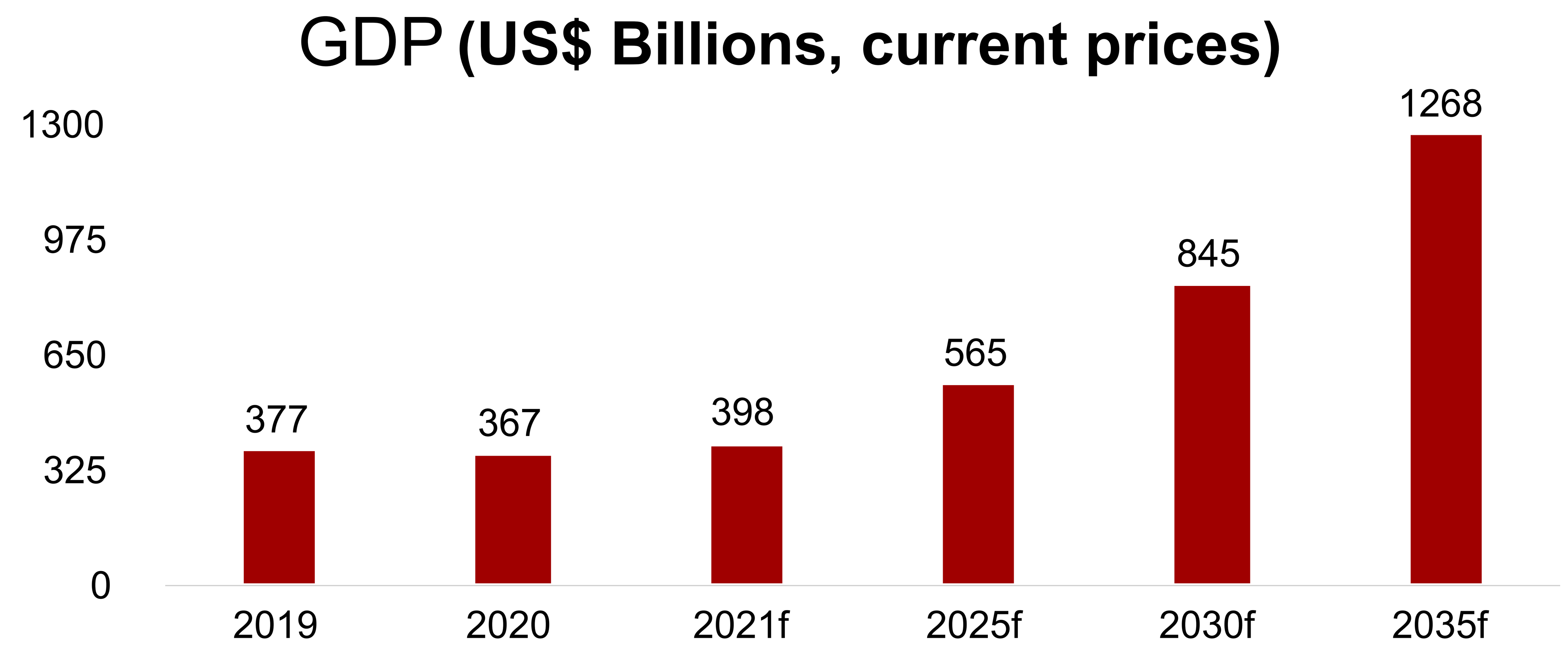
It is, however, important to note that the predicted figures below (acquired from the report by the Centre for Economics and Business Research) do somewhat differ from forecasts by the Economic Intelligence Unit, which has an even more optimistic view of the Vietnamese economy. For example the EIU predicts that Vietnam's GDP will reach USD 557 billion by the year 2025. Though this is higher than CEBR's prediction, the difference itself is not drastic.



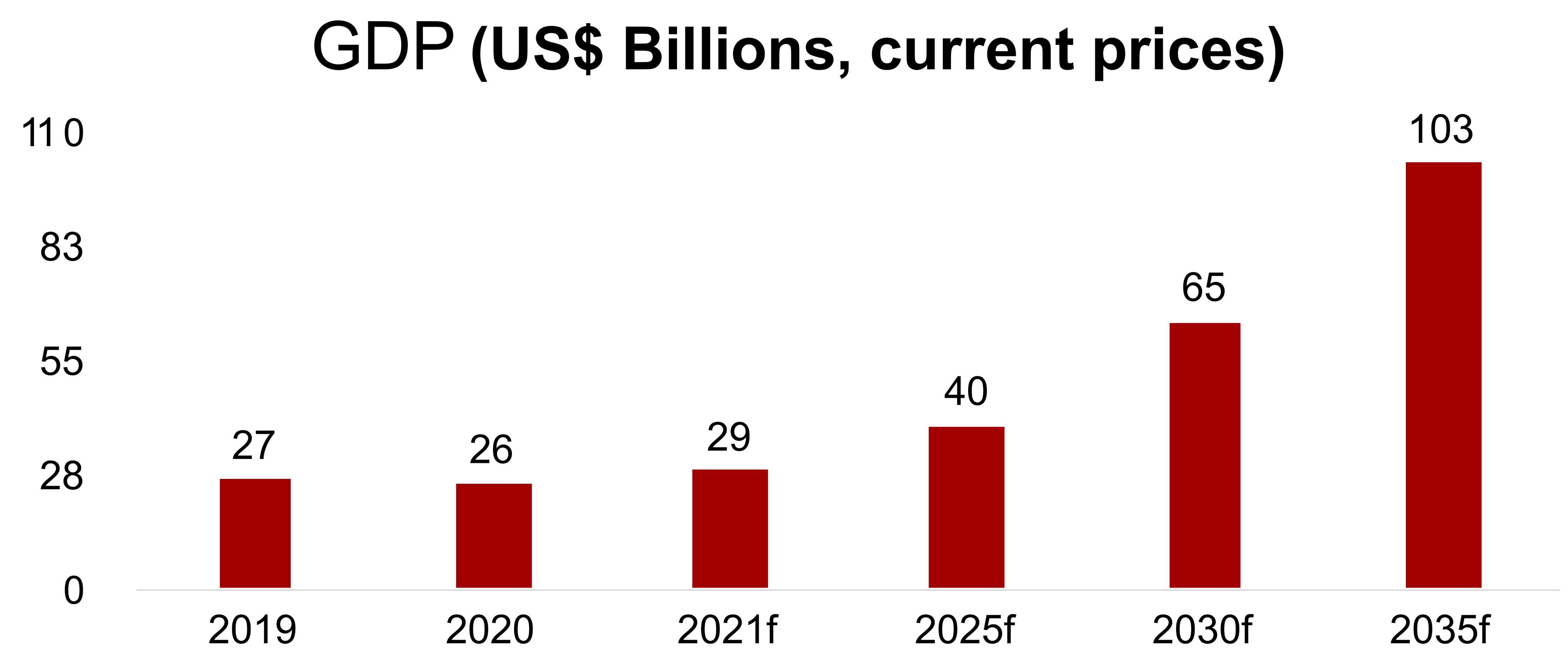
Thailand – The pandemic, by virtue of the global travel restrictions it has brought on, has had a rather targeted impact on the Thai economy which is heavily dependent on the travel and tourism industry. The tourism sector constitutes 15% of Thailand's GDP and the severe blow that it has suffered during 2020 has of course had a significant effect on Thailand's economic performance. Thailand's economy is expected to shrink by over 7% in 2020, but as vaccines become more widely available and countries open their borders in a bid to recover economically the consequent resurgence of global tourism is expected to help Thailand bounce back in 2021 with 4% GDP growth. As illustrated in the figure below, in a post pandemic world Thailand is projected to witness stable, continued growth which will propel its GDP past USD 1.4 trillion by the year 2035.



