ASEAN Commercial Opportunities Study for Canadian Business

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1. Introduction

Canada, historically an exporting nation, is increasingly looking beyond its traditional trading partners, towards Asia, in search of new markets for its goods and services. Global attention in recent years has tended to focus on the growth markets of China and India such that opportunities in ASEAN (Association of Southeast Asian Nations) may have been overlooked. The aim of this report is to provide a timely reassessment of the relative importance of the ASEAN market and the commercial opportunities that it presents for Canadian enterprises.

The report considers ASEAN from a regional, rather than a country by country, perspective. It presents an overview and introductory guide for Canadian Small and Medium Enterprises (SMEs) that may be interested in learning more about ASEAN and the opportunities and challenges it offers. ASEAN-Canada trade is reviewed, as are Foreign Direct Investment (FDI) flows, and particular sectors of opportunity for Canadian SMEs are identified based on Canadian strengths and areas of expertise. Finally, some suggestions and considerations for Canadian SMEs wishing to enter the region are included and case studies provide insight and advice from Canadians who have successfully expanded their business to ASEAN. A list of resources and contacts designed to assist companies interested in completing their own market research is included at the end.
The report was compiled through primary and secondary research, including an extensive consultation process involving 25+ interviews with the Canadian Trade Commissioners based in each of the ASEAN countries, regional EDC representatives and representatives of Canadian companies based in, or exploring, the region. Intercedent would like to thank the following for their contribution:

The Association of Southeast Asian Nations (ASEAN) has a population of approximately 605 million people and an estimated GDP of US$2.2 trillion. It is comprised of 10 member states: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar (Burma), Philippines, Singapore, Thailand and Vietnam.

ASEAN is a vibrant market with strong growth prospects, one which is becoming more attractive as it continues to make progress towards an ASEAN Economic Community (AEC), which aims to create a single market and production base of the 10 member countries by December 31, 2015. Additionally, ASEAN has signed Free Trade Agreements (FTAs) with its economically significant neighbours - China, Japan, South Korea, India, Australia and New Zealand—which further increases its appeal as a base of operations. Many see ASEAN as an alternative to China or India, that still offers preferential access to these markets.

ASEAN is not without its challenges; not least of which is the diversity of its members in terms of socio-economic development, which presents itself through very different levels of infrastructure development (ICT, transport, power, water), labour pools (cost, training, education, experience, availability), rule of law, transparency, governance, etc.

- Economic Indicators
- Demographic Profile
- Ease of Doing Business
- Political Risk & Environment
ASEAN is largely a collection of small-to-mid-sized, fast growing, low-middle income economies. Note the per capita GDP on the horizontal axis. Singapore and tiny oil-rich Brunei are affluent anomalies.

Note the CAGR rates depicted on the vertical axis include Global Financial Crisis recessionary years.

Canada’s economy (US$1,770bn in 2012) is larger than any individual ASEAN market and constituted 78% of the 10-member ASEAN economy in 2012.

Just about all ASEAN economies are on a faster growth track than Canada.

Source: IMF data, Intercedent Asia
There are huge disparities in population size across the region. Emerging ASEAN’s youthful population will generate a demographic dividend for years to come.

**Indonesia** - The Indonesian government’s ambitious family-planning programme, launched in the 1970s, was not as successful as claimed. Population growth has remained high—according to the latest census, growing at a rate of 1.5% a year in the period of 2000-2010.

**The Philippines** has a high population growth rate—it will soon be one of only 11 countries globally with a population of over 100m.

**Vietnam**’s population is forecast to continue to grow at a steady rate of just over 1% a year in the next five years. Urban population growth is much higher, around 3.5% a year in recent years.

**Thailand**’s growth rate of 0.6% shows the results of development and government-sponsored family planning programs on its population of 67.6 million.

**Myanmar** - The 15-28 age group has 13m young people and accounts for nearly 40% of the working population. People below working age account for 25% of the population—higher than in the People’s Republic of China (19%) or Thailand (20%).

**Malaysia**’s population of 29.4 million grew at a relatively high 1.6% in 2011, reflecting cultural norms.

**Cambodia** has a small but young population base, now in full recovery from the decimation of the Khmer Rouge era.

**Laos** has the smallest population among all the emerging ASEAN countries at just over 6.5m.

**Singapore** - Despite government efforts to increase the birth-rate, Singapore’s 2.1% growth rate was due primarily to immigration.

**Brunei Darussalam** - Tiny, resource-rich Brunei has a stable population of just over 400,000 people.
Ease of Doing Business

Unique in the region, Singapore has been ranked #1 in the World Bank’s Annual “Ease of Doing Business” Rankings seven years in a row. However, in most of the emerging ASEAN markets corruption ranks among the top three business impediments. Infrastructure deficiencies and inept bureaucracy are also major challenges.

Ease of Doing Business Ranking: 2013 (rank/185)

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank</th>
<th>Category</th>
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</thead>
<tbody>
<tr>
<td>Laos</td>
<td>n/a</td>
<td>163</td>
</tr>
<tr>
<td>Phils</td>
<td>Corruption, govt bureaucracy, infrastr</td>
<td>138</td>
</tr>
<tr>
<td>Cambodia</td>
<td>Corruption, poorly educated workforce</td>
<td>133</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Bureaucracy, corruption, infrastr</td>
<td>128</td>
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<tr>
<td>Vietnam</td>
<td>Financing, inflation, infrastr</td>
<td>99</td>
</tr>
<tr>
<td>Brunei</td>
<td>Labour reg., work ethic</td>
<td>79</td>
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<tr>
<td>Thailand</td>
<td>Govt instability, corruption, policy instability</td>
<td>18</td>
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<tr>
<td>Canada</td>
<td>Bureaucracy, capacity to innovate, financing</td>
<td>17</td>
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<tr>
<td>Malaysia</td>
<td>Bureaucracy, corruption, workforce education</td>
<td>12</td>
</tr>
<tr>
<td>US</td>
<td>World Economic Forum, 2012-13 (top 3 business impediments)</td>
<td>4</td>
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<tr>
<td>Singapore</td>
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Corruption Perceptions Index (2012)

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<th>Score</th>
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<td>5</td>
<td>87/100</td>
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<tr>
<td>Canada</td>
<td>9</td>
<td>84/100</td>
</tr>
<tr>
<td>Brunei</td>
<td>46</td>
<td>55/100</td>
</tr>
<tr>
<td>Malaysia</td>
<td>54</td>
<td>49/100</td>
</tr>
<tr>
<td>Thailand</td>
<td>88</td>
<td>37/100</td>
</tr>
<tr>
<td>Philippines</td>
<td>105</td>
<td>34/100</td>
</tr>
<tr>
<td>Indonesia</td>
<td>118</td>
<td>32/100</td>
</tr>
<tr>
<td>Vietnam</td>
<td>123</td>
<td>31/100</td>
</tr>
<tr>
<td>Cambodia</td>
<td>157</td>
<td>22/100</td>
</tr>
<tr>
<td>Laos</td>
<td>160</td>
<td>21/100</td>
</tr>
<tr>
<td>Myanmar</td>
<td>172</td>
<td>15/100</td>
</tr>
</tbody>
</table>

Myanmar is not included, but would likely rank alongside Laos
Sources: World Bank Ease of Doing Business (June 2012), Transparency Int'l
Political Risk & Environment

The political risk varies widely across ASEAN. Many economies are in transition and governments struggle to balance the impact of strong economic growth with the challenges inherent in equitable distribution.

**Myanmar’s political risk has improved—but remains relatively fragile**
- Conciliatory approach to Aung San Suu Kyi, must continue
- Armed ethnic-minority groups remain a threat to stability

**Authoritarian rule of Cambodian PM Hun Sen is set to continue**
- Cambodia is drifting into China’s political/commercial orbit
- Relations with Thailand remain tense following border clashes

**A Vietnam ‘Arab Spring’ style convulsion is unlikely**
- Factional splits: conservative hardliners vs. reformist moderates
- Public protests over land seizures, corruption

**The Philippines is on course for a period of relative political stability**
- Historic cycle of “people power” / corruption / army coups
- Conflicting territorial claims in the South China Sea (China)

**Indonesia’s 13-year-old democracy cannot be taken for granted**
- Economic reformists are losing out to economic nationalists
- Uncertainty regarding President Yudhoyono stepping down in 2014

**Ruling Lao People’s Revolutionary Party (LPRP) is unchallenged**
- Some pressures: (a) growth of urban middle class; (b) growing gap between rural and urban incomes; (c) land issues

**Thailand’s political risk remains high**
- Still no resolution of protracted power struggle, despite the decisive result of the July 2011 general election

**Malaysia’s ruling Barisan Nasional (BN) coalition will win the elections**
- ... but may not secure enough seats for a two-thirds majority

**Stable Singapore has seen rising public discontent**
- Key issue: prices, strained infrastructure, immigration
- Long-term mismatch between ruling PAP’s parliamentary dominance and its declining share of the vote may be unsustainable

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**Comparative Political Risk Ratings**

Source: EIU, Intercedent Feb / Mar 2013; 100=highest risk.

- **Myanmar**: 82 (Improvement past 6 months)
- **Cambodia**: 80 (Deterioration in past 6 months)
- **Vietnam**: 68
- **Philippines**: 61
- **Singapore**: 54
- **Thailand**: 55
- **Malaysia**: 33
- **Indonesia**: 10 (Improvement past 6 months)
- **Canada**: 7 (Point of Comparison)

The political risk varies widely across ASEAN. Many economies are in transition and governments struggle to balance the impact of strong economic growth with the challenges inherent in equitable distribution.
ASEAN’s march towards economic integration stretches back to the signing of the initial ASEAN Free Trade Area (AFTA) agreement in Singapore in 1992, when their were only six member states: Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand (ASEAN-6). The so-called CLMV countries (Cambodia, Laos, Myanmar and Vietnam) joined between 1995 and 1999.

AFTA has since been superseded by the ASEAN Trade in Goods Agreement (ATIGA, part of the broader ASEAN Economic Community agreement). Under AFTA/ATIGA, import duties on all products traded were virtually eliminated by 2010 for the original ASEAN-6 (0-5% duties on 99% of tariff lines) and will be by 2015, with flexibility to 2018, for CLMV. The agreement provides for limited exceptions which are noted by each country in their Tariff Reduction Schedules. ASEAN has also negotiated Free Trade Agreements (FTAs) with several of its major trading partners, and a number of bilateral FTAs (e.g. the Thai-Australian FTA, or TAFTA) involving individual ASEAN members have also be established. In the following section, ASEAN’s array of trade agreements is reviewed.

