

# **EWA Webinar**

Unlocking Business Opportunities in the Changing ASEAN Market

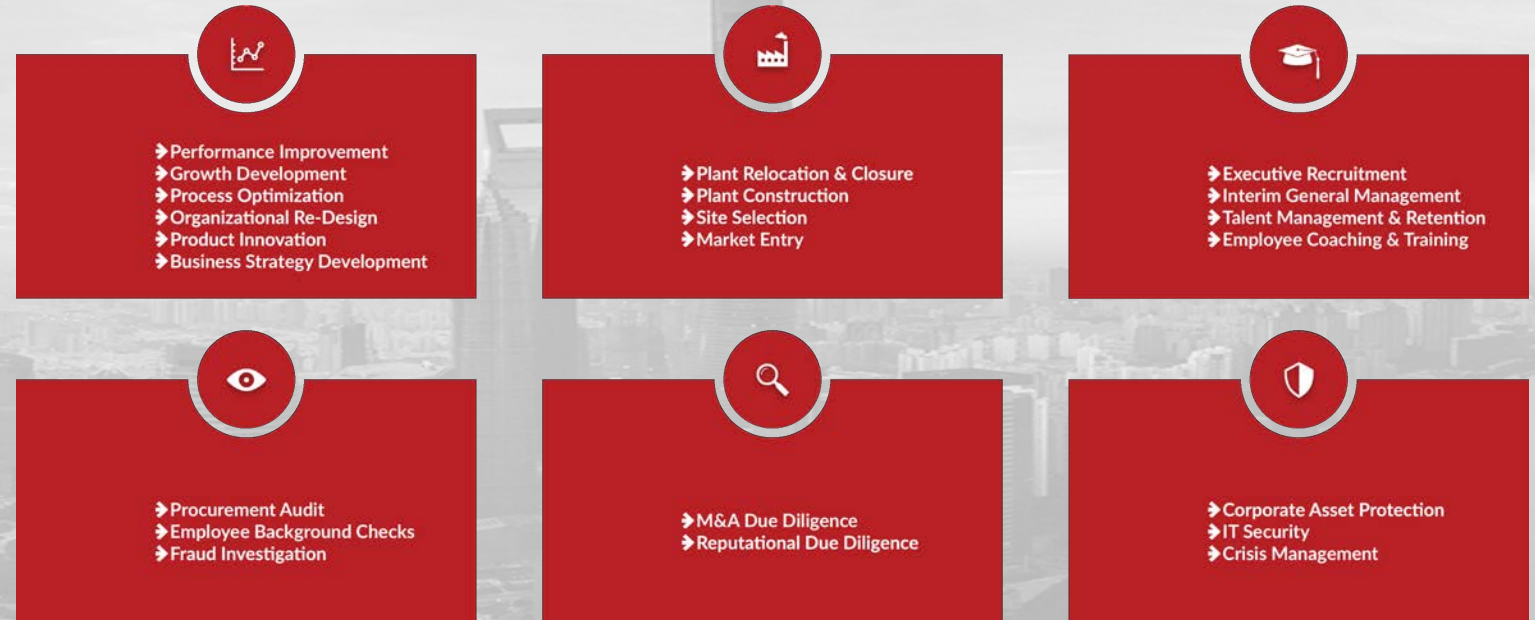
March 28, 2018 / March 29, 2018



east  west<sup>®</sup>  
a s s o c i a t e s  
Commercial, Operational & Risk Management Specialists

- A leading provider of commercial, operational & risk management solutions and detailed implementation to western companies competing in China/Asia
- Founded in 2005 with offices in the USA and in China
- All EWA executives have lived in Asia and held senior management positions with P&L responsibilities for western MNCs with operations in Asia

## Core Areas of Business



Today's webinar was created with 2 key objectives:

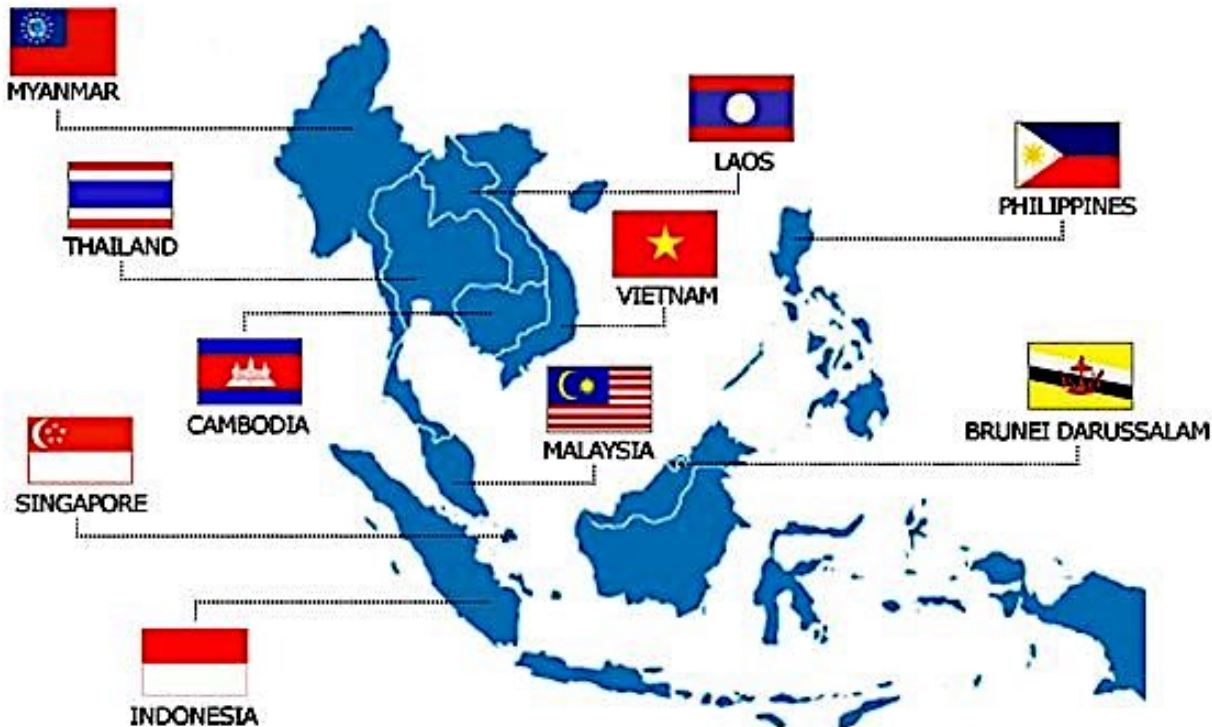
- To help companies **identify** business opportunities in the ASEAN market
- To help companies **leverage** business opportunities in the ASEAN market

The presentation consists of 3 parts:

- Brief overview of the ASEAN market and the growing relevance for businesses
- Detailed explanation of the process requirements for a successful expansion into the ASEAN market
- ASEAN expansion case study



## ASEAN Member Countries



- **3rd largest market in the world**
- **5th largest manufacturing market**
- **6th largest economy in the world**
- The mission:
  - To ensure free movement of goods and services, investment and capital, as well as skilled labor
  - To create common standards in agriculture and financial services, intellectual property rights and consumer protection, global value chains (GVC), regulatory practices, sustainable development, emerging trade, innovation



## Why is ASEAN of interest?

For the last 20 years, western companies have invested heavily in China to capitalize upon low production costs and the enormous domestic market potential. But in recent years, many of the financial advantages for businesses in China have diminished:

## **Maturing Economy, Rising Wages & Disappearing Tax Incentives**

The result being that today increasingly more companies are looking to expand into ASEAN in order to:

## **Decrease Labor Costs & Reduce Overdependence On China**





**What does ASEAN have to offer?**

In addition to being the 3rd largest market, 5th largest manufacturing market and 6th largest economy in the world, the numerous advantages of ASEAN can be grouped into 2 core categories

### Financial

**Lower Labor Costs & Favorable Taxation Structures**

### Performance

**Extensive Cross-Border Trade & Strong GDP Growth**



## Average Annual Income (US\$)

<b>China</b>	<b>\$8,046.00</b>
<b>Vietnam</b>	<b>\$2,364.00</b>
<b>Thailand</b>	<b>\$4,692.00</b>
<b>Malaysia</b>	<b>\$7,812.00</b>
<b>Philippines</b>	<b>\$4,100.00</b>
<b>Indonesia</b>	<b>\$2,961.00</b>

## Social Benefit Package (% of income)

<b>China</b>	<b>30-40%</b>
<b>Vietnam</b>	<b>22%</b>
<b>Thailand</b>	<b>5-10%</b>
<b>Malaysia</b>	<b>12%</b>
<b>Philippines</b>	<b>5-20%</b>
<b>Indonesia</b>	<b>5-7%</b>