Philippines – The virus has taken its toll on Philippines, which has recorded nearly 480,000 cases of the virus thus far. From an economic standpoint as well, a GDP decline of 8.3% for the year 2020 has been predicted. Additionally, the economy has seen government debt as a share of GDP increase from 37% in 2019 to 48.9% in 2020. Despite the brunt of the virus the Philippines is expected to prove its resilience and bounce back in a post pandemic world. Projections peg the average rate of GDP growth from 2021-2025 at 6.7%. Furthermore, in the subsequent 10 years between 2026 and 2035, economic growth is expected to remain stable with an average annual growth of 6.5%. As shown in the figure below, strong and stable continued growth will eventually see the Philippines' economy surpass the USD 1 trillion mark and reach USD 1.2 trillion by the year 2035.



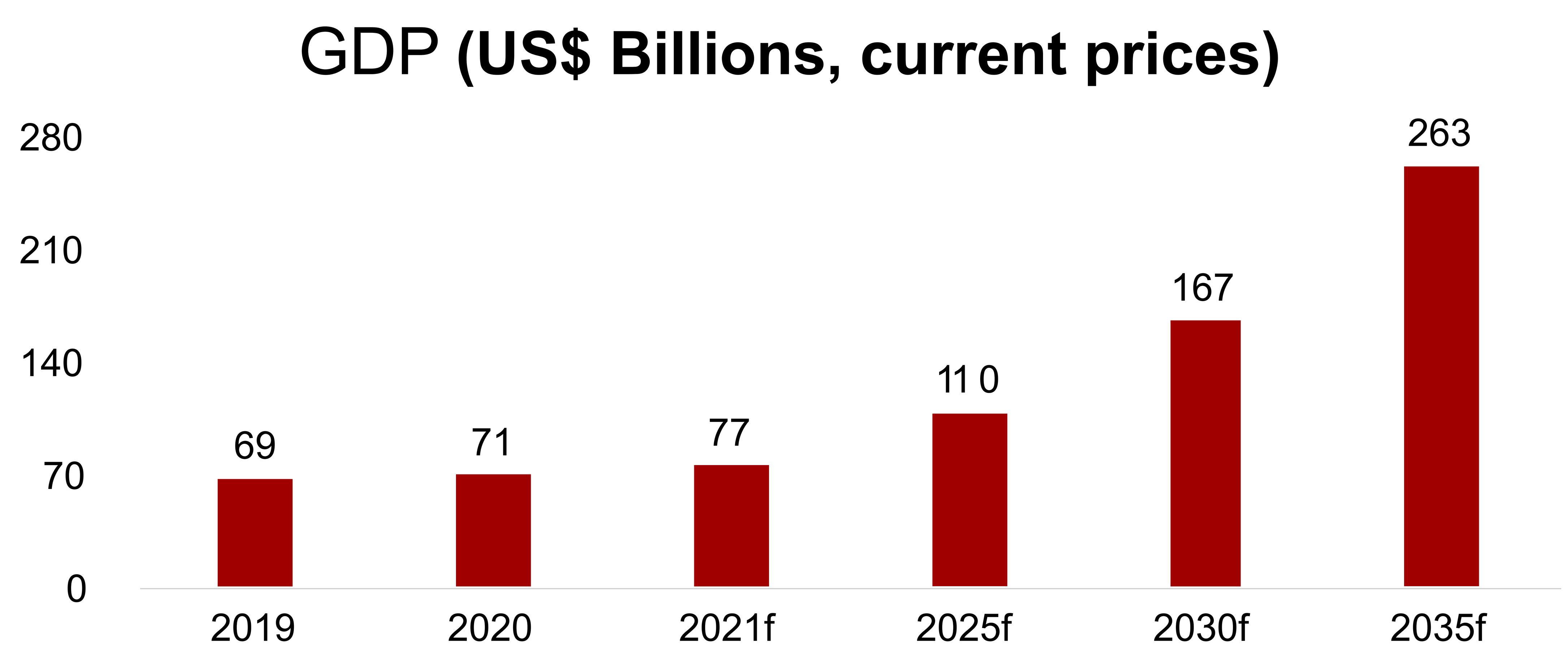
Cambodia – Despite having a population of nearly 16.5 million people, Cambodia has recorded only 385 COVID-19 cases as of 7th January 2021, and has not recorded a single death from the virus either. That being said, Cambodia has not been completely immune to the economic impact of the pandemic.
Cambodia's economy shrunk by 2.8% in 2020 and government debt to GDP increased to 31.5% from 28.6% the previous year. However, the country is expected to bounce back with great vigour in the years to come. Between 2021 and 2025, the country's GDP is expected to grow at an average annual rate of 7.1%. And even in the 10 years post this (from 2026 to 2035) growth is expected to remain strong, with the average annual GDP growth rate pegged at 6.6% during this period. Furthermore, as showcased in the figure below, a strong and steady rate of growth could eventually see the Cambodian economy surpass the USD 100 billion mark.



Myanmar – A young democracy with potential in spades, the country of Myanmar has been stirring excitement among foreign investors for some time now, and there is much reason to be optimistic about the nation's future prospects. Its large population of over 50 million people, and its increasingly democratic political system (especially in the wake of the 2020 general election) make it an interesting potential investment destination for foreign investors. Furthermore, Myanmar is on the short list of countries whose economies did not contract in 2020 due to the pandemic, a rather commendable feat.
Estimates suggest that the Myanmar economy grew by 2% in 2020, down from 6.5% the year before. However, the rate of growth is expected to pick up again in the years to come.

According to the report published by the Centre of Economic and Business Research, Myanmar's average annual GDP growth rate between 2021 and 2025 will hit 6.2%, and over the ten-year period to follow (from 2026-2035) the average annual GDP growth rate is predicted to be 6.5%.

This strong growth that Myanmar is projected to witness could see the economy grow to US$ 263 billion by 2035, as illustrated in the figure below.



Reason to cheer

All in all, the ASEAN region appears to be the emerging hotspot in global trade and economic prowess. A moment of glory that needs to be grabbed by both hands by a region which has been burdened with issues relating to large population, volatile natural geographies, sensitive ecology and shifting geo-politics. Steady governance, disciplined trade and foreign policy initiatives, and focussed improvements in education and healthcare will ensure the region shines through in the new decade .

Omnibus law: Indonesia on the precipice of greatness

Indonesia, ASEAN's largest economy, with a GDP of over USD 1 trillion and a population of nearly 270 million, has been inching towards economic dominance for quite a while now. In the wake of the global pandemic and the economic impact it has had, there is an additional impetus to speed up growth and force long term sustainable economic expansion, so that Indonesia can achieve its great potential and stand among the most developed economies in the world.

With this goal in mind, President Jokowi and his government passed the landmark Omnibus Law in November of 2020, instituting broad ranging reform that would change 79 different laws under it. With the express purpose of improving the country's business and investment climate, the Omnibus Law will effect change in multiple areas of the Indonesian economy such as manpower, business licensing, immigration, taxation, land procurement and others. This sweeping reform will help in eliminating bureaucratic red-tape and doing away with opaque and redundant regulations, and thus will ultimately improve the ease of doing business in Indonesia.