- ASEAN Economic Community
- ASEAN’s Regional Trade Agreements
- ASEAN - Investment Trends and Outlook
The AEC is an initiative of the 10 member states of the Association of Southeast Asian Nations (ASEAN). It aims to create a common market and production base, with barriers to trade eliminated by 2015, but it does not go as far as harmonizing monetary policy or a common currency as the EU has with its economic union. The AEC builds on a solid foundation - ASEAN has existed since 1967 and the ASEAN Free Trade Area (AFTA) since 1992 – but its goals are lofty and the challenges to implementation significant. It is expected that full implementation of the AEC may miss its target date of December 31, 2015 but that it will eventually be implemented successfully.

AEC STRATEGIC AIMS
(a) a single market/production base (free flow of goods, free flow of services, free flow of investment, freer flow of capital and free flow of skilled labour)
(b) a highly competitive economic region
(c) a region of equitable economic development
(d) a region fully integrated into the global economy

KEY ISSUES WATCHLIST

Tariff Reduction – ATIGA (ASEAN Trade in Goods Agreement) - Import duties on all products traded between members were eliminated by 2010 for ASEAN-6 and will be by 2015, with flexibility to 2018, for CLMV (Cambodia, Laos, Myanmar and Vietnam). Note: AFTA was the precursor to ATIGA. This part of the “trade in goods” component of the AEC is on track to meet the 2015 target.

Non-tariff Barriers (NTBs) - NTBs have been identified and plans are in place to reduce these by 2015. Significant challenges exist in addressing both “at the border” and “behind the border issues”; including establishing common customs procedures (ASEAN Single Window or ASW), reducing corruption/bribery, establishing effective infrastructure across the region (ICT and transport), to name just a few. In addition to the challenges inherent in installing common customs infrastructure across countries of disparate development, some NTBs are difficult to measure and track; their elimination by 2015 is unlikely.

Investment – ASEAN Comprehensive Investment Agreement (ACIA)
The ACIA was signed by ASEAN Ministers in 2009 and entered into force on March 29, 2012; ASEAN and foreign-owned ASEAN-based investors will benefit. ACIA promises “national treatment” for ASEAN investors and covers protection, facilitation, liberalization and promotion. It is important to be aware that not all of the individual ASEAN countries’ domestic policies yet reflect the regional agreement.

Services – the ASEAN Framework Agreement on Services (AFAS) was initially signed in 1995 and was designed to liberalize services beyond GATS commitments under WTO. Implementation is now following the requirements of the AEC Blueprint. Challenges include limited scope of Mutual Recognition Agreements (MRA) in place for the movement of skilled labour and the fact that domestic regulations override MRAs meaning that in practice many countries remain closed to skilled labour from other parts of the region.

Rules of Origin – In order to be considered an ASEAN good and receive preferential tariff rates, products must meet the following requirements: Contain at least 40% Regional Value Content (RVC), or undergo a Change in Tariff Classification (CTC), or meet Product Specific Rules (PSR).
ASEAN’s Regional Trading Relationships

ASEAN has concluded a number of Free Trade Agreements (FTAs) with its neighbours that offer the region preferential access to these markets.

While FTAs are not always utilized, AmCham’s 2012 ASEAN Business Outlook Survey shows that over 75% of respondents consider ASEAN FTAs with China and India to be Extremely Important or Important in their investment plans in the region, while 65% consider an ASEAN FTA with Australia New Zealand (AANZFTA) to be this important.

Typically, the region’s emerging economies—Cambodia, Laos, Vietnam, the Philippines and Indonesia, have relied on ASEAN FTAs, reflecting weaker institutional capacity to negotiate bilateral deals.
A brief summary of the tariff reductions resulting from ASEAN’s FTAs can be found below. Canada and ASEAN have not signed an FTA.

**ASEAN Australia New Zealand Free Trade Area (AANZFTA)**
AANZFTA covers goods, services and investment, and is widely regarded as a well-structured, comprehensive agreement. Tariffs on imports of ASEAN products into ANZ were broadly eliminated by 2012 and restrictions in both directions are scheduled for elimination by 2020. Furthering its impact, AANZFTA includes strong commitments on investment protection as well.

**ASEAN China Free Trade Area (ACFTA)**
ACFTA is the third largest Free Trade Area after the EU and NAFTA (nominal GDP) and the largest by population; it covers goods, services and investment. Effective Jan 1, 2010, average tariffs on Chinese goods sold in ASEAN countries dropped from 12.8% to 0.6% and from 9.8% to 0.1% for ASEAN goods sold in China. NTBs are the only real remaining impediment to trade.

**ASEAN India Free Trade Area (AIFTA)**
AIFTA took effect in 2010 and was initially limited to trade in goods. On December 20, 2012, a further agreement on Investment and Services was signed. Tariffs reductions formally began this year (2013). Tariff reductions are more modest than with the other agreements, scheduled to be reduced to 5% by 2016 on 90% of products. AIFTA has relatively extensive Exclusion and Sensitive Lists.

**ASEAN Japan Comprehensive Economic Partnership**
The AJCEP came into effect in 2008 and includes trade in goods - services and investment are covered through bilateral agreements. Most tariffs were either eliminated immediately or are to be reduced to 0-5% within 11 years. The CLMV countries are allowed more time however and tariff reductions overall are complicated and not fully realized until 2026. Stringent quality and standards requirements on Japan’s side with respect to agricultural and manufactured products pose challenges.

**ASEAN Korea Free Trade Area**
The AKFTA came into effect in 2007 and includes goods, services and investment. Tariffs on most goods are to be eliminated by 2012 with the CLMV countries given more time to comply.
Evolving Regional Trade Agreements/Trading Blocks

Proponents of free trade are looking beyond narrow FTAs to an eventual Asia-wide free trade agreement or FTAAP (Free Trade Area of the Asia Pacific). The following two regional agreements are currently being negotiated, either of which could serve as a foundation for a possible FTAAP:

<table>
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<tr>
<th>Agreement</th>
<th>Overview</th>
<th>Goals</th>
<th>Challenges</th>
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| **Regional Comprehensive Economic Partnership (RCEP)**  
  • Sometimes referred to as ASEAN++  
  • Target completion date: 2015 | An agreement between ASEAN and its FTA partners: Australia, New Zealand, Japan, South Korea, China and India. The agreement contains an open accession clause to allow new members to join as they complete FTAs with ASEAN. | Aims to create a regional economic agreement that goes beyond existing FTAs and that supports equitable economic development across the region. | Viewed as more flexible than the TPP, the RCEP follows the “ASEAN way” and accommodates the varying stages of development of its members. This approach and the different features and implementation dates/rates of the ASEAN + 1 FTAs will slow progress. |
| **Trans-Pacific Partnership (TPP)**  
  • Target completion date: October 2013 | Viewed as a “US-led agreement”, the TPP is currently being negotiated between the US, Vietnam, Malaysia, New Zealand, Australia, Chile, Brunei, Singapore, Peru, Mexico, Canada, South Korea and Japan. Currently only four ASEAN members are a party to the TPP. | A comprehensive regional agreement - described as “WTO+” and “a trade agreement for the 21st century” – that goes beyond standard FTAs and includes far-reaching provisions in such areas as Intellectual Property Rights (IPR), labour and the environment. | Viewed as a strict, relatively inflexible agreement - very difficult for countries at such different levels of economic development to meet stringent requirements of the agreement, particularly in areas such as IPR, labour rights and environmental protection; unclear how Vietnam’s powerful SOEs can “fit”, for instance. |

The two agreements each promise significant economic benefits, particularly to the smaller economies at the outset. The leadership role of the US, and the absence of China and India in the TPP is noteworthy. Not all the ASEAN members are included, raising the possibility of tensions within ASEAN and a potential waning of its influence. While many within the region welcome the US as a counterweight to China’s rising influence, some smaller members are closely aligned with their influential neighbour. ASEAN will need to maintain a neutral stance.

Another regional grouping of significance is the proposed **China-Japan-Korea FTA** announced in 2012. This FTA would bring together three strong economies in an economic block approximately equal to the size of the US economy. Despite historical and political differences, the three concluded a trilateral Investment Agreement in May 2012.
The promise of regional integration has increased international interest in ASEAN as an investment destination and ASEAN Inbound FDI has rebounded very strongly from the 2009 Global Financial Crisis.

Global interest in ASEAN as an investment destination is rising due to a number of drivers:

- Labour-intensive manufacturing is shifting from China to emerging ASEAN markets
- Organizations are looking to diversify their Asian investments (China +1 strategy)
- Regional players look to ASEAN as a location with fewer political implications than China (Japan – auto; others – South China Sea)
- Global capital is looking to reap the future benefits of the anticipated demographic dividend (Indonesia, Vietnam and the Philippines)

China more than doubled investment in the region in 2011 over 2010 and is involved in major infrastructure projects such as the Asian Link Railway Project. The project promises new rail lines in Laos, Myanmar and Thailand, links to Cambodia and Vietnam, and an eventual high speed passenger train from Bangkok to Mainland China.

China has also established a USD10 billion PRC–ASEAN Investment Cooperation Fund to finance ASEAN–PRC infrastructure and interconnectivity projects in infrastructure, energy and resources, information and communications technology and other fields.

Within ASEAN, countries compete for investment and offer incentives to encourage companies to establish themselves there, particularly in sectors which have been identified as “priority” sectors. Commitments to provide training and skills development may garner additional perks. Companies are encouraged to explore the different incentives and packages on offer across the region when determining where to locate. A list of websites for this purpose is provided in Appendix III.
Singapore stands out as the primary destination for FDI into ASEAN, followed by Indonesia and Malaysia. Thailand has suffered due to recent political uncertainty; the floods experienced in 2011 were another hit but the consequent re-building efforts should raise the investment number for 2012. Investment into Vietnam has also fallen as the government struggles to find a balance between creating an attractive investment destination and maintaining its own interests.

Source: UNCTAD
While Canada has not yet signed a trade agreement with ASEAN or any of its members, in 2012 Canada celebrated the 35th anniversary of its “Dialogue Partnership” with ASEAN and the first Canada ASEAN Business Council (CABC) was formed in that same year. In recognition of ASEAN’s new legal status, through the ASEAN Charter which entered into force in 2008, Canada has appointed an Ambassador, based in Jakarta, Indonesia, to ASEAN.