## Expected Wage Inflation (%)

<b>China</b>	<b>11%</b>
<b>Vietnam</b>	<b>9-11%</b>
<b>Thailand</b>	<b>3-5%</b>
<b>Malaysia</b>	<b>4-6%</b>
<b>Philippines</b>	<b>3%</b>
<b>Indonesia</b>	<b>4-6%</b>

Average Annual Income  
(US\$)

Social Benefit Package  
(% of income)

Expected Wage Inflation  
(%)

China

\$8,046.00

China

30-40%

China

11%

**ASEAN delivers opportunities for significant, long-term operating cost reduction ... thereby, improving product competitiveness**

Indonesia

\$2,961.00

Indonesia

5-7%

Indonesia

4-6%

	Statutory Corporate Income Tax Rate	Effective Tax Rate incl. all tax obligations	Effective Tax Rate % Difference vs. China
<b>China</b>	<b>25%</b>	<b>68%</b>	<b>100%</b>
<b>Vietnam</b>	<b>20%</b>	<b>39.4%</b>	<b>58%</b>
<b>Thailand</b>	<b>20%</b>	<b>32.6%</b>	<b>48%</b>
<b>Philippines</b>	<b>30%</b>	<b>42.9%</b>	<b>63%</b>
<b>Indonesia</b>	<b>25%</b>	<b>30.6%</b>	<b>45%</b>

Statutory Corporate  
Income Tax Rate

Effective Tax Rate  
incl. all tax obligations

Effective Tax Rate  
% Difference vs. China

China

25%

68%

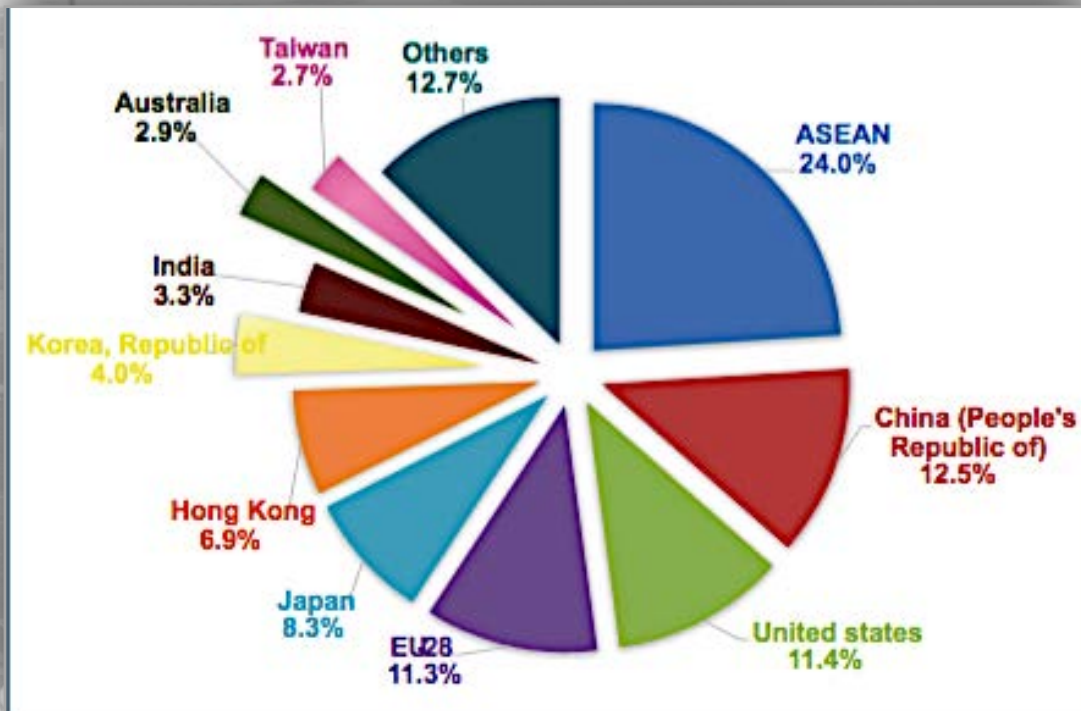
100%

**ASEAN creates opportunities for improved corporate financial performance ... thereby, strengthening company stability**