The Law in itself is over 1000 pages long, intricately detailed, and thus somewhat complex. However, its focus can be felt largely on the following broad aspects which are expected to significantly help investors who are looking to engage in the Indonesian ecosystem:

- ✓ Introduction of a new business license concept – Perizinan Berusaha
- ✓ Amendments to some provisions of existing Manpower Law, 2003
- ✓ Unification of a skewed tax regime
- ✓ Strengthening of SEZ related laws
- ✓ Setting up of an Indonesian Sovereign wealth fund
- ✓ Streamlining measures on the environmental protection and management rules

The question, however, remains: what benefits would such wide-ranging reform endow Indonesia with?

Among the key benefits that would stem from the Omnibus Law, the following would truly help in furthering Indonesia's economic progress on multiple fronts:

- ✔ **Increasing labour productivity** – Simplifying hiring processes of foreign workers, easing HR policies, making it easier to outsource different kinds of work and making it easier for business to make manpower (through a significant reduction in severance pay requirements).

- ✔ **Opening doors to foreign investment** – Significantly reducing the number of sectors that are subject to investment and ownership restrictions.

- ✔ **Improving Indonesia's competitiveness** – By offering increased incentives to investors in SEZs, simplifying land procurement processes, simplifying licensing processes by integrating it into a centralised licensing, system through Online Single Submission, and reducing Corporate Income Tax rates from 25% to 20%.

- ✔ **Helping Indonesia bounce back from the pandemic with economic growth of nearly 6%** – Through the elimination of complex and redundant regulations, easing of land acquisition processes, reduction in ownership and investment restrictions for foreign investors, and growth in the country's formal sector (and therefore growth in tax revenue).

- ✔ **Positive messaging for the Indonesian economy** – A key, yet understated, implication of the Omnibus Law is that the government is closely listening to and incorporating feedback from the business and investment community. Like any other emerging market, there are some challenges associated with doing business in Indonesia, but the passing of the Omnibus Law proves that government is adamant on addressing these challenges and thus proving that Indonesia is well and truly open for business

There is no question that Indonesia is currently standing on the precipice of greatness and if all goes as intended, the Omnibus Law might just be the fuel that propels Indonesia to the top of the global economic ladder.

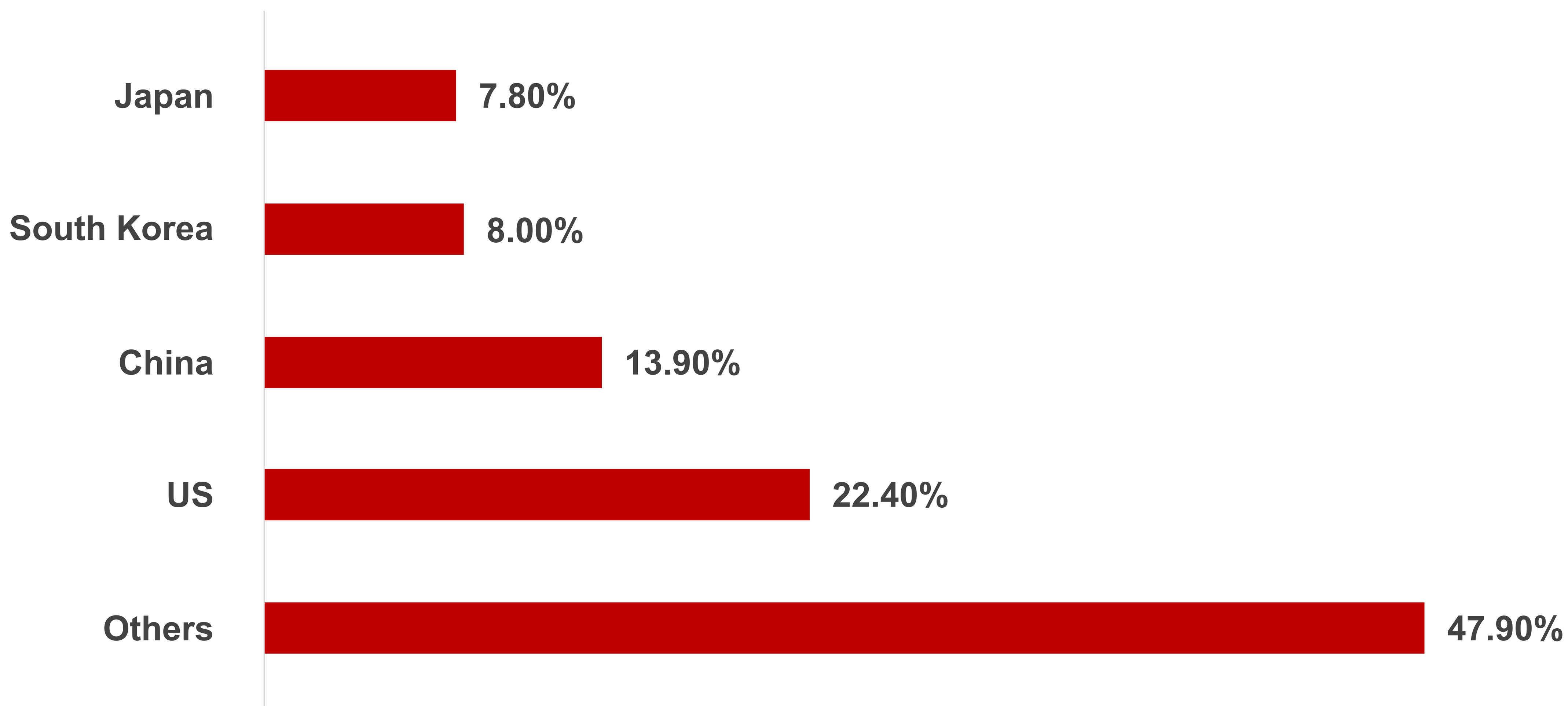
Vietnam – An emerging FTA hotspot

While most trade analysts have been busy with a US-Sino trade war, Vietnam has quickly emerged as a dependable trade partner for some of the world's most developed economies. And this feat is doubly celebrated as this was achieved in a world facing slow post pandemic recoveries and amid escalating trade war rhetoric. External factors such as regional geopolitics and Covid -19 related supply chain disruptions in 2020 have helped Vietnam in positioning itself as the go-to low-cost regional alternative to China for export-orientated manufacturing. However, a number of other factors have also contributed significantly to Vietnam's growing weight as a trade partner

- Lower production costs
- Focus on growing its network of trade agreements
- Existing member of global supply chains
- Robust road, rail and port infrastructure
- Strong internal policies such as promotion of special economic zones, tax incentives, privatisation process have helped promote the country as a global investment destination

According to the General Statistics Office of Vietnam, in the first 11 months of 2020, the country achieved a trade surplus of USD 20.1 billion. Exports grew by 5.4% to USD 254.6 billion compared to USD 263.2 billion for 2019 as a whole. The US tops Vietnam's export destination followed by China, South Korea, Japan and others.
The export growth has been spearheaded by the steep increase in exports of smartphone and parts followed by electronics, textiles, machinery. This has helped Vietnam position itself as an attractive FTA partner for developed economies to help them battle post pandemic economic recoveries

Vietnam's main export destinations as a % share of total trade



EU Vietnam FTA

After the 2018 signing of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), largely heralded as one of the largest free trade area in the world by GDP, Vietnam's participation in the European Union FTA once again signals Vietnam's growing bilateral popularity. The EU-Vietnam FTA came into effect in August 2020. The EVFTA makes Vietnam the second country in ASEAN and the first developing country in the region to sign an FTA with the EU.