- Canada-ASEAN Trade
- Canadian Investment in ASEAN
- Bilateral Trade and Tax Agreements
Canada’s exports to ASEAN in 2012 totalled just over C$5bn, up 15% from 2010 and more than double 10 years ago. Important exports include fertilizers, machinery, cereals, wood pulp and electrical and electronic equipment.

Indonesia stands out as the largest ASEAN importer of Canadian goods, reflecting its size and recent economic growth. Notably, Indonesian imports have fully recovered from the downturn in 2009/10. Indonesia’s large domestic market is largely responsible for its resilience.

Canada’s imports from ASEAN were double its exports, at C$10.8bn in 2012; key imports include electrical and electronic equipment, machinery, rubber and apparel.

Imports of electrical and electronic equipment explain the strong showing of Malaysia and Thailand.

Current trade with Laos and Brunei is negligible. Cambodia, however, has lifted its exports to Canada substantially.
Canadian Direct Investment in ASEAN

The stock of Canadian Direct Investment Abroad (CDIA) in ASEAN totaled C$ 7.7bn in 2011, 50% more than the C$5bn invested in China and India combined. The majority of Canadian investment (76%) has been in two ASEAN markets: Indonesia (47%) and Singapore (29%) (source: Statistics Canada, August 2012.)

ASEAN itself – primarily Singapore - is the leading source of investment into the region. Canada was in the top ten until 2011 when it was edged out by new entrants and significant increases on the part of Japan, China and Hong Kong. The EU had been the top investor but intra ASEAN investment has shot to number one after almost doubling from 2010. The EU and Japan are both significant investors and have been known to effectively use government supported investment in different development-oriented projects (in agriculture and water for example) to promote the interests of their own companies. China, as mentioned earlier, is making a number of significant investments in regional infrastructure projects.

### Top Investors in ASEAN, 2009-2011

<table>
<thead>
<tr>
<th>Year</th>
<th>% share</th>
<th>ASEAN</th>
<th>EU</th>
<th>Japan</th>
<th>USA</th>
<th>Hong Kong</th>
<th>Cayman Islands</th>
<th>Korea</th>
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Source: ASEAN FDI Database

### Top 10 Sources of FDI inflows into ASEAN, 2008-11

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<td>Japan</td>
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<td>China</td>
<td>1,853</td>
<td>2,785</td>
<td>6,034</td>
<td>4</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>USA</td>
<td>5,704</td>
<td>12,772</td>
<td>5,783</td>
<td>12</td>
<td>14</td>
<td>5</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>5,667</td>
<td>344</td>
<td>4,096</td>
<td>12</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Cayman Islands</td>
<td>1,403</td>
<td>5,602</td>
<td>2,425</td>
<td>3</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Korea</td>
<td>1,794</td>
<td>3,764</td>
<td>2,138</td>
<td>4</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>UAE</td>
<td>n.a.</td>
<td>154</td>
<td>1,728</td>
<td>n.a.</td>
<td>0</td>
<td>1.5</td>
</tr>
<tr>
<td>Taiwan</td>
<td>1,131</td>
<td>1,089</td>
<td>1,719</td>
<td>2</td>
<td>1</td>
<td>1.5</td>
</tr>
<tr>
<td>Top 10</td>
<td>35,705</td>
<td>68,600</td>
<td>83,449</td>
<td>76</td>
<td>74</td>
<td>73</td>
</tr>
<tr>
<td>Canada</td>
<td>720</td>
<td>1,393</td>
<td>985</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: ASEAN FDI Database
Canada does not have trade agreements in place with ASEAN or its members at the moment (see adjoining chart) but has officially joined the TPP negotiations as of October 8, 2012. ASEAN members Brunei, Malaysia, Singapore and Vietnam are also party to TPP negotiations.

A selection of ASEAN’s agreements with other countries is highlighted below to put Canada’s relationship with the region into context:

**ASEAN-US Agreements**
The United States has a free-trade agreement with Singapore that went into effect in 2004. During the first eight years of the FTA, two-way trade increased 59.1% and U.S. exports by 89.4%.

An ASEAN-US Trade and Investment Framework Agreement was signed in 2006.

In November 2012, ASEAN and the US signed the US-ASEAN Expanded Economic Engagement (E3) which is expected to increase trade and investment between the two parties and ease the way for more ASEAN members to eventually join the TPP.

**Other ASEAN Agreements**
- The ASEAN – EU Work Program on Trade and Investment was adopted in 2011. FTA negotiations between the two stalled in 2009, although bilateral talks are ongoing between the EU and Singapore, and the EU and Malaysia.
- The ASEAN-Russia Comprehensive Roadmap on Trade & Investment; ASEAN-Russia Energy Cooperation Work Programme 2010 – 2015
- The ASEAN-GCC 2-Year Action Plan on Trade & Investment (2010-2012), extended to 2013

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### Canada’s Agreements with ASEAN countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Tax Treaty</th>
<th>Bilateral Foreign Investment Protection Agreement</th>
<th>Free Trade Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>In force (1979)</td>
<td>Negotiations Ongoing</td>
<td>N/A</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Under re-negotiation</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Philippines</td>
<td>In force (1976)</td>
<td>In force (1996)</td>
<td>N/A</td>
</tr>
<tr>
<td>Singapore</td>
<td>Under amendment</td>
<td>N/A</td>
<td>Negotiations stalled (2002)</td>
</tr>
<tr>
<td>Vietnam</td>
<td>In force (1997)</td>
<td>Negotiations Ongoing</td>
<td>N/A</td>
</tr>
</tbody>
</table>

The ASEAN-Canada Joint Declaration on Trade & Investment was endorsed in 2011 and aims to enhance trade, industrial cooperation and investment with a particular focus on SMEs.

2012 marked the 35th Anniversary of the ASEAN-Canada Dialogue Partnership.

Source: APFC – Securing Canada’s Place in Asia, August 2012 (DFAIT, Finance Canada)
5. Sector Opportunities in ASEAN

ASEAN’s growth has been strong across the board and imports have been increasing steadily in most sectors. Six sectors were identified in ASEAN as offering the best opportunity for Canadian SMEs. Detail on trends driving these opportunities within the region and specific sub-sectors of opportunity are provided on the following pages.

- Aerospace
- AgriFood
- Automotive
- Clean Tech
- ICT
- Oil & Gas
Identification of Sectors for Analysis

Six sectors for further investigation were identified based upon the following inputs:

- Discussions with Senior Trade Commissioners and Sector Leads at all Canada’s ASEAN trade missions
- Secondary research, including trade and investment trends
- Interviews with business leaders in the private sector, actively doing business in the region
- An assessment of the skills and strengths of Canadian SMEs in relation to sectors of opportunity in ASEAN

- **Aerospace**
  - Communications/navigation systems
  - Information and Communications Technology (ICT)-based solutions
  - Maintenance, Repair & Overhaul (MRO)

- **AgriFood**
  - Processing technology and equipment
  - Technology related to agricultural productivity

- **Automotive**
  - Parts and technologies related to the industry

- **Clean Tech**
  - Water/Wastewater Treatment
  - Environmental consulting, engineering and project management

- **ICT**
  - Telecommunications (Network build, Mobile Media, M2M)
  - Enterprise Software (eGov, eHealth, eEducation, BPO solutions)

- **Oil & Gas** - Services & Equipment related to:
  - Enhanced Oil Recovery (EOR)
  - Offshore
  - Unconventional sources
ASEAN’s Growth in Merchandise Import Demand

ASEAN merchandise imports have been growing strongly in recent years, and Canadian exporters have been matching or outperforming the market across most of the main ASEAN economies.

### ASEAN Import Growth Trends: World vs Canada

- **Indonesia**: 23.8% Imports from World, 24.8% Imports from Canada
- **Vietnam**: 17.2% Imports from World, 18.3% Imports from Canada
- **Philippines**: 11.5% Imports from World, 8.8% Imports from Canada
- **Thailand**: 10.1% Imports from World, 3.3% Imports from Canada
- **Malaysia**: 7.4% Imports from World, 6.9% Imports from Canada
- **Singapore**: 8.9% Imports from World, 5.0% Imports from Canada

### Composition of ASEAN’s Imports from Canada

#### Indonesia
- Food: 23.8% US$0.46bn
- Industrial Supplies: 76.2% US$1.56bn

#### Vietnam
- Capital Goods: 33.3% US$0.11bn
- Food: 66.7% US$0.15bn

#### Philippines
- Capital Goods: 44.4% US$0.18bn
- Fuel: 55.6% US$0.13bn

#### Thailand
- Industrial Supplies: 66.7% US$0.70bn
- Fuel: 33.3% US$0.06bn

#### Malaysia
- Capital Goods: 55.6% US$0.09bn
- Industrial Supplies: 44.4% US$0.09bn

#### Singapore
- Industrial Supplies: 55.6% US$0.09bn
- Other: 44.4% US$0.07bn

**Total Imports From Canada**
- Indonesia: US$2.02bn
- Vietnam: US$0.35bn
- Philippines: US$0.42bn
- Thailand: US$1.06bn
- Malaysia: US$0.91bn
- Singapore: US$1.17bn

**Notes:**
- Source: UN Comtrade
- Annual average growth rates in US$ terms
Given the importance of the services sector in ASEAN’s economies and the fact that much of Canada’s exportable expertise lies in services, it is important to not overlook this aspect of trade.

### Industry Structure as a % of GDP by Country, 2012

<table>
<thead>
<tr>
<th>Country</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>27.8</td>
<td>72.2</td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>12.4</td>
<td>31.3</td>
<td>56.4</td>
</tr>
<tr>
<td>Malaysia</td>
<td>11.9</td>
<td>41.2</td>
<td>46.8</td>
</tr>
<tr>
<td>Thailand</td>
<td>13.0</td>
<td>43.0</td>
<td>44.0</td>
</tr>
<tr>
<td>Indonesia</td>
<td>14.3</td>
<td>46.9</td>
<td>38.8</td>
</tr>
<tr>
<td>Vietnam</td>
<td>21.5</td>
<td>40.7</td>
<td>37.7</td>
</tr>
<tr>
<td>Laos</td>
<td>26.0</td>
<td>34.0</td>
<td>40.0</td>
</tr>
<tr>
<td>Cambodia</td>
<td>34.7</td>
<td>24.3</td>
<td>41.0</td>
</tr>
<tr>
<td>Myanmar</td>
<td>38.8</td>
<td>19.3</td>
<td>41.8</td>
</tr>
<tr>
<td>Canada</td>
<td>1.8</td>
<td>28.6</td>
<td>69.6</td>
</tr>
</tbody>
</table>

**ASEAN’s service orientation**

Even as ASEAN manufacturing grows, service sector opportunities will expand with the region’s gradual shift into services. Singapore has a mature economic structure, the Philippines, with its strong BPO industry, is second in terms of services as a % of GDP.

