

Rising Stars in Southeast Asia

Business Opportunity Analysis



Dear reader,

As many of us know, the business opportunities in Southeast Asia are rapidly increasing in a number of industries and sectors. We are experiencing this on a daily basis. How political initiatives, economic liberalisation, a flourishing entrepreneurial environment and presence of international companies combined with a highly educated and motivated workforce, makes these opportunities very tangible.

"Rising Stars in Southeast Asia" as a title, illustrates what is happening in the region and specifically in Indonesia, Thailand and Vietnam. With this report we want to share our experience from working hands on in the markets, with consulting projects and establishing companies. The information and analysis is based on desktop research, online questionnaires and interviews with government officials, industry experts and business executives, with a mix of multinationals and domestic companies. We have focused on those industries and sectors that we consider being most potential with:

- *Less public sector involvement in the projects, which often makes the business process tedious, price sensitive and sometimes less transparent.*
- *Political initiative and support for the industry's/sector's development*
- *Accessible to international companies*
- *Increasing demand and purchasing power of customer (B2B & B2C)*

The purpose is to give you relevant insights into your specific industry and sector. Hopefully the information will enable you to take a decision on which opportunities that are relevant to explore further and which market entry strategy to proceed with. There are various governmental, membership organisations and consulting firms, like Tick Tock Consulting, that can provide support and information.

With our experience and feet on the ground "We speed up the process"!

Enjoy the reading,



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EXECUTIVE SUMMARY

In 2017, Asia is once again poised to be the growth engine of global GDP and maybe having even more of an importance as a result of US tightening their international trade relations and abandon the Trans Pacific Partnership TPP. This naturally having a negative impact on global trade and value chains. However it is also opening up opportunities for the remaining 11 nations within TPP to tightening their relations and also looking more towards China and their partnerships with Europe. The Australian government will push ahead for a Trans-Pacific Partnership trade deal without the United States and is open to Indonesia, China and others seeking to join the agreement.

Association of Southeast Asian Nations ASEAN is continuing to increase in importance as China moves away from manufacturing and restructures into a consumption and services based economy. ASEAN is become Asia's main investment hub, moving towards a single market with ASEAN Economic Community AEC. ASEAN is now the third biggest economy in the world after China and India, following by United States, Brazil, European Union, Japan and Russia.

ASEAN's 625 million population (Indonesia makes up 40% of this) represents nearly 10% of the world's population and 40% of total population is below 30. For the last 4 years, ASEAN outdid China on FDI as well as minimum daily wage. China is no longer competitive in comparison to some ASEAN countries.

THE ASEAN ECONOMIC COMMUNITY

The aim of AEC (ASEAN Economic Community) blueprint 2015 is to achieve economic integration across ASEAN to establish ASEAN as both a single market and a production base with free movement of goods, services, investment, capital and labor, in order to take over the role of largest factory of the world after China.

AEC Key Pillars

- A single market and production base
- A highly competitive economic region
- A region of equitable economic development
- A region fully integrated into the global economy

THAILAND

Thailand is the second largest economy in Southeast Asia, after Indonesia. It has been ranked among the top 50th in the world and the third among ASEAN countries on the ease of doing business by the World Bank Group. Moreover, geographically, Thailand is situated in the middle of ASEAN with excellent infrastructure, Thailand has a potential to be a logistics hub of Asia.

Automotive and parts

Thailand is the biggest automotive manufacturer in Asia and the 10th biggest in the world. There are 1,657 automotive parts manufacturers and total 2,237 factories, most of them are SMEs (2014).

There are approximately 2,400 automotive suppliers in the country, 709 of which are

original equipment manufacturers (OEMs). 78.8% of Auto Parts export is OEM parts. The Japan Automobile Manufacturers Association stated in their report that Thailand-made automotive parts have the highest quality among ASEAN countries.

Electrical appliances and electronics

In 2014, the electrical appliance and electronics industry accounted for 24% of Thailand's annual export revenues. Thailand is the world's largest manufacturer of hard disk drive (HDD), a leading country in producing Integrated Circuits (IC), being the world's 2nd largest producer of air conditioning units (more than 21 million units produced in 2015) and the 4th largest for refrigerators (6.57 million units in 2015).

Software Industry

Thai software industry valued 54,980 million baht in 2014 (61,145 million baht including embedded software), which is 9.4% growth from last year. Package software valued 15,031 million baht (4.5% growth), embedded software value 6,165 million baht (6% growth) and ITO service valued 39,949 million baht (11.4% growth). Software export grew 6.1% in 2014. The software industry is expected to grow 12.8% in 2016.