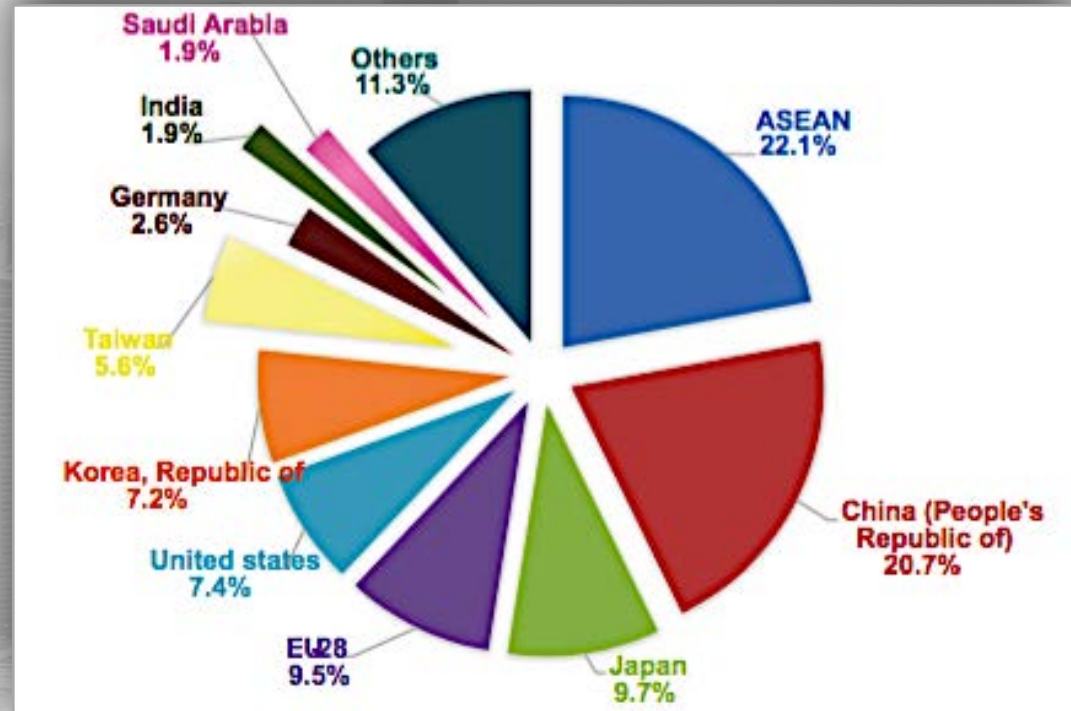


ASEAN total merchandise trade in 2016 stood at **US\$2.2 trillion**, with intra-ASEAN trade comprising the largest share at almost **24%**.