**Canada’s service orientation**

Approximately 75% of Canadians work in services; between 1990 and 2006 more than 90% of new Canadian jobs were in services. In Canada in 2006, over 330,000 jobs were created in services while approximately 16,500 jobs in the goods sector were lost.

Source: CIA World Fact Book – GDP Composition by Sector, Intercedent, Industry Canada
ASEAN’s Trade in Services

The categories into which services trade is divided are very broadly defined – one of the main challenges in analyzing services. Among other things, Business Services includes: architectural, engineering, water treatment and de-pollution services; all of which are identified as important areas for Canadian SMEs. Communications Services, another key Canadian strength, is experiencing 11.5% growth in imports; and IT Services, while relatively small in total, is experiencing the fastest growth both in imports and exports. Highlights of the definitions for the relevant service sectors are included below.

Business services
Includes (among other things): Business and management consulting; Advertising: Market research; R&D services; Architectural, engineering and other technical services: Waste treatment and de-pollution services; Agricultural, mining, and other on-site processing services

Communications services
Includes (among other things): telecommunications.... broadcasting, satellite, ...cellular telephone services, Internet backbone services and on-line access services...

Computer and information services
Includes (among other things): hardware and software services and data-processing services, ... development, production, supply and documentation of customized software... Excluded ...are the provision of packaged (non-customised) software. ...includes database services.

The installed base of regional airports has grown rapidly in Asia’s emerging markets, including ASEAN. The number of large capacity airports will need to grow significantly to match demand forecasts. A number of low-cost carriers based in ASEAN have emerged and increased competition across the industry. Many are open to solutions that help differentiate their offerings and/or increase efficiencies and cut costs.

### Asia Pacific Airports: 2013

<table>
<thead>
<tr>
<th>Market</th>
<th>Main</th>
<th>Secondary</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>5</td>
<td>132 (+3)</td>
<td>137</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Cambodia</td>
<td>0</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>China</td>
<td>30</td>
<td>149 (+9)</td>
<td>179</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>India</td>
<td>6</td>
<td>83</td>
<td>89</td>
</tr>
<tr>
<td>Indonesia</td>
<td>4</td>
<td>80 (+1)</td>
<td>84</td>
</tr>
<tr>
<td>Japan</td>
<td>8 (+4)</td>
<td>64 (-1)</td>
<td>72</td>
</tr>
<tr>
<td>South Korea</td>
<td>4</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2</td>
<td>34</td>
<td>36</td>
</tr>
<tr>
<td>Myanmar</td>
<td>0</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0</td>
<td>29</td>
<td>29</td>
</tr>
<tr>
<td>New Zealand</td>
<td>3</td>
<td>25 (-1)</td>
<td>28</td>
</tr>
<tr>
<td>Singapore</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Taiwan</td>
<td>2</td>
<td>11</td>
<td>13</td>
</tr>
<tr>
<td>Thailand</td>
<td>2</td>
<td>28 (+2)</td>
<td>30</td>
</tr>
<tr>
<td>Vietnam</td>
<td>2</td>
<td>19</td>
<td>21</td>
</tr>
<tr>
<td>ASEAN Total</td>
<td>11</td>
<td>189</td>
<td>200</td>
</tr>
<tr>
<td>Asia Pacific Total</td>
<td>71</td>
<td>699</td>
<td>770</td>
</tr>
</tbody>
</table>

Note: secondary airports all have scheduled flights (+/-) refers to change since 2011
Source: www.flightstats.com (March 2013).
Aerospace Opportunities

Opportunities: Canadian SMEs will find opportunity in providing technologies and solutions for overall airport infrastructure and services, in addition to solutions directly related to aircraft. SMEs are advised to look beyond parts and MRO to solutions that help airlines to differentiate themselves in terms of in-flight services or an enhanced physical experience on board or at the airport. Communications and navigation solutions are in demand along with specific infrastructure requirements such as lighting solutions for some remote airports. Singapore, Malaysia and Indonesia may offer the best opportunity; see previous page for high density/growth hotspots.

Singapore - The aerospace industry in Singapore is focused on MRO services, high-value, specialized parts production and R&D. Two of the world’s top 10 MRO centres are in Singapore – ST Aerospace and SIA Engineering. Singapore is highly regarded as a centre of excellence and is the location of choice for several leading aerospace companies’ regional distribution centres, including Airbus, Boeing, Embraer and GE Aviation. Singapore offers a competitive and advanced market that facilitates exposure to the major global industry players once established.

Indonesia – Boeing and Airbus signed very large contracts with Indonesia’s Lion Air in 2012 and 2013 respectively; Canada’s Bombardier is also active in the market, selling to Garuda and establishing service facilities in the region. Indonesia is enjoying extremely high growth and offers opportunity in all aspects of the sector.

Malaysia - Malaysia has been working to position itself as a cost-effective alternative to Singapore in aerospace and in MRO in particular. Tax incentives are available and Malaysia has succeeded in attracting players such as Eurocopter, GE and Honeywell. Opportunities exist in the educational sector for training for hands-on technicians. Malaysia, a Tier 2 parts supplier, is anxious to move up the value chain. Malaysian companies are open to partnering with Canadian companies. Collaboration that involve skills development and technology transfer are particularly encouraged.
ASEAN’s emerging middle class is driving demand for processed food and beverages as tastes and lifestyles change. Concurrently, population growth and government policy affect food production needs with agricultural self-sufficiency a growing priority for some ASEAN markets.

**Emerging Middle Class to 2030 (% change in persons spending >US$4/day)**

<table>
<thead>
<tr>
<th>Country</th>
<th>2010-20</th>
<th>2020-30</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pakistan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vietnam</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bangladesh</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sri Lanka</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cambodia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Laos</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: 1. in 2005 PPP terms.
Source: ADB

**Imports of Food and Drink Machinery, 2009-11**

<table>
<thead>
<tr>
<th>Country</th>
<th>Value</th>
<th>2-year CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>US$494.6m</td>
<td>64%</td>
</tr>
<tr>
<td>Thailand</td>
<td>US$346.7m</td>
<td>42%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>US$317m</td>
<td>42%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>US$203.2m</td>
<td>-34%</td>
</tr>
<tr>
<td>Philippines</td>
<td>US$123.4m</td>
<td>42%</td>
</tr>
<tr>
<td>Singapore</td>
<td>US$120.2m</td>
<td>51%</td>
</tr>
<tr>
<td>Cambodia</td>
<td>US$32m</td>
<td>181%</td>
</tr>
<tr>
<td>Myanmar</td>
<td>US$2m</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Note: Investment in F&B machinery is a leading indicator of sector growth.
Source: UN Comtrade

**Note: Definition of Middle Class:** There is no standard definition of the middle class and criteria can be absolute or relative. This assessment uses an absolute approach meaning those with consumption expenditures of US$2–20 per person per day (2005 PPP).
Canada currently exports significant quantities of food (wheat, soybeans, frozen meats) to Southeast Asia, and opportunity exists to expand into processed foods. Technology and equipment involved both in food production and processing is also in demand.

• ASEAN has a significant Muslim population (Indonesia and Malaysia in particular) and Canadian companies in this sector should be aware of Halal requirements. Thailand exports the most Halal products in the region.

• Competition in the equipment sub-sector is strong from low-priced Chinese suppliers.

Processed foods include convenience foods as well as healthier alternatives and these are growing in popularity in countries such as Thailand and the Philippines.

• Thailand is an important market as it is a major food exporter within ASEAN.

• The Philippines has the most “westernized” food preferences in the region and the market is familiar with Canadian brands due in part to the many family linkages between the two countries (packaged foods are often sent back to the Philippines from Canada). Canadian companies with products for this sector in the Philippines are advised to go through a consolidator to reach the market – few stores will buy direct.

Processing technology and equipment is experiencing an increase in demand. Thailand is a key market as it is the region’s largest food exporter, second in Asia only to China, and 12th largest in the world.

• Again, the impact of Indonesia’s large population is evident. Indonesian equipment imports surpass those of the other ASEAN countries and its growth is second only to that of Cambodia (which started from an extremely low base).

Technology related to shipping and storage (refrigeration) is also of interest and ICT-enabled solutions for food tracking (i.e. maintaining “the cold chain” or monitoring the beef supply chain) are also needed.

Technology and know-how related to larger-scale agricultural production, animal husbandry, genetics and other farming techniques is another area of opportunity.

• Indonesia is allowing more foreign investment in some parts of the agricultural sector as it works to develop more expertise and self-sufficiency. Monsanto has announced its decision to invest in Indonesia and to use it as its base for the ASEAN market (hybrid and transgenic corn seeds).

• Vietnam is already a leading exporter of rice and coffee and is looking to further develop its farming industry. The government has identified this as a priority sector and incentives are available. A recent example is local authorities in Long An Province encouraging farmers to use laser-controlled field-leveling equipment; technology proven to reduce costs and water usage (Vietnam News, March 23, 2013).

• Myanmar is interested in developing its agribusiness resources and a range of early-stage opportunities are available.
ASEAN is the 8th largest automotive market in the world. It grew 34% in 2012 alone achieving sales of over one million vehicles in each of Thailand and Indonesia. Thailand was home to 58% of regional production in 2012, up from 48% in 2011. Thailand has traditionally been the ASEAN hub for automotive production, and it remains so, but as the overall market grows, spurred in part by Indonesia’s increased market size, production will expand both to Indonesia – already home to 26% of production – and other parts of the region. The AEC’s common market will mean greater specialization across the region within the industry.