Animation and game industry

The animation market in Thailand is divided into seven sub-sectors: TV animation, animation character license fees, VCD/DVD animation, film animation, mobile animation, visual effects for television commercials (VFX for TVC), and VFX & post production. In 2011, TV animation accounted 40% and have a market value of US\$75 million.

There are more than 50 Thai animation companies active in Thailand. According to Thai Animation & Computer Graphics

Association, Thailand imported animation products in a value of 3,500 million baht, domestic production is 1,153 million baht, and export only 744 million baht in 2011. Thai nationality animations accounted only for 20% of what we produced, the rest 80% are foreign companies outsourcing in Thailand or produce abroad.

Retail & E-Commerce

Thailand is upgraded by the World Bank and become a medium upper income country in 2011. Thai lifestyle is changed; urbanisation, convenience and quality become a new lifestyle. Thai can afford premium/international brands. Shopping mall, departments stores and supermarket are popular place to hang out.

E-commerce is also increasing. Social media is also raising brand awareness to people. According to Digital Advertising Association (Thailand), Thailand had about 30 million Facebook users in 2014.

Healthcare

Thailand is positioning itself as a medical tourism hub and aims to be a cost-effective production location for pharmaceuticals and medical device companies. 2.35 million foreign patients from Japan, USA, South Asia, UK, Middle East, ASEAN countries came to Thailand in 2014. Most popular medical treatment is orthopaedics, heart surgery, cosmetic surgery and dental works.

The government spent 14% of its total budget on the healthcare which accounts for 4% of Thailand's GDP (2015).

Pharmaceutical

There were 171 local manufacturers and 650 importers in the pharmaceutical industry (2011). The distribution channels of major medicines are via hospitals (62.5%), pharmacies (26.3%),

ambulatory health settings (6.5%), and other channels (4.7%). Thailand's export of pharmaceutical products has been growing with 6.12% under the past five years. The main export countries are Myanmar, Vietnam and Cambodia. US was the largest supplier of pharmaceuticals which accounts for 15.4% of total imports. (2015)

Medical Device

The medical tourism is increasing the demand of medical devices. The Thai government provides support for new development and innovation, for example, the Thailand Center of Excellence for Life Sciences (TCELS) was founded in 2004.

TCELS has the responsibility of providing a link between innovation in life sciences and investment, and spurring domestic and international partnership in the life science business in Thailand. The focus areas are:

- Pharmaceuticals and biotechnology - Pharmacogenomics
- Natural products
- Biomedical engineering in medical robotics, medical devices, and operates the Advanced Dental Technology Center (ADTEC)
- Medical services such as Advanced Cell and Gene Therapies Program and Automated Cell and Tissue Production Plant.

Establishing a Company in Thailand

Thailand is still ranked among the top 50th in the world and the third among ASEAN countries on the ease of doing business. With the strong support from government, foreign investor can enjoy many benefits doing business in Thailand.

Department of Business Development, Ministry of Commerce is responsible for setup company in Thailand. Board of Investment (BOI), Prime Minister's Office is responsible for promoting

foreign and domestic investment and approving most project proposals in Thailand.

INDONESIA

Indonesia is Southeast Asia's largest economy with 255 million people and with GDP of 888.5 BUSD in 2014. Despite the economic slow down during 2014 and 2015, Indonesia's economy was among the top worldwide performers. Indonesia is the only ASEAN country in G20. Solid macroeconomic fundamentals, strong domestic demand and recent upgrades in S&P ratings from BB+ stable to BB+ positive have made Indonesia an economy to watch in the coming decade.

Strong consumer spending will likely boost production and growth in the coming years. However, most of Indonesians (81.5%) are still living under poverty and have limited access to finance institutions.

Textile and Textile Products

Textile and Textile Product Sector (TPT) is one of the main driver of Indonesia's exports. Despite a big drop in terms of GDP contribution, only 12.3 BUSD last year, down 4% from the previous year, the Government is confident that TPT will be able to play a stronger role in the coming future. The Government has implemented a machinery restructuring program and continue to oversee if any policy tweaks within special economic zones, new tax holiday, incentive to purchase new machineries would be able to bring positive impact to manufacturers.

Entertainment and Media

Indonesia's spending on entertainment and media has grown rapidly although the value is relatively low in comparison to the world, US\$10.2 billion vs US\$1.8 trillion.

According to Statista and meetings conducted for this study, our respondents agreed that TV is the most common and most popular medium used to reach Indonesian attention and it has 95% of penetration rate as compare to other medium for example radio which has only a 20% penetration rate. From pie chart below we see that advertisers use TV to reach their target market. Because of the fact that most Indonesians like to watch TV, it is a natural way for advertisers to use TV as a channel to promote and market the products or services.