ASEAN Markets of Exports of Goods / 2016



ASEAN Markets of Imports of Goods / 2016



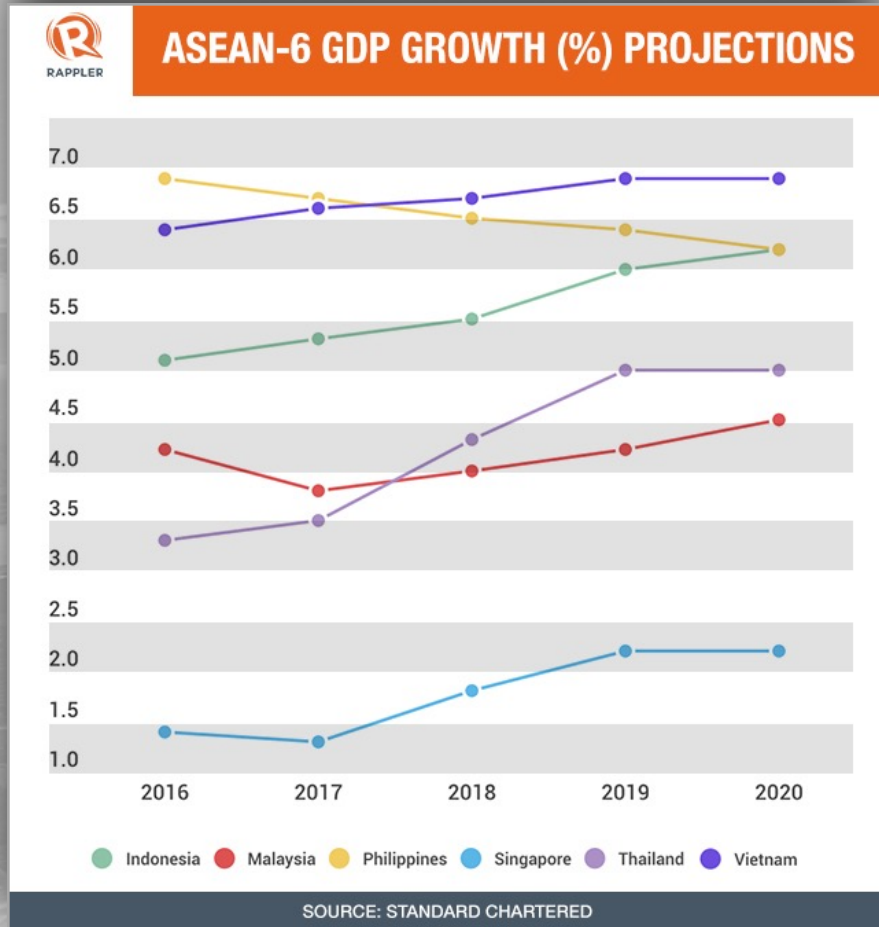
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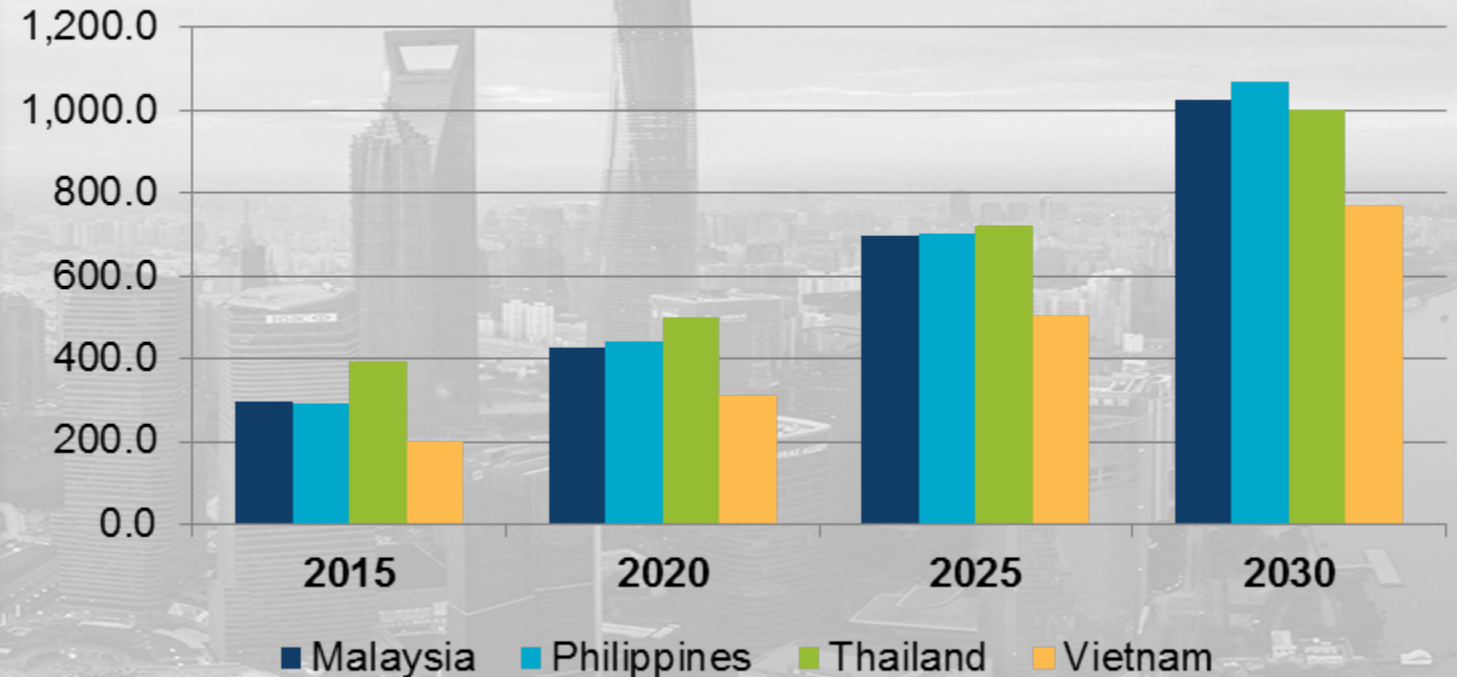
**ASEAN provides new market access & ensures duty-free intra-ASEAN trade ... thereby, creating opportunities for customer base expansion & improved sales performance**