Source: Frost & Sullivan, 2013 Automotive Outlook

Note: TRIAD refers to the countries that make up NAFTA, the European Union, Japan, Taiwan, South Korea, Hong Kong and Singapore. BRIC refers to Brazil, Russia, India and China – South Africa is often included for BRICS.
Automotive Opportunities

Thailand is ASEAN’s main automotive hub. Like Canada, Thailand does not have its own car maker but it is a major producer for the region. Many of the leading global car manufacturers (including GM, Ford, Honda, Toyota and Nissan) have production capacity and regional operations based in Thailand. In addition to manufacturing, Honda has located its ASEAN and Asia Pacific R&D operations in Thailand. Approximately half of Thailand’s production is exported. The country is particularly strong in pick-up trucks. Motorcycles also make up a large part of the ASEAN market. Canadian companies Magna International and The Woodbridge Group are already established in Thailand. The Thai government (Board of Investment) has had great success with its Eco Car Program, which offered incentives to encourage investment in fuel efficient vehicles. The country is reportedly looking at a similar initiative for Electric Vehicles.

Indonesia: Indonesia is well on its way to becoming the ASEAN’s largest car market, with a growing middle class and only 4% car ownership at the moment. Japan’s carmakers have 95% of the market (Toyota/Daihatsu – 51%, Mitsubishi – 15%, Suzuki, Honda and Nissan) and all are planning new production lines and new models. The other global players are also active - GM is about to reopen a plant they closed in 2005, BMW is expanding its production, and India’s Tata Motors is looking at both Indonesia and Thailand. Toyota announced plans (Sept 9 2012, Reuters) to invest US$727m in Indonesia over the next 5 years. Indonesia has announced a Low Cost Green Car (LCGC) program which is said to include a tax incentive of 0% VAT (versus the standard 10% VAT charged on goods produced in Indonesia).

Malaysia has its own car manufacturers, Perodua and Proton. Its auto output accounted for about 13% of ASEAN’s production in 2012. Although typically protective of its local auto industry, the government is eyeing the regional sales opportunity and is looking to attract more investment. The country will announce a National Automotive Policy in mid-2013.

Another driver of ASEAN demand could be Korea. Korea has a weak presence in ASEAN’s auto market currently but it is expected to increase its imports of cars from the region due to the cost advantage. According to Suktae Oh, Regional Head of Research, Standard Chartered Korea, potential exists for ASEAN and Korea to develop a supply chain for parts and components in the auto sector, following the example of the high-tech sector.
Although assembly and the great majority of regional auto parts production takes place in Thailand and Indonesia, the ASEAN production network extends across the region.

Source: Hiratsuka, 2010 presented by Chia Siow Yue, Singapore Institute of International Affairs, May 2012, ADB Conference. www.aienetwork.org
Urbanisation in Southeast Asia has been occurring rapidly and will continue to do so for the foreseeable future (absolute increases in city populations have also been unprecedented). In most ASEAN countries (Singapore being the notable exception) the level of urbanisation is still relatively low. Asia, including ASEAN, will have many more high density mega cities (>10 million population) by 2025.

- Business opportunities will emerge in so-called “green urbanisation” including the provision of clean water, clean air and clean spaces.

Note: Circle sizes indicate mega cities ranging from 10m to 40m.
Singapore is the ASEAN leader in Clean Tech, dedicating significant resources to establishing itself as global centre for research and innovation in clean technology and environmental science. Singapore’s Public Utilities Board (PUB) is very active in trialing new water solutions and offers “test-bedding” opportunities. Siemens Water Technologies’ Global R&D HQ is located in Singapore and they have a technology agreement with PUB as well as with Israel’s largest water utility, Mekorot. A Singapore presence will provide exposure to leading organizations and cutting edge technology.

Singapore also has a focus on Clean Energy, solar and biofuels; and it is looking into solutions for smart grids and electric vehicles. Companies are encouraged to review the Singapore government’s website for details on funding for initiatives in Clean Tech – foreign companies are eligible for some programs and it is also possible to find incentives or funding for Singapore-based companies to invest in solutions in this area. Another helpful resource is the: “2012 Guide to Singapore Government Funding and Incentives for the Environment” (www.greenfuture.sg).

### ASEAN Clean Tech Roadmap

- Demand for many “Clean Tech” solutions comes later in a country’s development – immediate opportunities exist in Singapore and Malaysia; some in Thailand, the Philippines and Indonesia; Vietnam, Myanmar, Laos and Cambodia will follow.
- A local partner is generally required to succeed in ASEAN; this is particularly the case for solutions that are sold into governments or government agencies, or that require government approval.
- Competition from local and Chinese companies is fierce and the market is price-sensitive.

### Water & Waste Water

- Industrial customers can be found across a range of industries but key targets in the region include those in the Electronics industry (Singapore, Malaysia, Thailand), Pharmaceuticals (Singapore, Malaysia), Oil Refineries (Singapore’s Jurong Island processes 1.2m bls per day), and Food & Beverage processing (Thailand).
- As in many other parts of the world, ASEAN governments are struggling to maintain and enhance their aging infrastructure, especially in areas undergoing rapid industrial development and urbanization. Cities in the Philippines, Thailand and Indonesia are a good place to start. One approach is via projects funded by the Asian Development Bank (http://www.adb.org/projects) or the World Bank (http://water.worldbank.org/projects-and-operations). Singapore is also always looking for new technologies in this space.

### Environmental Consulting

- Companies are likely to find opportunities around projects in the extractive industries and the many infrastructure projects underway across the region. Indonesia and the Philippines have a number of mining developments, but companies should be aware that both of these countries are working through some regulatory issues at the moment. Environment consulting projects may also be found through the ADB and World Bank (links above) and an area receiving significant attention recently is water resource management and sustainable development in the Mekong River Basin.
ASEAN’s ICT market reflects the diversity of its members’ stages of development. At one end of the spectrum, countries such as Myanmar are still building out their initial communications infrastructure. Middle income countries such as Thailand are investing to meet the evolving demands of their rapidly growing middle class, while Singapore has millions of tech savvy consumers with the discretionary income to spend on the latest mobile apps.

One component of the AEC is the ASEAN ICT Master Plan 2015 (http://www.asean.org/resources/publications/asean-publications/item/asean-ict-masterplan-2015). The ambitious plan aims to leverage coordinated investment in ICT infrastructure and thereby foster economic growth by bridging the digital divide. The roll-out plan places an emphasis on information security, IPR (Intellectual Property Rights) and ICT in education and government. Coordination in this area is required to further improve trade through the implementation of electronic-based common customs requirements and procedures across the region.

Common trends across the region include rising internet use and investment in mobile, over fixed, broadband. Generally, a country’s ICT “readiness” reflects its overall economic development.
The importance of ICT in the economies of Singapore and Malaysia is clear. Vietnam’s steady growth and Indonesia’s upswing over the past five years is also evident. Thailand and the Philippines are solidly in the middle but the decline in the Philippines’ imports is important to note.

Note: Vietnam data for 2010
Source: UNCTADStat.unctad.org
Demand for ICT infrastructure exists across the region whether for new build in areas like Myanmar or regular network upgrades in Singapore. Wireless broadband is being rolled out across ASEAN and mobile devices are used by much of the population for their internet access. Mobile applications and content are much in demand. Canada’s BlackBerry has done well in the region, with Indonesia its 3rd largest market after the US and the UK, and BlackBerry devices representing ~50% of smart phones shipped in the country in 2012. Indonesians also stand out for their social media activity, representing the 4th largest population of Facebook users globally.

DFAIT has identified four ICT sub-sectors that fit with Canadian industry strengths: Wireless Builds, Next Generation Networking, Mobile Media and the Connected Car/Machine-to-Machine Communication. Within the ASEAN context, opportunities exist in each of these sub-sectors to varying degrees.

**Wireless Builds:** Significant opportunity exists across the region, as operators are building out new infrastructure to keep pace with increased subscribers and bandwidth demand. Specific examples of areas of opportunity include Myanmar for new network build; Thailand, which finally completed its 3G licensing auctions late last year; and Indonesia, identified by both Ericsson and Nokia Siemens Networks as a top ten growth market due to the infrastructure investments being made by the operators there.

**Next Generation Networking:** Opportunities here are concentrated in the more developed ASEAN economies. Specific opportunity exists in the Philippines, and to a lesser extent Vietnam, for IT Services; otherwise solutions captured under this broad sub-sector are of interest to governments and organizations across the region, specifically within the ASEAN 5. Singapore is an important hub for Cloud, Big Data and Smart Grid solutions. Most managed network service providers servicing global businesses in Asia, including NTT and AT&T, have significant data centre investments in Malaysia.

**Mobile Media:** Where available, subscribers in ASEAN countries have been avid adopters of smart phones and other mobile devices; for many, mobile devices are their primary means of access to the internet. Content and applications that address local tastes and needs are much in demand but companies should expect strong local and regional competition and price sensitivity. Solutions that address the need to get this content to mobile devices efficiently are much in demand. The Philippines has been identified by Google as an excellent market to develop and test content management applications.

**Connected Vehicle/M2M:** Other than in Singapore, which is a leader in Intelligent Transportation Systems, the Connected Vehicle is the least immediate of the opportunities amongst the sub-sectors. While car-ownership is growing along with incomes in the region, it is still early days in many places and the transport infrastructure itself (roads and highways) is still in need of major development. That said, Thailand is the region’s recognized “auto hub” and Indonesia is fast becoming its largest auto market - look to these markets for opportunity in the future. Mobile Money solutions are already enjoying success in the Philippines and expected to take off across the rest of the region; BlackBerry chose Indonesia to launch its mobile payment service, BBM Money, in February of this year. M2M solutions targeted to specific industries such as Oil & Gas (i.e. remote monitoring) or Shipping & Logistics (tracking technologies) are certainly of interest and this area is expected to grow rapidly in ASEAN.
## Offshore Rigs in Asia Pacific (end 2012)

<table>
<thead>
<tr>
<th>Country</th>
<th>Number</th>
<th>Current Status</th>
<th>Type of Rig</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Drilling</td>
<td>Under Construction</td>
</tr>
<tr>
<td>Australia</td>
<td>16</td>
<td>12</td>
<td>-</td>
</tr>
<tr>
<td>Brunei Darussalam</td>
<td>6</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>China</td>
<td>57</td>
<td>31</td>
<td>20</td>
</tr>
<tr>
<td>India</td>
<td>51</td>
<td>31</td>
<td>15</td>
</tr>
<tr>
<td>Indonesia</td>
<td>25</td>
<td>21</td>
<td>-</td>
</tr>
<tr>
<td>Malaysia</td>
<td>59</td>
<td>38</td>
<td>2</td>
</tr>
<tr>
<td>Myanmar</td>
<td>10</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>New Zealand</td>
<td>9</td>
<td>7</td>
<td>-</td>
</tr>
<tr>
<td>Philippines</td>
<td>1</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>3</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Singapore</td>
<td>62</td>
<td>-</td>
<td>45</td>
</tr>
<tr>
<td>South Korea</td>
<td>44</td>
<td>-</td>
<td>36</td>
</tr>
<tr>
<td>Thailand</td>
<td>19</td>
<td>16</td>
<td>-</td>
</tr>
<tr>
<td>Vietnam</td>
<td>24</td>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>386</td>
<td>189</td>
<td>129</td>
</tr>
</tbody>
</table>