EVFTA is a new generation FTA, ensuring almost 99 percent elimination of custom duties between the EU and Vietnam. As per online sources, the FTA is expected to help increase Vietnam's GDP by 2.4% by 2030. As an immediate effect of the agreement, Vietnam will cut 65 percent of import tax on EU commodities, while EU will cut more than 70 percent of tariffs on Vietnam's commodities, while the rest will be abolished in the subsequent years. Notably, for the first eight months of 2020, the EU accounted for 16.7% of total export earnings, as per Vietnam government data, which is expected to rise steeply in the coming year.

Apart from boosting trade between EU and Vietnam (it is estimated that Vietnam's export revenue to the EU will rise 42.7% by 2025 under the deal), the partnership is expected to bring many positive effects to the Vietnamese economy such as:

- ✔ making domestic production more competitive and encouraging innovation
- ✔ improving labor productivity
- ✔ opening up new markets to Vietnamese businesses by enhancing regional and global supply chains
- ✔ job and skill development
- ✔ enhancement of ancillary industries
- ✔ help increase FDI inflows from EU
- ✔ boost technology transfer
- ✔ greater choice basket for Vietnamese consumers

The trade deal gives the EU, which is battling a slowing economy, greater access to an attractive consumer market. Despite the pandemic and brakes on global economic activity, FDI inflows to Vietnam are likely to continue to be around USD 18 billion during the 2021-24 period, after reaching USD 16.9 billion in 2019 as per EIU reports. However, EU's share in overall FDI into Vietnam has been low with the largest source of foreign investment coming from fellow Asian countries such as South Korea, Hong Kong, China, Singapore and Japan

Post Brexit UK FTA

In December 2020, UK and Vietnam inked its own FTA to continue trade relations as Britain leaves the EU in the new year. The deal is based on the terms of the EVFTA.

Like the EVFTA, the UK FTA with Vietnam will also seek elimination of all customs duties, and apart from trade it also brings in significant opportunities in infrastructure, renewables and healthcare for both countries. The brisk pace of signing this deal by UK which is still grappling with Brexit matters, signals the growing importance of Vietnam in global trade.

Keen eye on other trade agreements

Vietnam is also part of the Regional Comprehensive Economic Partnership, which includes ASEAN countries as well as Australia, China, Japan, New Zealand and South Korea. The country is also seeking a trade deal with Israel and US in 2021 though the latter is bound to take longer. As recently in the first week of 2021, US has pledged to increase co-operation with Vietnam. With a new government in the US taking the reins, this bilateral relation has the potential to shift global trade power.

Challenges

However, despite the opportunities, Vietnam still face many challenges which if not addressed, can limit Vietnam's moment of glory.

- ✔ Vietnamese businesses will need to comply with stricter standards such as branding, food safety, labeling, environment to comply with the FTA requirements
- ✔ Understanding the rules and regulations that governs Vietnam's several trade agreements
- ✔ Ramping up production may be a challenge for Vietnam given that many industries still deal with out of date facilities and technologies.
- ✔ Vietnam is still a country suffering from weak institutions and teething problems of emerging markets such as bureaucratic hurdles
- ✔ Continued over reliance on China for raw material imports with 24% share of total import from China as Vietnam´s manufacturing sector continues to depend heavily on raw materials from China.
- ✔ A growing trade surplus with US which rose to USD 50.7 billion during the first ten months of 2020 compared with a trade surplus of USD 55.8 billion for 2019. This has resulted in increasing trade tensions with the US, which in October 2020, launched an official investigation into acts, policies, and practices by Vietnam alleging currency manipulation. There is a real risk of protectionism and tariffs being imposed by US following the investigation, which could hurt the Vietnamese economy.

Vietnam's imminent IT boom

Vietnam's status as a rising star has been further propelled by its handling of the pandemic. And while its trade balances, manufacturing prowess and social indicators have all been impressive, it is the information technology sector that has been shining the brightest. The communist state is in midst of an IT development boom all thanks to its young, tech-savvy working force, a growing middle class and an investor friendly government. And this surge is likely to be boosted by the pandemic.

As per a 2020 report from Google, Temasek Holdings and Bain & Company, South East Asia saw 40 million new users in 2020 across six countries- Singapore, Malaysia, Indonesia, Philippines, Vietnam and Thailand. In Vietnam alone, 41% of all digital service consumers were new (higher than the South East Asia average). This sets the pace for the increasing scope for e-commerce and digital services in the country.

Vietnam's government has increasingly taken an active interest in accelerating the country's technological preparedness. As per an Economist Intelligence Unit ("EIU") report released in August 2020, Vietnam scores significantly higher in technological readiness for 2020-24 than in 201519. This can be seen in increasing research related activities of global companies who have invested in manufacturing base in Vietnam. In August 2019, Vietnam's Ministry of Planning and Investment announced plans to encourage technology start-ups with the goal of creating five unicorn firms with market capitalization of USD 1 billion by 2025 and 10 by 2030. For the first time in 2019, investment in Vietnam startups exceeded Singapore as per a 2020 report by Singapore-based VC firm Cento Ventures. Additionally, 20% of all firms operating in Vietnam are to adopt next-generation technologies such as 5G and artificial intelligence, by 2025. The country's 2020 law on investment extends support by offering tax incentives and land access for high-tech companies and technology start-ups which will help making this dream come true.

What helps the sector

- Young educated workforce where 45% of the population is under 30 years of age
- Rising middle class affluence which will help to boost spending. By 2035, as per World Bank reports, 50% of the Vietnamese population will enter middle-class compared to 11% currently
- Growing smartphone and internet penetration
- Stable government with credible policymaking makes Vietnam an attractive destination for foreign investors
- Tax benefits doled out by the government to help incentivize foreign and domestic companies to invest in the IT sector
- Competitive labour force with high skillset and low cost
- Geographical proximity to China helps with maintaining existing supply chain links with China

Industries to watch out for in the sector:

E-commerce

As per a 2020 report from Google, Temasek Holdings and Bain & Company, Vietnam's ecommerce industry has grown by a staggering 46% yoy since 2019. Total gross merchandise value of the internet economy is expected to reach USD 14 billion in 2020, growing at 16% yoy. By 2025, as per the report, this will likely reach USD 52 billion. There is significant potential for the rural markets given the untapped population and strong internet connectivity since the e-commerce activity is currently mostly concentrated in urban centres of Hanoi and Ho Chi Minh City, with sales from these cities accounting for almost 70 percent of the country's total.

Fintech

As per a new report released by Fintech News Singapore in 2020, Vietnam's fintech startup landscape tripled in size between 2017 and 2020, growing from 44 startups in 2017 to 121. Vietnam's fintech industry is expected to reach USD 7.8 billion in revenue by 2020 as per some estimates which is primarily led by digital payments, peer to peer lending, wealth management and blockchain and cryptocurrency. Fintech firms such as MoMo, Moca, Tima, Growth Wealth, TomoChain and Kyber Network have all gained traction basis a burgeoning middle class, increasing mobile penetration and a young working population. In August 2019, Singapore-based fintech transport platform Grab announced plans to invest USD 500 million in Vietnam over five years.
Additionally, areas of health-tech and edu-tech, though nascent, are also gaining ground amid the pandemic. As per the 2020 e-Conomy report by Google, Temasek and Bain & Company, 8 out of 10 south east Asians view technology as helpful during the Covid19 lockdown situation

High tech manufacturing

Several global tech companies have invested heavily in the country including Microsoft, Intel, NTT Group, Nokia, LG Electronics among others. In March 2020, Samsung Electronics began construction of a USD 220 million research-and-development centre in Hanoi. This will boost Samsung's Vietnam plans which has become the largest single foreign investor in Vietnam in recent years. Lower costs and a skilled labour force helped Vietnam establish itself as a textile and shoe manufacturing hub for years and the same is now expected to help reap benefits in high tech manufacturing.