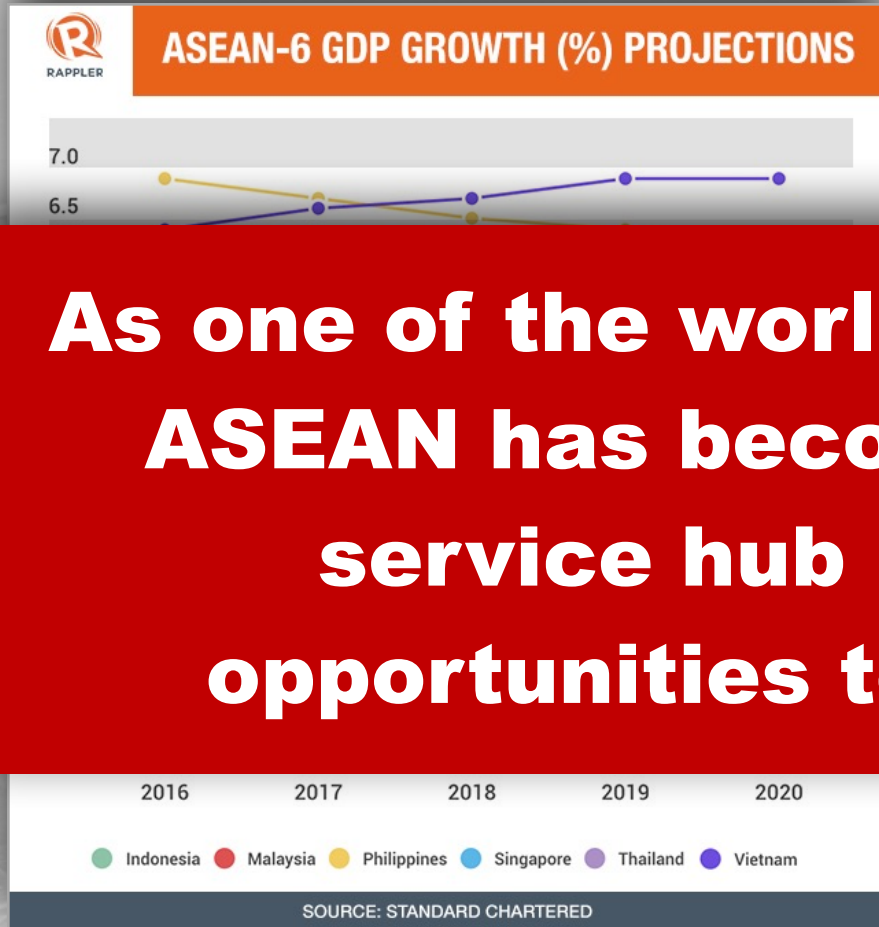




## Rising ASEAN Emerging Markets

GDP, in USD billion | Source: IHS





## Rising ASEAN Emerging Markets

GDP, in USD billion | Source: IHS

**As one of the world's fastest growing economies, ASEAN has become a major manufacturing & service hub in AP ... thereby, creating opportunities to drive growth & innovation**