Source: Rigzone, Intercedent Asia

1. Others include Ready Stacked, Cold Stacked, Modification, Enroute, Waiting on Location, Inspection and Workover.
2. Others include Tender, Semisub, Drill Barge, Platform Rig and Inland Barge

## ASEAN’s Role in Offshore O&G

<table>
<thead>
<tr>
<th>Region</th>
<th>% of rigs</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td>53.4%</td>
</tr>
<tr>
<td>China</td>
<td>14.8%</td>
</tr>
<tr>
<td>India</td>
<td>13.2%</td>
</tr>
<tr>
<td>ANZ</td>
<td>6.5%</td>
</tr>
<tr>
<td>Other</td>
<td>12.2%</td>
</tr>
</tbody>
</table>

ASEAN is a significant player in the Oil & Gas sector. ASEAN hosts over half the offshore rigs operating in Asia Pacific, with Singapore and Malaysia accounting for the majority of these. Canada enjoys a good reputation in this sector but the Australians and Chinese offer stiff competition.
Opportunities: Opportunities are available for Canadian SMEs in the services and equipment sub-sectors of the Oil & Gas sector. Specifically, solutions in the areas of EOR (Enhanced Oil Recovery) and technology related to unconventional sources (shale, CBM – Coal Bed Methane) or offshore exploration. The ASEAN Council on Petroleum (ASCOPE - http://ascope.org/) is a regional body working on the Trans ASEAN Gas Pipeline Project, among other initiatives.

Within ASEAN, Indonesia, Singapore (refining), Malaysia and Brunei offer good opportunity; Vietnam and Thailand are growing in significance and Myanmar seems to offer good potential.

Singapore is a major manufacturing hub and a leader in refining activities. With one of the top oil export refining centres in the world, industry leaders, including Dupont, ExxonMobile and Shell, conduct their regional R&D and refining activities from Singapore. Singapore offers the opportunity to get in front of global industry leaders and work on advanced solutions.

Malaysia: Malaysia’s Petronas just made a significant investment in Canada. Canadian companies have the opportunity to leverage the growing relationship with Malaysia to offer their expertise in the sector. Furthermore, Canada has signed an agreement with the Malaysian Oil and Gas Services Council (www.mogsc.org.my/) to promote Malaysia as an oil and gas services hub in exchange for opportunities for Canadian companies in related equipment and services (EDC). Offshore opportunities are of particular interest at the moment.

Indonesia offers opportunity but its regulatory environment can be particularly challenging. BP Migas, Indonesia’s former oil and gas regulator, was abolished in late 2012 due to concerns that it had allowed too much power to foreign firms in the natural resources sector. It is important to get professional advice and companies should be aware of local content requirements. A presence in the country is required; a company is not able to sell direct from Canada. Tax incentives are available for deep water, offshore and remote area projects.

Vietnam: Vietnam is ASEAN's 3rd largest oil producer and the sector has been identified by the government as “high priority”. Challenges include a complex business environment – PetroVietnam is a State Owned Enterprise - and the complexity of the disputed South China Sea area where much of the reserves are believed to lie. Companies in this sector should be aware that if they are active in China, they may be discouraged from operating in Vietnam. Canada's Talisman is an active player in Vietnam.

Myanmar: There is great interest in Myanmar and its potential reserves at the moment as it opens up and sanctions are eased by its trading partners around the world (including Canada in April 2012). A number of projects are already underway in the country, with Thailand and China actively involved. The country's foreign investment law was just developed in 2012 and its implementation is still ongoing; companies are advised to proceed carefully at this early stage.
6. Case Studies

- Solmax International
- BTI Systems
- Hatfield Consultants
Case Study: Solmax International

Careful Due Diligence helps Solmax find the optimal location in ASEAN

Solmax International is a Quebec-based company that produces polyethylene geomembranes. Its products protect soils from contamination in applications such as landfills of the world’s most populated cities to the mines operating in environmentally fragile ecosystems.

Founded in 1981, today Solmax has about 200 employees and is the 3rd largest geomembrane manufacturer in the world. Solmax customers can be found in over 60 countries serviced through several sales offices. Production is managed out of three manufacturing facilities; in Montreal, Canada and Santiago, Chile and since 2009 near Kuala Lumpur in Malaysia.

Why ASEAN

Marc-Andre Gervais, the company’s CEO, explains that it was the potential of the Chinese market that first sparked his interest in Asia. In 2005, Solmax commissioned a market research study to better understand the market and sent a senior executive along with a consultant to China. After several weeks of meetings with government representatives and relevant industry players it was established that the competition was limited, the Solmax product was sufficiently differentiated, and that the price point was attractive. After the six week trip, Solmax had hired a local salesperson and begun the process of establishing an office in Shanghai.

By 2007 rising demand required Solmax to look at increasing its manufacturing capacity. Its global customer base drove the decision to develop a new facility in a strategic location rather than simply expanding capacity at its existing site. Gervais and his team began the site selection process for a new manufacturing facility to be located in Asia to service customers in ASEAN, India, Australia, the Middle East and Russia. The Canadian facility would continue to produce for the Americas, Europe, Western Russia and Africa. China was ruled out after protracted negotiations. South Korea was a strong candidate as Solmax had been sourcing from a Korean supplier.
Gervais is a strong believer in the value of due diligence and the company conducted a thorough analysis of the options across the region. The two main considerations were the availability and price of raw materials and the proximity and cost of shipping to customers. Positive factors that weighed in favour of ASEAN:

- With access to suppliers and well-known for their port and logistics infrastructure, Singapore or Malaysia were obvious options
- Both members of ASEAN, Singapore and Malaysia enjoy duty free access to the other ASEAN countries and duty-free or preferential access (depending on the specific product) to China, India, Australia, New Zealand, Japan and South Korea through the region’s various Free Trade Agreements (FTAs).
- Communication was simple given that English is widely spoken
- A familiar legal framework based on the British Common Law system

Eventually it came down to economics; Malaysia offered a very competitive tax incentive package, affordable land and good people with a reputation for staying with a company. Solmax chose to build its second manufacturing facility in Port Klang, the sea port of Kuala Lumpur, Malaysia.

**Company Culture and a Focus on Communication Contribute to Success**

The integration of the Malaysian facility into the Canadian organization has been very successful. The plant doubled its capacity within 18 months and today, four years later, it retains 95% of the team initially hired. Gervais offers some insight into how Solmax has been able to achieve such a positive outcome: “Establishing the Solmax culture and processes in the new Malaysian facility, and developing and maintaining communication between the two teams has been very important.”

To accomplish this, Solmax transferred a plant manager from the Canadian facility to run the Malaysian operation for the first year. Identical systems to the ones in Montreal (processes, quality assurance, information systems, production, etc.) were established in the Malaysian facility and all Malaysian technical staff (including engineers, technicians, logistics and accountants) are brought to Canada for 1-2 months training when they first start, to learn the technologies, the systems and the culture. The Malaysian team reports in through Montreal for all functions and proprietary technical know-how is maintained in Montreal.

When it comes to good communication across cultures and time zones, often it’s the little things that make the difference. Early on the team identified video conference calling as very helpful and each employee now has a camera for their computer. Time difference challenges are managed through flexible work hours on both ends to accommodate the regularly scheduled meetings. Although the Malaysian team are all able to speak English, to ensure clarity, all documentation (systems, instructions, processes, etc.) are translated into the local language.
Case Study: Solmax International

Solmax is a mid-sized Canadian company that has achieved international success through a thoughtful, methodical and practical approach to expanding its business. Solmax CEO, Marc-Andre Gervais, offers the following advice for Canadian companies looking to expand their business...

CHECKLIST
☑ Go slow - export first, do not let your company be rushed into anything, spend time on the ground in the ASEAN markets you are interested in.
☑ Do your research – bespoke market studies, site selection analysis, be aware of relevant FTAs and the impact on tariffs/duties on your products.
☑ Commit appropriate resources once the decision to enter the market has been made.
☑ Be flexible and open to other ways of accomplishing your goals – Solmax ended up in Malaysia by way of China and contract manufacturing in South Korea - you do not have to be located in China to serve the Chinese market.
☑ Work with professionals – Solmax has been able to work with international contacts provided by its lawyers, accountants and bankers in Canada – this makes things much easier when dealing with complex cross-border issues.
☑ Leverage the resources available to Canadian companies looking to expand internationally:
  • The Canadian High Commission in Malaysia provided introductions to local authorities, access to their network for business contacts and support for site selection visits.
  • EDC is another invaluable resource – no amount of due diligence can remove the need for Accounts Receivable insurance or Letters of Credit from local banks, etc.
☑ Network - exchange ideas and experiences with other Canadian business people working internationally – a lot of good ideas and advice are not industry-specific and offer enormous value to those new to a region.
Case Study: BTI Systems

BTI Systems finds easy market entry in ASEAN

Founded in Ottawa in 2000, BTI Systems is the leading provider of intelligent networking software and systems that empower content and service providers to capitalize on the demand for bandwidth driven by long-term trends in cloud services, mobility and Internet video.

Export oriented

BTI Systems has looked beyond the Canadian market since its inception. After winning its first customer – Ontario’s Hydro One – the company added both Canadian and US customers over the next few years as it developed its business from component manufacturer, to producer of the first managed optical amplifier system in the market, to the advanced solution provider it is today.

Competing against the likes of Alcatel, Cisco, and (more recently) Huawei and ZTE, over the past 13 years the company has grown to 300+ employees, with over 350 customers in 30 countries around the world. BTI has grown its business in a few different ways:

• Working with its OEM partner, Fujitsu, BTI was able to expand its presence in the North American market and grow its customer base to include tier one service providers, as well as leading content providers through its direct sales efforts. BTI’s open, standards-based system, together with its growing client list put it in a strong position to look to new markets for continued growth.