IT services and outsourcing

Information and communications technology (ICT) is a booming sector in Vietnam. As per online sources, Vietnam is well poised to emerge as a cheaper source than India and China for business outsourcing. This industry is further helped by the introduction of flexible land norms, offerings of IT special parks with tax and technological incentives and overall economic stability.

Vietnam's ICT industry posted average annual growth of 26.1% during 2015-2019, according to a recent report from the Ministry of Information and Communications. Da Nang, Hue, Hanoi and Ho Chi Minh City have emerged as preferred locations for high-tech parks. However, the country will need to focus more on training and improve English speaking skills to cater to global firms, which helped India become the IT hub-spot in the late 1990s. As per 2019 reports, among the 50,000 new IT graduates each year, only 4000 can start real IT work without further training

What can impede the growth story

While a skilled young population is seen as the key to the economic boom in Vietnam, the IT sector requires a specific kind of talent and skill, which the country needs to cater to. As per online reports stating Navigos Group, one of Vietnam's biggest jobs site, 71% of technology companies reported IT talent scarcity as a big impediment. If the country is to compete with India and an increasingly competitive Bangladesh, English language and IT skills will need to keep pace.
Vietnam also continues to be over relied on China for supplies with China accounting for 24% share of total imports by Vietnam. If Vietnam intends to become the new IT hub in ASEAN, it will need to diversify its reliance and focus on strong policies before it becomes overwhelmed with the increasing interest from global IT firms.

Brexit impact and opportunity for ASEAN

The United Kingdom eventually left the European Union on 31 Jan 2020 after 47 years of membership. But it broke free from its binding Transition Agreement only from 1 Jan 2021, with a new EU Trade Deal and the opportunity for other new bilateral and regional arrangements for "Global Britain". These will be very different from the post-war colonial legacies of the UK, before it joined the EU, previously known as the European Economic Community ("EEC") in 1973. Britain's economy has shrunk from those heady historical days while its ASEAN Commonwealth (Singapore, Malaysia, Brunei, Myanmar) and the rest of Asia have grown. Amid changing global dynamics, how will UK strengthen its ties and role within the ASEAN and what opportunities will Brexit bring to ASEAN?

What drives British Policy Objectives in ASEAN?

In the short-term, UK seeks to substitute (and perhaps enhance) free trade benefits enjoyed under various EU arrangements before UK narrowly decided to leave in 2016. New trade deals have already been agreed with South Korea, Singapore and Vietnam; and under Global Britain, UK will be seeking more. UK has formally applied to become an "official dialogue partner" of ASEAN, independently replicating rights it previously shared through the EU, which is already ASEAN's "dialogue partner". UK has also asked to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership [CPTPP], a trade agreement between 11 countries centred on ASEAN but also including Japan, Canada, Australia and New Zealand.

Impacts will go beyond pure trade. UK talks of its new "Indo-Pacific tilt", partly to counteract a newly assertive, "wolf-warrior" China: many Pacific observers may actually welcome this. China's Belt and Road has not been universally welcomed in Asia and has come with strings attached.

"Security" for the UK is multi-faceted as a vital defence, geo-political and trade objective. One can expect to see British naval exercises in the South China Sea and plans for new Asian military bases. Clear new trade objectives for the British include e-commerce, food & beverage, food technology, apparel and pharmaceutical sectors. In addition to trade and security, the UK is keen to promote its education and science institutions, dovetailing well with prioritised Green Energy / Clean Technology commitments and initiatives. If nothing else, Britain will not be alone in Europe sourcing solar panels, wind turbines and electric car batteries.

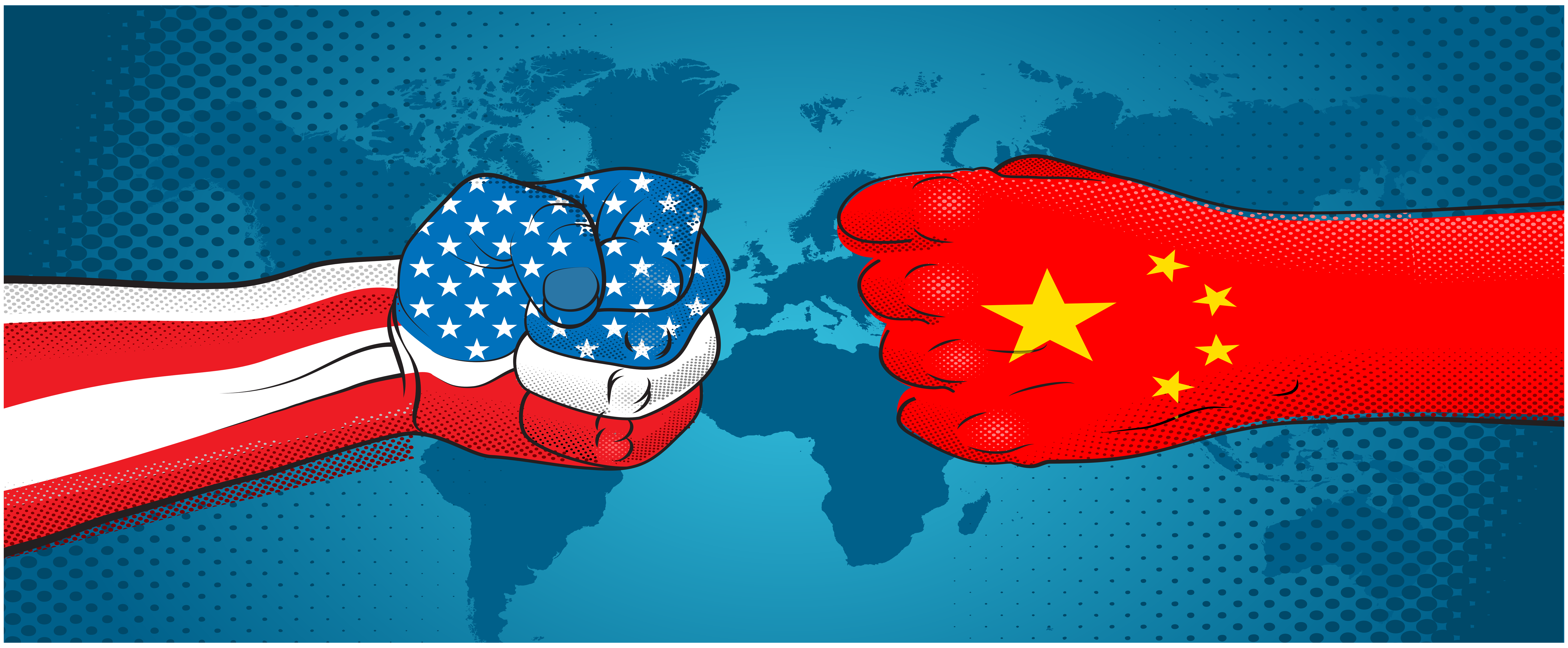
Opportunities galore for ASEAN

Not all these developments arise directly from Brexit, yet they seem to be accelerated by it. Global Britain will be looking for new relations, and this offers ASEAN countries the chance to review and re-set relationships, both bilateral and regional.

Ironically, if fears of European “free movement” immigration was a factor driving Brexit, then more British work permits for skilled Asian (and other non-European) workers will be its consequence. Immigration exchange for professionals and key workers is always a core element of trade and this is an important bargaining chip for ASEAN. For instance, ASEAN countries will seek better employment opportunities for their students studying in UK universities. So, while Londoners may be denied Polish plumbers, will they benefit instead from more Thai chefs and Filipina nurses? Still let’s remember, trade is two-way: how much direct investment has wealthy Singapore, Brunei or Malaysia made into UK? How many work permits for British professionals has Philippine’s Mr Duterte issued lately?