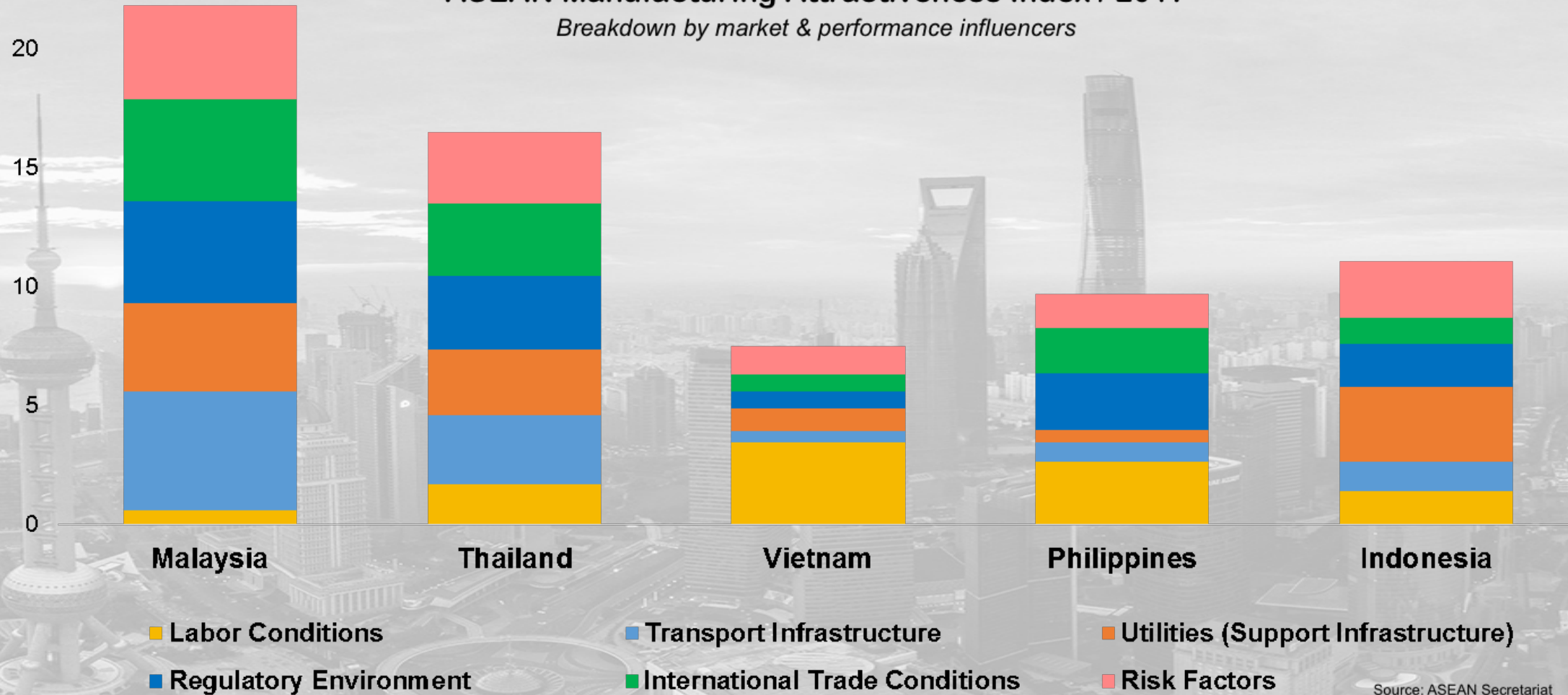


An aerial, grayscale photograph of a dense urban skyline, likely Shanghai, featuring prominent skyscrapers and the Oriental Pearl Tower. The text "ASEAN is also about diversity" is centered over the image in a bold, black, sans-serif font.

**ASEAN is also about diversity**

## ASEAN Manufacturing Attractiveness Index / 2017

*Breakdown by market & performance influencers*



Source: ASEAN Secretariat

The impact upon businesses of the changing economic landscape in ASEAN combined with the growing importance of the China Plus One strategy can be summarized as

# New Opportunities for Cost Control & Growth Development

But with the numerous country variables and differing performance influencers to consider, the decision-making process regarding an expansion into ASEAN is a complex undertaking with long-term implications

**A successful expansion into ASEAN requires more than just opportunities**

**Detailed company expansion strategy**

**Comprehensive multiple country analysis**

**Extensive individual country interaction & negotiations**

**Hands-on implementation**



The EWA ASEAN Expansion Service is a 4 step approach designed to facilitate the decision-making process and ensure ASEAN expansion success

## **Step 1: Development of a company expansion strategy**

- Company analysis
  - Product consumption, customer base, competitive environment, company culture, production processes, internal operations, supply chain, raw materials, employee composition, factory requirements, business plans, etc.
- Definition of expansion objectives and selection of ASEAN markets with highest potential for further exploration

## **Step 2: Implementation of an in-depth analysis of multiple ASEAN markets**

- Definition and prioritisation of the key factors to be assessed
  - Infrastructure, corruption, availability of components & raw materials, government business climate, government incentives policies, talent pool, labor costs, taxation structure, ease of penetration, presence of customer base, presence of other western companies, market size & performance, land prices, etc.
- Development of a matrix with weightings of the key factors
- Gathering of information through EWA local staff, desktop research, external research, etc.
- Weighted analysis evaluation and target country recommendation

## Step 3: On the ground target country interaction

- Personal meetings with business parks management / industrial zone developers & discussion of site selection influencers - facility requirements, pricing, timing, etc.
- **Negotiate & secure competitive land purchase prices from industrial estates / allowing for favorable support from Customs and the taxing authorities**
- **Negotiate & secure tax incentive package from country Board Of Investment**
- Conduct business & financial planning and confirm component costs & availability
- Identify similar industries and availability of labor skill sets
- Personal interviews and qualification of potential plant construction partners (architects, engineers, general contractors, project managers, etc.)
- Personal interviews and qualification of potential administrative partners (executive recruitment, manpower staffing, law firms, accounting firms, etc.)
- Evaluation & recommendations