• Building on its success in North America, BTI has enjoyed success in Europe and although an initial foray into China was not successful on the sales front, it has, after a few growing pains, resulted in a strong manufacturing relationship with Flextronics in their Shanghai facility.

Next stop, ASEAN...

Fahim Sheikh, BTI’s VP of Sales, Asia Pacific, explains that the company first started exploring the region in 2008 with the assistance of an in-market agent with good connections in their industry. The ASEAN region was selected based on the opportunities identified and the perception that it offered a more straightforward entry point than some of the other alternatives considered in Asia. Sheikh himself travelled regularly (every 6 weeks) from Ottawa to the region to attend customer meetings coordinated by the agent. Within a year BTI had its first customer win (in Malaysia), a local Sales Engineer and a Malaysian partner. As is often the case, the partner was identified by the customer.
Case Study: BTI Systems

Partner Selection Tips:

CHECKLIST

- **Start small** – don’t commit too much initially – assess how someone delivers and how you work together
- **Research** - don’t align yourself too closely with anyone at the outset – the wrong connections could mean lost opportunities
- As you get to know the market, **hire local staff with existing industry knowledge and connections**; there is value to having your own people in sales and business development with partners supplying local contacts, knowledge and support
- Partners in-market are essential to manage the complexity of relationships and cultural differences in ASEAN but as the vendor you need to **establish a relationship with the customer yourself** – especially in a complex, “technical sale”
- Develop a strong relationship with your partners but **maintain care regarding how much information you share**

*Regional Expansion from a Singapore Base*

Having established a beachhead account, Sheikh moved to Singapore in 2009 and has worked with the team locally to build on BTI’s success in Malaysia. Subsequent customer wins followed in Malaysia and Singapore over the next couple of years, and the BTI team in the region has grown to include support for local customers as well as a regional sales team. In addition to Singapore, BTI’s regional footprint now includes Malaysia, Indonesia and Thailand.

Partners initially developed in Singapore have brought BTI in on some of the other regional deals as the partnership develops and their solution gains greater recognition within the ASEAN ICT community. Today, four years later, BTI counts over 20 ASEAN customers; including wins in Cambodia and Myanmar.

BTI Systems’ experience highlights the value of committing to the market and spending the time required to develop strong relationships with partners and customers across the region.
Case Study: Hatfield Consultants

Persistence and partnerships pay off in ASEAN

Hatfield saw the potential to do business in Indonesia far earlier than most. On a Canadian government-led trade mission in the late 1980s, founder Chris Hatfield recognized that Indonesia’s Mining, Oil and Gas and Aquaculture sectors were booming. There was clear untapped demand for Hatfield’s environmental expertise. The company located a local Indonesian partner and established PT Hatfield Indonesia, its first international office, in Bogor, Indonesia in 1990.

Today, the Indonesian office has grown to almost 40 people and business in the ASEAN region has further developed to the point that two additional regional offices have been established. Hatfield Consultants Mekong was incorporated in 2011 in Vientiane, Laos to provide environmental services to the hydropower, mining and international development sectors in the Greater Mekong Sub-region (GMS) that includes Cambodia, Vietnam, Thailand, Laos, Myanmar and China. Most recently, an office in Cambodia was established, spurred by Hatfield’s involvement in a number of projects in the climate change and water resource management sector in the Mekong River basin.

Hatfield’s involvement in ASEAN’s Mekong region extends back to 1994 when it became involved in projects studying the impact of Agent Orange dioxin contamination; work it continues to pursue to this day.

Early market entry in ASEAN

Founded in 1974 in Vancouver, Canada, Hatfield Consultants is an environmental consulting company providing a range of services to clients in the private sector (mining, oil & gas), as well as donor agencies, NGOs and other international organizations. To date, Hatfield has successfully completed over 2,200 projects in Asia, Africa, Europe, and Latin America.

Hatfield consultants planning for land rehabilitation following a mine closure in Indonesia
Case Study: Hatfield Consultants

**Delivering Services Abroad**

As a service provider, Hatfield Consultants emphasizes the development of its employees and ensuring capacity is built and shared throughout all its offices. Technical expertise is shared across offices, with staff from different offices working on different international projects depending on client needs. “Finding good technical staff in Indonesia has not been an issue”, explains Kenichi Shono, PT Hatfield Indonesia’s Technical and Operations Director. Senior management skills are among the more difficult to find locally, and the company must compete with other investors to attract staff with the right managerial experience. To date, PT Hatfield Indonesia has three long-standing Indonesian partners, and each serves senior management roles in the company. Exchanges between the Canadian office and the Indonesian office facilitate cross-training and the development of different skills throughout the company.

**Building partnerships**

Having been active in the region for approximately 25 years, Hatfield has developed a strong network of clients in the natural resources sector. Establishing long-term relationships with local partners, including universities, NGOs and other consulting companies, is important—not only for winning the project, but also for mutual capacity building, leveraging local knowledge and ensuring buy-in and support from the various stakeholders. The scale of many development projects may require involvement of a team of companies through sub-contracting arrangements based on specific expertise. Often, development projects are funded by a specific donor and in these situations preference is sometimes given to organizations from within that country. Having strong relationships with local organizations improves Hatfield’s chances to participate in a wide array of donor funded projects throughout the archipelago.

**Demonstrated commitment**

Hatfield maintained its Indonesian office and its presence in ASEAN throughout the regional financial crisis of the late 1990s, despite the challenges faced by private sector companies at that time. In Viet Nam, Hatfield remains committed to working on addressing the impacts of Agent Orange dioxin contamination, an area that Hatfield has contributed to for almost 20 years. In a part of the world where relationships are prioritized, this level of commitment does not go unnoticed. Clients recognize that Hatfield is committed to the ASEAN region for the long-term, and are confident that Hatfield will maintain a strong presence in the region in future.
7. Doing Business in ASEAN

- ASEAN Strategic Market Assessment
- Legal Considerations
- Market Entry Advice
### High potential ASEAN markets:

**Indonesia**

The ASEAN story is largely an ‘Indonesian story’, with much of Canada’s expertise in ICT, infrastructure, mining, oil & gas, and agribusiness finding opportunities in Indonesia. The Asia Financial Crisis taught Indonesia to focus on the domestic vs. external economy, which paid off during the Global Financial Crisis (GFC). A period of relative political and policy stability has released pent up demand, although protectionist sentiments cloud the outlook for some agribusiness and resource sectors.

**Singapore**

For regional scale, high value add manufacturing Singapore remains a strong contender, leveraging its 20+ FTAs. The long-term outlook is upbeat due to strong immigration inflows and the shift into value-added manufacturing and services. Singapore is one of the most affluent nations in Asia, an entirely urban population two thirds of whom earn > US$50,000 a year.

**Malaysia**

Malaysia is well positioned to capitalize on strong Asian demand, but the issue is whether its manufacturing sector can regain competitiveness to take advantage of regional growth. Domestic market opportunities are limited by its small size (29m population).

**Thailand**

Thailand’s export manufacturers have ridden the surge in Chinese and ASEAN demand and are now back at full capacity. Low cost but skilled labour and good infrastructure help Thailand benefit from “China plus one” sourcing decisions, particularly now that labour costs in China are rising. Despite recent calm, Thailand is riven by deep political and social tensions.

**Philippines**

The Philippines does not generate much investor enthusiasm, being perceived as nationalistic, over-regulated and litigious. Many international companies reportedly find it a difficult market to enter and do business in. On the other hand, economic growth and domestic demand have started to take off.

**Vietnam**

Still perceived as virgin territory, Vietnam appears to be on almost everyone’s list of longer-term priorities. Opportunities will emerge in line with urbanisation and rising incomes. Vietnam will remain less well off than neighbouring countries, providing some labour cost advantage. Income distribution is skewed: average urban income is twice the national average.
### ASEAN Strategic Market Assessment

**Challenges in ASEAN.** The major challenges to doing business in ASEAN include: the often complex regulatory environment, the rising level of competition, the relationship-based business culture, and the still fragmented, and in some cases relatively small, markets.

#### MARKET ANALYSIS < size / growth / profitability / entry barriers / distribution network / success factors >

- **Partners can make/break market entry** – prioritize finding a good partner; ensure partners are not ‘reputationally challenged’
- **Human resource availability** – a potential entry barrier in some markets and sectors
- **High-growth markets** – solutions must be scalable
- **Distribution networks** – transportation infrastructure is spotty and poorly maintained in some areas, especially outside of major/capital cities; cross-border transport agreements are unclear and inefficient between some countries (Cambodia and Laos)

#### CUSTOMER ANALYSIS < segments / motivations / unmet needs >

- **Diversity/fragmentation** - AEC 2015 notwithstanding, ASEAN is highly diversified/fragmented in terms of market development
- **Marketing** – marketing efforts should be localised for individual ASEAN sensitivities (local languages, culturally appropriate)
- **Support** – local support is required (location, language, spare parts availability)

#### COMPETITIVE ANALYSIS < identification / key groups / strategies / cost structure / strengths and weaknesses >

- **Low cost advantage** – new entrants’ experience curve and/or scale economies must overcome labour cost advantages of local players
- **ASEAN integration** – can be a threat as well as an opportunity for competitors that have already leveraged its potential
- **Local goods and services** - locally and regionally-produced goods and services have improved considerably in recent years
- **State Owned Enterprises** (Vietnam) – distort competition

#### ENVIRONMENTAL ANALYSIS < demographic / economic / technology / infrastructure / government / cultural issues >

- **GDP growth** – strong economic growth (except for mature market Singapore); but vulnerability to global risks (export orientation)
- **Technology leapfrog** – ASEAN has leapfrogged technologies (no legacy systems) in areas from wireless technology to water treatment
- **Corruption** - while progress is being made in open tendering, sales to public entities may be difficult - expect permit hassles
- **Local business culture** - in some industries/countries the business culture may be difficult to comprehend, let alone succeed in
- **Physical infrastructure** – may be underdeveloped (Cambodia/Laos/Myanmar in particular) - notably under capacity ports, power brownouts, and erratic/limited telecoms bandwidth
- **Government regulations** – can be used to promote nationalistic goals
- **Climate** - solutions must be adapt to extreme humidity, temperatures, storms (ICT, water, agribusiness, etc.)
The need for professional advice when establishing a business abroad is well understood. Below are a few highlights regarding areas of particular interest to those looking at the ASEAN region:

### Anti-Corruption Compliance

Corruption can be an issue - companies are advised to establish internal frameworks for anti-bribery and to prevent and avoid all corrupt business practices. Foreign companies and their employees doing business in ASEAN are, in many cases, subject to foreign anti-corruption legislation. Certain laws such as the US Foreign Corrupt Practices Act, the UK Bribery Act and the Canadian Corruption of Foreign Public Officials Act all have extra-territorial scope meaning a corrupt act, whether intentional or not, that takes places in an ASEAN member country could result in fines and imprisonment by a foreign jurisdiction.