Brexit doesn’t impact Asia’s current arrangements with 27 members of the EU. Excluding UK, the EU remains ASEAN’s 2nd-largest trade partner (USD 240 billion in 2019) after China (USD 644 billion). Its formerly 28th member, UK, now seeks new Asian terms of trade with a Pacific “tilt”. ASEAN countries can leverage new opportunities with the UK better to suit their own domestic and regional agendas. New relationships won’t be just about trading widgets: UK security, green energy, technology, education and even immigration will also feature in redefined bilateral relationships. Britain’s newly named Foreign, Commonwealth and Development Office [FCDO] has its work cut out; but so do Trade Ministries in ASEAN and wider Asia.

ABC of global trade in 2021: ASEAN, BIDEN and CHINA



As Biden will sit down at his desk and look upon the workload he is about to take on his first day, he knows he already has a mammoth task at home, given how he has inherited a never seen before divided America. Add to this, the chaotic trail blaze of foreign policies and agreements his predecessor has left for him. One can mostly at this point, conjecture at what the next rule of law will bring for the country at home and abroad. However, there are some areas, where Biden will need to reverse or at-least appear less antagonistic than the last President of the United States.

China – A painful simmering relation rather than a full-blown war

Global analysts expect the Democrat to continue the firm stand with China over security and trade but also intend to see cooperation between the two giants on issues of global magnitude such as climate change and pandemic studies. A race between the developed nations to reach zero carbon emissions will ultimately help the planet and that's one contest that should be cheered on. Both US and China have announced ambitious green policies and goals of reaching net-zero carbon emissions. The new President is also expected to rejoin the World Health Organization and try to resume cooperation between the scientific communities of the two countries on crucial issues of public health, epidemiology and drug development.

Will America still look east?

However, it is global trade that is likely to get most impacted and is an area where Biden will do well to continue looking east, though slightly beyond the dragon state. A thriving ASEAN region, which has been further bolstered by their relatively efficient handling of the pandemic whilst the great western nations have faltered. But, in a post pandemic world, wherein the crown of global supremacy is up for grabs, China's neighbors will need to be reassured by the US of its role in the region in 2021 and beyond.

The region has recently seen many bilateral and multilateral deals, free trade agreements and cooperation pacts with and without the US. Recently, EU and UK have boosted their efforts in the region through FTAs and FDI promises. The Trump administration pulled out of a crucial Trans-Pacific Partnership in 2017. But, with the Democrats controlling both the Congress and the White House, Biden may be allowed more wriggle room on foreign policy and other trade initiatives in Asia.

ASEAN opportunities galore but under Big Brother China's watchful eyes

UK's Centre of Economic and Business Research (CEBR) recently published the 2020 World Economic League Table in December 2020, with ASEAN doing best and Europe worst. This could be attributed to several factors including (but not limited to) the region's growing middle class, growing skilled labor force, a young population, increasing digital penetration across its population, rising average income levels.

The Economist Intelligence Unit, in its December 2020 report states that it expects Joe Biden, "to deepen US security ties to South-east Asia and re-engage at a high level with regional forums". One positive way to walk this path may be by focusing investment and trade towards the region by encouraging a China plus one policy without going the tariff route against China directly, which ends up hurting consumers globally.

Countries like Vietnam, Thailand and Indonesia have seen an uptick and renewed interest in their role in the global supply chain and US will do well to further incentivize its companies to focus on China's neighbors. Vietnam is already being labelled as the next IT hubspot, with its government announcing ambitious plans for a digital transformation of the communist state. Indonesia has passed a new Omnibus bill to increase foreign investment. Myanmar has emerged from a recent election with Aung San Suu Kyi led National League for Democracy (NLD) as the clear winner and military-aligned parties suffering significant losses.

US needs to position itself as an ally rather than a bully of the region if it intends to gain from the region's impending rise. Less noise on apparent currency manipulations and more action on helping a conflict ravaged nation such as Myanmar rebuild itself will go a long way for the US, instead of playing the tariff game with China, which ultimately hurt globalized trade on the whole. And, Biden needs to get this done while keeping an "America first" policy at home.

However, Biden will have to act quickly as China is not likely to share its place as the Big Brother easily. 2021 marks the 30th anniversary of ASEAN-China Dialogue Relations and in 2020 , in addition to the signing of the

Regional Comprehensive Economic Partnership (RCEP), ASEAN became China's largest trading partner. China has already shored up its influence in countries like Myanmar, Laos, Brunei through 5G powered expressways, increased public infrastructure spending through Chinese debt, China-proposed Belt and Road Initiative and of-course vaccine diplomacy. Chinese State Councilor and Foreign Minister Wang Yi already set sail on his four-nation Southeast Asian tour in the second week of January 2021 after his Africa visit.

2021 can be seen becoming a battlefield between the "China + 1" side versus a growing team of a "10 plus 1" between China and ASEAN. And for this, US will need to beat the clock or else the ship would have sailed. The world will just need to wait and watch.

News Snippets – ASEAN News that matter

A news round-up from the ever-evolving ASEAN region

ASEAN

Private equity- KKR closes maiden Asia Pacific Infrastructure Fund at USD 3.9 billion

January 2021

US private equity investor KKR secured USD 3.9 billion for its maiden infrastructure fund in Asia—KKR Asia Pacific Infrastructure Investors. The fund focusses across both emerging and developed Asia Pacific, in sectors including waste, renewables, power and utilities, telecommunications, and transportation infrastructure. The fundraising comes at a time when spending on infrastructure, to help kick-start economies subdued by the pandemic is the need of the hour. Read more

Asian Development Bank: Developing Asia to contract in 2020, grow by 6.8% in 2021

December 2020

The Asian Development Bank (ADB) has revised its GDP forecast for Southeast Asia downwards to -4.4% from -3.8% in September. The subregion's outlook for 2021 is also downgraded, with Southeast Asia now expected to grow 5.2% next year compared to the 5.5% growth forecast in September. The Southeast Asia region remains under pressure as COVID-19 outbreaks and containment measures continue. Read more

US EXIM board approves historic policy to support U.S. exporters competing with China

December 2020

The Export-Import Bank of the United States (EXIM) Board of Directors has established a policy specific to the agency's new Program on China and Transformational Exports after a comprehensive stakeholder outreach and public comment period, creating a path for U.S. exporters in 10 transformational export sectors to utilize EXIM support. Under the targeted content policy, projects or procurements involving the mandated 10 transformational export sectors will qualify for EXIM financing if the proposed transaction meets a 51 percent U.S. content threshold, at which point EXIM may support up to 85 percent of the value of all eligible goods and services in the U.S. export contract. In addition, EXIM may approve financing for an export in one of the 10 transformational export sectors, even if the transaction does not meet the 51 percent threshold, if certain requirements are met. "The aggressive nature of China's state-driven, heavily-subsidized, export business is increasingly putting U.S. firms and workers at a disadvantage. Today's targeted approach focuses on 10 transformational export sectors, as outlined by Congress, that are imperative to the national security and economic prosperity of the United States," said EXIM Board Member and former Member of Congress Spencer Bachus.