## Step 4: Hands-on implementation

- Plant Construction
  - Coordinate all detail design drawings and specifications in accordance with local building codes, validate major utility equipment sourcing availability, develop a RFQ tender package
  - Ensure that all applicable permits and licenses are obtained throughout the design & construction process
  - Recruit project management firm for on-site supervision of the entire construction process to guarantee compliance with all scope, cost, schedule, quality, and safety requirements
  - Coordinate and supervise the installation & debugging of all manufacturing equipment
  - Complete all inspections from governmental official & regulatory sign offs
- Staffing
  - Recruitment of senior management & blue collar staff
  - Training and development of both production & non-production personnel
- Operations
  - Qualify and secure supply chain, distribution & logistic partners
  - Develop Map to Market & Market Entry strategies





## **EWA ASEAN Expansion Case Study**



## THE BACKGROUND

- A global manufacturer of "white goods" household appliance market with operations in the US, China & Europe
- The Chinese manufacturing facility was located in the Fujian Province and in operation for 5 years
- Business had been growing 12-15% for the last 3 to 5 years
- The company was operating at maximum production capacity
- Given their growth in China/Asia Pacific, a significant increase in production capacity was mandatory
- The manufacturer required a new facility approximately 10 times larger than their current facility
  - Factory was to be approximately 200,000 square feet
  - Located on a 400,000 to 500,000 square foot site
  - 200 employees (150 production staff & 50 management/engineering)
- Although satisfied with the Fujian Province, the client accepted the EWA proposal to also investigate the benefits of an expansion into the ASEAN market

## THE PROCESS

### Step 1: Identifying the expansion criteria

- Company analysis
  - 15% of their entire Asian consumption was consumed in China -> ease of exportation
  - Sales projections indicated strong growth -> future production capacity expansion -> labor & material supply
  - Price is a major influencer within the competitive environment -> government incentives & inflation rates
  - Large products with labor intensive production process -> labor costs & transport costs
- Expansion criteria: labor supply/costs, government incentives, inflation rates, availability of raw materials, transport & export logistics

### Step 2: An in-depth comparative analysis of 6 selected countries

- Philippines, Malaysia, Indonesia, Vietnam, Thailand & China
- Weighted areas of focus:
  - **Government incentives, labor supply/costs, inflation rates, availability of raw materials,** land costs, utility costs, ease of doing business, corruption index, domestic market size, transport & export logistics
- Expansion recommendation: Thailand

## THE PROCESS

### Step 3: On the ground interaction

- Met with two of the largest industrial zone developers, visited 5 potential sites & selected 2 sites for soil testing
- Negotiated conditions for property purchase & property management (waste removal, perimeter security, etc.)
- Negotiated investment incentives with Secretary General of Royal Thailand Board of Investment
- Interviewed, evaluated & qualified:
  - 3 architect and engineering firms
  - 3 general contractors
  - 4 project management firms
  - 3 executive recruiters and manpower staffing firms capable of staffing the 200 person facility
- Met with local legal and accounting firms to identify the necessary criteria for establishing a business entity
- Presented a 360° recommendation to the US Board of Directors which was approved for implementation

### Step 4: Hands-on implementation

- Property was purchased and all pre-construction permits/licenses/registrations were acquired by October 2017
- Plant blueprints, construction budget/timeline & all construction partner contracts were finalized in November 2017
- Plant construction began in January 2018 and is expected to be completed in October 2018
- Identification and recruitment of supply chain, distribution & logistics partners is on-going
- Interviewing of senior management candidates is in the early stages



## THE RESULT

### Government Incentives

- 8 year tax holiday from CIT, 50% additional 5 years

### Cost Reduction\*

- \$22.0M tax savings over 10 years
- \$4.3M annual labor savings after 5 years
- \$1.8M annual material savings after 5 years
- \$120/unit average freight savings

### Growth Development\*

- 42% increase in sales over 5 years
- 53% increase in revenue over 5 years

\*Company Forecasts



## **ASEAN in a Nutshell**

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**One of the world's fastest growing economies**

**Enormous market size**

**Significant economic strength**

**Offers numerous financial benefits**

**Advantageous for strong company growth**

**But one size does not fit all.**

**Due to the market diversity, a defined expansion strategy & structured process are vital for long-term success.**

# Contact Information

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