Simple steps can make a difference - when applying for a permit or licence, check whether there are in fact fees payable for such a licence, as companies are often asked to pay ‘fees’ when there are no prescribed fees.

### Foreign Investment Laws

Establishing a foreign owned company in many ASEAN member countries can be complex and time consuming. For example, various countries in ASEAN allow for a 100% foreign owned company, but in many business sectors, local ownership is required as a matter of policy. Foreign investors may be surprised at the high minimum paid in capital requirements (as high as USD$500,000 in some business sectors in Indonesia). Obtaining work visas for foreign employees can also be challenging and takes time. Establishing a company in Indonesia or Vietnam can take several months and there are many licenses and approvals that are required.

### Due Diligence Matters

When entering the ASEAN market, it is advised that foreign companies conduct a thorough due diligence on companies they intend to invest in or work with and persons who they intend to work with or partner with, to avoid scams, corruption and uncertainties. Common challenges in ASEAN for foreign companies doing a due diligence include how to conduct reputation searches, how to determine if a company is what it purports to be and how to find out which local authorities to communicate with under each circumstance. Reputable ASEAN-based accountancy firms, consultancy firms or law firms offer effective due diligence services, which would be worthwhile for a foreign company to consider using to avoid a fraud or misrepresentation.

Input from Consilium Law Corporation (www.consiliumlaw.com.sg) is gratefully acknowledged.
The ASEAN region is complex and commitment is required in order to succeed in the market. Some common challenges with suggested approaches to dealing with them follow:

### Diverse Region with 10 Unique Markets
- Start small – choose an entry point within the region and build out from there (to ASEAN and/or the broader Asia Pacific region)
- In partner selection, consider partners with established regional networks
- Spend time on the ground getting to know the market(s)
- Proper due diligence in partner and site selection is critical

### Relationship-based Business Culture
- Local partners are extremely important
- Senior representation at key negotiations is required
- Once a decision to enter the market is made, stick with it; ASEAN is not a market for “quick wins”
- ASEAN cannot be effectively served directly from Canada
- Canadian companies should take advantage of Canada’s diverse population and the people-people linkages to ASEAN

### Complex Regulatory Environment
- Expect delays, be patient
- Local partners can help navigate the maze
- Canadian Trade Commissioners can often assist in problematic situations
- Get professional advice at the outset

### Competitive, Price-Sensitive Market
- Find your niche and compete on value, not price
- Be aware of FTA rules and make use of preferential tariffs where possible
- Be flexible and open to different ways of structuring a deal

### IPR Protection
- Work with a lawyer upfront
The Word Cloud was created using “Wordle” at wordle.net based on interview responses to the question – “What advice do you have for Canadian companies entering the ASEAN market?”

“Don’t try to cover 4 countries in one week – focus, follow-up and be available.”

“The follow-on meetings after the first 1-2 days of introductory meetings are when things happen.”

“Be patient and be persistent.”

“You need someone on the ground.”

“Partner, partner, partner…!”

“Focus on one market to start.”

“Don’t underestimate the competition (local and foreign).”

“Look beyond the big markets, ASEAN may offer better opportunity to start and can be a base from which to enter China when you’re ready.”

“During partner selection, beware the name-droppers.”

“Stick with it!”

“Expect regulatory challenges (in Indonesia).”

“Focus on one market to start.”
8. Conclusion

The ASEAN region is experiencing strong economic growth and the emergence of a significant middle class. Opportunities abound across all sectors, ranging from those related to the massive infrastructure development requirements of the region to those that serve to meet the evolving needs of the sizeable domestic business and consumer markets, to finding a place in the Global Supply Chains within which ASEAN is a crucial link.

The key to success for Canadian SMEs is to identify the niche where their solution best fits and then to focus on where and how to enter the region. Key considerations, such as the need for a local partner, have been highlighted in this report, as have some suggestions for handling the challenges likely to be encountered along the way.

While ASEAN may not offer the right opportunity for everyone, it is an area that should not be overlooked by Canadian companies planning to expand internationally.

A wealth of resources is available to Canadian companies interested in learning more about the ASEAN region. Canadian Trade Commissioners are based in each market, EDC representatives are available across Canada and in the region, and a number of business and trade associations such as the Canada ASEAN Business Council are in a position to provide guidance and advice.
9. Appendices

I. Regional Contacts for Canadian Companies
II. Online Resources
III. Investment Incentives by Country
Appendix I. Regional Contacts for Canadian Companies

**High Commission of Canada to Singapore**
One George Street, #11-01, Singapore, 049145
Email: spore@international.gc.ca
www.singapore.gc.ca

**High Commission of Canada to Brunei Darussalam**
5th Floor, Jalan McArthur Building, No. 1, Jalan McArthur
Bandar Seri Begawan BS 8711, Brunei Darussalam
Email: bsbgn@international.gc.ca
www.brunei.gc.ca

**Embassy of Canada in Indonesia**
World Trade Center, 6th Floor, Jl. Jend. Sudirman
Kav 29-31, Jakarta 12920 Indonesia
E-mail: canadianembassy.jkrt@international.gc.ca
www.indonesia.gc.ca

**High Commission of Canada to Malaysia**
17th Floor, Menara Tan & Tan, 207 Jalan Tun Razak,
50400 Kuala Lumpur, Malaysia
Email: klmp@international.gc.ca
www.malaysia.gc.ca

**Embassy of Canada in the Philippines**
Level 8, Tower 2, RCBC Plaza, 6819 Ayala Avenue
Makati City, 1200 Philippines
Email: manil-td@international.gc.ca
www.philippines.gc.ca

**Embassy of Canada in Thailand**
15th Fl., Abdulrahim Place, 990 Rama IV Road
Bangkok 10500, Thailand
Email: bngkk-td@international.gc.ca
www.thailand.gc.ca
* The Embassy of Canada in Bangkok is accredited to the Kingdom of Thailand, the Kingdom of Cambodia, the Lao People’s Democratic Republic and the Union of Myanmar (Burma).

**Embassy of Canada in Vietnam**
31 Hung Vuong, Hanoi, Vietnam
Email: hanoi@international.gc.ca
www.vietnam.gc.ca
&

**Consulate General of Canada**
235 Dong Khoi Street, #1002, District 1
Ho Chi Minh City, Vietnam
Email: hochi@international.gc.ca

**Export Development Canada (EDC)**
Regional Office in Singapore co-located with the
Canadian High Commission
Peter Nesbitt - Regional Vice President Asia
(Singapore)
Email: pnesbitt@edc.ca
Rajesh Sharma - Regional Manager, Singapore
Email: RaSharma@edc.ca
www.edc.ca

**Regional Business Councils and Chambers**

Canada ASEAN Business Council (CABC)
www.canasean.com
Email: support@canasean.com

Canadian Chamber of Commerce in Singapore:
http://www.canacham.org.sg/

Indonesia Canada Chamber of Commerce
http://www.iccc.or.id/

Malaysia Canada Business Council
http://www.malaysia-canada.com/

Canadian Chamber of Commerce of the Philippines
http://cancham.com.ph/

Thai-Canada Chamber of Commerce
http://www.tccc.or.th/

Canadian Chamber of Commerce in Vietnam
http://www.canachamvietnam.org/
Appendix II. Online Resources

Canada’s Trade Commissioner Service:
http://www.tradecommissioner.gc.ca/eng/our-services.jsp
http://www.tradecommissioner.gc.ca/eng/trade-offices.jsp - Locations of offices, contact information
http://www.tradecommissioner.gc.ca/eng/market-report-access.jsp - Market research reports for different countries
http://www.tradecommissioner.gc.ca/eng/gvc-guide.jsp - Information on where Canada fits into Global Value Chains

Export Development Canada (EDC):
www.edc.ca
www.edc.ca/EN/Country-Info/ - Link to market information by country

Industry Canada – Trade Data Online:
http://www.ic.gc.ca/eic/site/tdo-dcd.nsf/eng/Home - Trade data for Canada’s international trade

Asia Pacific Foundation of Canada: www.asiapacific.ca

ASEAN-related information:
http://www.asean.org/
http://www.asean.org/asean/external-relations - Information on FTAs and agreements with other countries
http://aric.adb.org/tax_incentives.php - The ADB (Asian Development Bank)’s Asia Regional Integration Centre (ARIC) tracks regional integration. The tax incentives database lists and compares tax guidelines and regulations pertaining to direct investment in Southeast Asia and South Asia.
http://aric.adb.org/comparisonftacontent.php - Comparison of FTAs in Asia

Business Without Borders: http://www.bwob.ca/ Note – free registration enables access to Global Opportunity Tool (by EIU) which enables market comparisons

United Nations ComTrade Database: http://comtrade.un.org/ - International Trade Data
<table>
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<tr>
<th>Country</th>
<th>Source of Info on Investment Incentives</th>
<th>Encouraged Sectors</th>
<th>Specific Plans or Projects</th>
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<tr>
<td>Indonesia</td>
<td>www2.bkpm.go.id Indonesia Investment Coordinating Board (BKPM)</td>
<td>• Infrastructure&lt;br&gt;• Food &amp; Agriculture&lt;br&gt;• Energy</td>
<td>5 Key PPP Projects: Railway, Water Supply, Power, Marine Transportation, Toll Road</td>
</tr>
<tr>
<td>Thailand</td>
<td><a href="http://www.thinkasiainvestthailand.com/about_boi_services_investment.htm">http://www.thinkasiainvestthailand.com/about_boi_services_investment.htm</a> - this site is specific to investors from North America</td>
<td>• Agriculture; agricultural products&lt;br&gt;• Mining, ceramics, basic metals&lt;br&gt;• Light industry&lt;br&gt;• Metal products, machinery &amp; transport equipment&lt;br&gt;• Electronics, electrical appliances&lt;br&gt;• Chemicals, paper and plastics&lt;br&gt;• Services and public utilities</td>
<td>New Five Year Investment Promotion Strategy 2013-2017</td>
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