THAILAND

Thailand's Eastern Economic Corridor leads SE Asia into regional digital hub

January 2021

Thailand's high-tech Eastern Economic Corridor (EEC) is set to become the first part of Southeast Asia to offer 5G telecommunications connectivity as it is set to becoming the region's gateway and digital innovation hub. Half the area of the EEC is expected to be covered by 5G by February 2021. Government and private investors are expected to invest USD 3.3 billion on the next stage of construction of a 220-km high speed train connecting Bangkok's two existing airports, Suvarnabhumi and Don Muang, with the EEC's own airport at U-Tapao. 5G connectivity combined with the high-speed train is expected to help transform the region into a smart city "aerotropolis". Read more

Thailand's largest industrial estate developer, expect sales to rebound in 2021 amid a China +1 policy

December 2020

WHA Corp, expect sales to rebound in 2021 due to both the easing of travel restrictions and strong demand for land from companies seeking to relocate production from China. As per David Nardone, the group executive for WHA Corp, sales next year may double to 96 hectares from an estimated 48 hectares this year. The developer owns 11 industrial parks across Thailand. Read more

VIETNAM

UK signs FTA with Vietnam, as it looks to strengthen global ties amid Brexit

December 2020

Vietnam and the U.K. inked a free-trade agreement that will eliminate almost all of the tariffs between the two countries after seven years. The FTA is a bid by Britain to ensure it does not lose access to preferential tariffs in one of the fastest growing economies in Asia. The deal is based on the terms of the EU-Vietnam free trade agreement. The FTA is likely to boost UK-Vietnam bilateral trade, which has tripled between 2010 and 2019 to USD 7.58 billion. (EVFTA). The FTA will positively impact trade in goods on clothing, footwear, seafood, pharmaceutical products, financial and e-commerce services. Read more.

Vietnam central bank pledges to work with U.S. after being labelled currency manipulator

December 2020

Vietnam's central bank has dismissed allegations by the US Treasury Department of being a currency manipulator and stated that "it will work with U.S. authorities to ensure a "harmonious and fair" trade relationship. The State Bank of Vietnam, in a statement on its website, said Vietnam's "exchange rate management in recent years is within its general framework of monetary policy and aims to achieve the consistent goal of controlling inflation, stabilizing macroeconomy". Read more

Warburg-Backed Vietnam E-Wallet Raises USD 100 Million

January 2021

MoMo, one of Vietnam's star payment apps serving 23 million users, announced the series D fund raising round co-led by Warburg Pincus and Goodwater Capital. The round also included the participation of new investors Kora Management and Macquarie Capital, as well as existing shareholders Affirma Capital and Tybourne Capital Management. The startup previously raised USD 33.7 million in Series A and B rounds from Goldman Sachs Group Inc. and Standard Chartered Private Equity. Read more

Vietnam plans to launch homemade COVID vaccine in 2nd half of 2021; human trials begin

January 2021

As part of the first stage of human trials, the highest dose, 75mcg, of Nanocovax, the COVID-19 vaccine developed by Vietnam, was given to three volunteers in Hanoi on January 12. Developed by the Nanogen Pharmaceutical Biotechnology JSC and the Viet Nam Military Medical University, Nanocovax is Vietnam's first Covid-19 candidate vaccine to reach the human trial stage. Apart from Nanocovax, Vietnam has several other Covid-19 candidate vaccines being developed by Vabiotech, Polyvac, and the Institute of Vaccines and Medical Biologicals. Read more

Vietnam's fintech sector to continue robust growth

January 2021

Governor of the State Bank of Vietnam Nguyen Thi Hong recently said that the central bank would focus on creating favorable conditions for fintech development in a bid to boost the digital economy. Vietnam saw strong fintech development in 2020, partly fueled by the COVID-19 pandemic which forced people to shift to cashless payments. Efforts such as creation of a regulatory framework for fintech coupled with efforts to promote the use of digital financial services, are expected to accelerate the development the sector in Vietnam. Read more

SINGAPORE

UK and Singapore sign post-Brexit free trade agreement

December 2020

The UK and Singapore signed a trade agreement which will cover over USD 224.8 billion of bilateral trade in goods and services post UK's departure from the European Union. The agreement retains the features of the existing EU-Singapore FTA, including measures on trade tariffs on goods, access to services and government procurement markets, and low non-tariff barriers in four sectors – electronics; motor vehicles and vehicle parts; pharmaceutical products and medical devices, and renewable energy generation. Read more

Gojek, Tokopedia in USD 18 billion merger talks for Indonesia's biggest deal

January 2021

Indonesian ride-hailing and payments firm Gojek and e-commerce leader Tokopedia are in advanced talks to close a USD 18 billion merger ahead of a potential dual listing in Jakarta and the United States, as per online reports. Negotiations gathered momentum after months of merger talks between Gojek and Grab faltered. The deal could transform the landscape in the country's e-commerce market. Read more

Singaporean digital assets exchange Zipmex closes USD 6 million funding round

December 2020

Zipmex, a licensed cryptocurrency exchange, announced its latest funding round led by Jump Capital, a US venture capitalist firm. The total amount raised reached USD 6 million, following Zipmex's pre-Series A raise of USD 3 million in September 2019 and a USD 1.9 million seed round in January 2019. Zipmex is regulated in Singapore, Australia, Indonesia, and licensed in Thailand. To date, the platform has transacted over USD 650 million in gross transaction volume since its launch in late 2019. The move comes as digital asset investing continues to soar. Read more.

Singapore, US sign agreement on trade financing and investment cooperation

December 2020

Singapore and the USA have signed a memorandum of understanding (MOU) to strengthen economic ties and trade financing and investment support to companies in both countries. The renewable, two-year MOU will be overseen by the US Department of Commerce and Singapore's Ministry of Trade and Industry (MTI), as per a press statement. Read more

MALAYSIA

Malaysia declares emergency to curb virus

January 2021

Malaysia's king declared a nationwide state of emergency on 12 January to curb the spread of COVID-19. In a televised address on Tuesday, Muhyiddin said the parliament will be suspended for a stipulated period of time and that elections would not be held in the Southeast Asian nation during the emergency, which could last until Aug. 1. The emergency declaration, comes a day after the premier announced a nationwide travel ban and a 14-day lockdown in the capital Kuala Lumpur and five states. Read more

Malaysia's economic recovery gathering pace in early months of 2021

January 2021

Malaysia's economy is expected to continue its journey towards recovery in the early months of 2021, according to the Department of Statistics Malaysia (DoSM). Citing the recent the Asian Development Bank (ADB) economic report, chief statistician Datuk Seri Dr. Mohd Uzir Mahidin said Malaysia's gross domestic product (GDP) is projected to fall by 6.0 per cent this year before bouncing back to 7.0 per cent in 2021. Read more. Additionally, MIDF Amanah Investment Bank (MIDF Research) has also projected Malaysia's economic growth to recover and grow by seven per cent in 2021. It said the recovery will be supported by growing domestic demand, as consumers and businesses continue to increase their spending. Read more.

BRUNEI

Domestic economy grew 2.6% in first half of 2020; no new Covid-19 cases

January 2021

The domestic economy grew by 2.6 per cent year-on-year in the first half of 2020, Autoriti Monetari Brunei Darussalam (AMBD) stated in its bi-annual policy statement for the second half of 2020. AMBD's inflation forecast for 2020 remains in the range of one per cent to two per cent with inflation in 2021 forecast to be in the range of zero per cent to one per cent. AMBD highlighted that the overall risk level of the banking sector for Q3 2020 was lower compared to Q2 2020. Read more

INDONESIA

Indonesia's President Joko replaces six ministers in Cabinet reshuffle

December 2020

President Joko Widodo replaced six ministers in a major Cabinet reshuffle aimed at helping Indonesia recover from the coronavirus pandemic, which has plunged the country into its first recession since the 1998 financial crisis. Mr Budi Gunadi Sadikin, a deputy minister for state-owned enterprises who also leads the national economic recovery task force, has been named the new health minister to replace Dr Terawan Agus Putranto. Mr Sandiaga Uno, a former Jakarta vice-governor who also ran in the presidential election as a deputy to Mr Joko's rival, has been appointed Tourism and Creative Economy Minister, replacing Mr Wishnutama Kusubandio. Surabaya Mayor Tri Rismaharini will be the new social affairs minister, replacing Juliari Batubara. Read more

Indonesia earmarks USD 32 million for exploration in three geothermal projects

January 2021

Indonesian government reserved total investment of 450 billion Indonesian Rupiah for exploration in three geothermal areas in 2021. The ministry indicated that the money would fund drilling projects capable of generating up to 112 megawatts (MW) and a 60 MW development plan. Read more

South Korea and Indonesia sign deal to boost trade, investment

January 2021

South Korea and Indonesia signed an economic partnership agreement aimed at boosting investment and trade between the two countries, in areas ranging from automobiles to apparel. South Korea is among Indonesia's top ten trading partners and investors. Under the agreement, South Korea will eliminate more than 95% of its tariff lines and Indonesia eliminate over 92% and give preferential tariffs to support Korean investment, Indonesia's trade ministry said in a statement. The comprehensive economic partnership agreement (CEPA) will not only impact industries such as automobiles but also technology. In 2019, trade between the two countries was worth USD 15.65 billion and between 2015-2019 South Korean companies invested nearly USD 7 billion in Indonesia, Indonesian trade ministry data showed. Read more

MYANMAR

Business transparency improves in Myanmar

December 2020

According to the Pwint Thit Sa Report 2020 issued by the Myanmar Centre for Responsible Business (MCRB), corporate governance and transparency in Myanmar's private sector has improved in Myanmar in 2020 compared to 2019. The report investigates disclosure on websites of 260 firms including listed, public, private companies and all banks. The top three Myanmar firms according to the report's assessment are UAB Bank, City Mart Holdings Group and Shwe Taung Group. However, transparency in state-owned economic enterprises have not made improved as per the report Read more

Myanmar to initiate infrastructure projects with three Asian countries

December 2020

The Union Ministrer of Investment and Foreign Economic Relations (MIFER), reiterated efforts by the government to attract foreign investments into Myanmar's agriculture, electricity and industrial sectors. In a bid to mitigate the impact of the COVID-19 pandemic on the economy, the government is looking at implementation of three major infrastructure projects planned for Yangon Region with the participation of South Korea, Singapore and Thailand. These include the Korea-Myanmar Industrial Complex (KMIC) and the AMATA Smart and Eco City, which will be jointly implemented by Myanmar and Thailand, and the Myanmar- Singapore Industrial Park, to be jointly implemented with Singapore. Read more

Myanmar to implement a digital land database

January 2021

The Minister of Investment and Foreign Economic Relations U Thaung Tun indicated that Myanmar is set to launch a digital land database in 2021 to provide transparency in land records, ownership and title deeds. This is in line with concerted efforts of the government to improve the digital landscape in Myanmar in a post pandemic world. Online investment tools and digital payments too will be looked at by the government. Read more

LAOS

Laos targets for 4% GDP growth in five-year economic plan

January 2021

In a plan outlined by Prime Minister Thongloun Sisoulith at the 11th Party Congress in January 2021, it was stated that Laos aims to reach annual average per capita income of USD 2,887 in 2025 and an annual economic growth of 4% in its five-year socio-economic plan to 2025. According to government officials, there are several goals to be achieved in the next five years including boosting national revenue, reducing financial leaks and sustainable use of natural resources. Laos' economy is projected to grow by 3.3% in 2020 due to the COVID- 19 pandemic One of the main challenges for Laos is the rising debt burden and fluctuating currency exchange rates. Read more

Laos inaugurates 5G-powered smart expressway

January 2021

Laos opened its first expressway, the Vientiane-Vang Vieng 110 kilometer Expressway, which is part of the planned China-Laos expressway. Construction was carried out by China's Yunnan Construction and Investment Holding Group in cooperation with the Laos government. China's Huawei cooperated with its partner, Yunnan Huayuan Electronics Co., Ltd. to build the information and communication technology (ICT) platform for smart expressway. The project is aimed at boosting the economic development of central and northern Laos and facilitating business cooperation and cultural exchange between China and Laos. Read more

PHILIPPINES

Fitch keeps investment grade rating for Philippines

January 2021

Fitch Ratings re-affirmed Philippines's investment grade rating at "BBB", due to the nation's manageable fiscal situation despite the Covid19 induced recession and with the declining number of daily confirmed cases. This balances the government's modest debt levels relative to peers, its robust external buffers and the still-strong medium-term growth prospects despite the "deep pandemic-induced economic contraction" against relatively low per capita income levels and indicators of governance and human development compared to peers. Read more

GIC picks up 17.5% stake for USD 420 million in AC Energy Philippines

January 2021

Singapore sovereign wealth fund GIC will ink the 20 billion Philippine peso (USD 420 million) acquisition of a 17.5% interest in AC Energy Philippines, a subsidiary of thermal energy company AC Energy and Infrastructure Corporation, a subsidiary of Ayala Corporation. It focuses on investments in renewable energy, Greenfield or brownfield projects and conventional technologies. GIC made this offer through an affiliate company – Arran Investment. Read more

CAMBODIA

CDC approves projects worth USD USD 1.13 billion in December 2020

December 2020

The Council for the Development of Cambodia (CDC) has approved three additional projects worth a total of USD 13.5 million, with total investment value reaching USD 1.1354 billion in December 2020. Additions include Lak Sun (Cambodia) Co Ltd's USD 3.2 million project in Kampong Speu, Sinokh Perfect Garment Co Ltd's USD 5.3 million garment factory in Kandal, Dongnan (Cambodia) Wood Co Ltd's USD 5 million furniture and wooden decoration materials factory. Read more

China FDI into Cambodia reaches hits USD 860 million in first 11 months of 2020

January 2021

As per data from the Chinese Embassy in Phnom Penh, China's direct investment in Cambodia hit USD 860 million in the first 11 months of last year, an increase of 70 percent year-on-year. The majority of the direct investment went to construction, apparel, electric and electronic components and agriculture, according to the embassy. With the recent signing of the Cambodia-China Free Trade Agreement (CCFTA) and the Regional Comprehensive Economic Partnership (RCEP), more investors are likely to venture into Cambodia. Read more

About us

ASEAN Business Partners is an independent, specialist consultancy that helps companies manage and operate their presence in ASEAN. We are well-networked, independent of governments, and dedicated purely to serving our clients. Our management and country experts are unrivaled in their ASEAN network, experience, and expertise, with proven credentials.

We are a team of top-class professionals with expertise in different industries. Our executives have worked as CEOs, CFOs and in other senior positions in top multi-national companies and represent the best talent available globally. Our founder, Sumit Dutta, is an ex HSBC CEO who has worked in Indonesia, Vietnam, Hong Kong, India, and the US. A majority of our team and country experts are former senior-level executives from multinational corporations.

We are passionate about the ASEAN region, one of the highest growth markets in the world, and believe it will be the market of choice for all forward-looking international companies. We seek to create value for our clients and their customers in ASEAN, and so contribute to the prosperity of ASEAN nations and their people.

Please take a moment to review our website. If there is any way we can assist you, please reach out to us below.

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