Telecom and Mobile

Telecom and Mobile is one of the most prospective sectors in the country and will continue to grow stronger in the coming years. In this section, mobile is the focus, since fixed line is losing popularity because of the declining subscribers. Added with the fact that Indonesia has finalised the national roll out for 4G network (at band 1800MHz) on Mid November 2015, the subscribers are expecting to enjoy faster internet access through their mobile and other gadgets. The data usage growth in Indonesia has been massive, top 3 telecommunication operators (Telkomsel, Indosat and XL Axiata) are increasing or maintaining their CAPEX investments level to improve their services to their subscribers.

E-commerce

Indonesia's big cities may be filled with malls but with recent technology development, online shopping has become a major trend in the country. Most Indonesian are shifting their shopping preference from offline to online. Indonesia E-commerce association indicates that the potential for internet transaction could reach higher than US\$24 billion. Blibli.com, Bukalapak, Elevenia, Tokopedia, Mataharimall.com, Lazada and Zalora are jockeying to sell their online products with various strategies in order to gain a slice of the business. Thanks to the great job delivered by

earlier players, Lazada and Zalora, Indonesians are convinced that online shopping is a good alternative to offline shopping. Most of online shopping companies in Indonesia are backed with strong financial support namely, Blibli.com owned by local conglomerate, Djarum Group, Elevenia, is a JV between mobile operator XL Axiata and South Korean SK Planet, Tokopedia has received a US\$ 100 million investment from a consortium of Japanese and US companies. And lastly, Mataharimall.com which was owned by another local conglomerates, Lippo Group , which set aside US\$500 million as an initial capital.

Healthcare

Indonesia's healthcare spending was the lowest among ASEAN countries, only 3.1% of its total national GDP. However, this figure is about to change along the way with the implementation of Universal Healthcare Coverage which by 2019 where all Indonesians will be insured and have an access to basic healthcare services. See below on the progress and timeline of Universal healthcare coverage.

Establishing a Company in Indonesia

The Investment Coordinating Board (BKPM) is responsible for promoting foreign and domestic investment and approving most project proposals in Indonesia.

There are various ways for an investor to set up a presence in Indonesia, depending on the investor's type of business. Types of legal presence for foreign direct investment in Indonesia are; Limited Liability Company, Representative Office, Joint Venture and Local partner.

VIETNAM

Vietnam has been one of the fastest growing economies in Asia the past 30 years bringing it from poverty to a lower middle income country. Before Political and economic reforms launched in 1986, Vietnam was one of the poorest in the world, with per capita income around US \$100. By the end of 2015, Vietnam is a lower middle income country with per capita income of around US\$2,100, thanks to the average per capita GDP growth of 6.4% in the 2000s.

Garment, Textile and Leather sourcing

Vietnam is one of the six largest garment exporters to Europe. While China is decreasing its export, Vietnam is rising by 11.46% of market share in 2015, from 10.73% in 2014. In 2015, Vietnam exports to EU was \$3.36 BUSD, which is an increase with 8% compared to 2014 and comprised 3.5% of EU's market.

Furniture sourcing

Vietnam is home to more than 2000 furniture manufacturers, where around 15% focus on export. Exports of furniture are increasing from Vietnam with a CAGR of 18.5% during 2010-2015, ranked 6th in the world and 2nd in Asia, after China. In 2015, export value of wooden furniture products was \$4.8 BUSD. In 2015, Vietnam contributed 8.4% of furniture imported to EU, value 0.6 billion EUR.

Software Outsourcing

Vietnam is now seen as a top 5 of the leading countries in software outsourcing. 80% of the revenue is mainly driven by export services. Vietnam is currently the second largest offshore ITO service supplier for Japan. Besides Japan, the biggest export destination are USA and EU. Key export services in 2015 were embedded system/software, mobile application development, cloud computing and testing. During 2001-2014, this sector had 25% growth

and is forecasted to increase 12% in 2016-2020. The revenue reached \$1.5 BUSD in 2014, increased 12.7% since 2013.

Pharmaceutical

Vietnamese pharmaceutical industry witnesses a significant growth within 5 recent years with 16.5% average annual growth rate 2010-2015. The revenue in 2015 is \$4.5 BUSD. Forecasted growth in the next 3 years stands at 16%. The main reason for this increase is the rising healthcare awareness, the increasing disposable income and the escalation of contaminated food. Among total sales, prescription drugs account for 70%.

Medical Device

In line with the expansion of the healthcare sector, Vietnam's medical devices market has observed a stable growth since 2014. Medical device segment represented \$1 BUSD in 2015, and is forecasted to be \$1.2 BUSD and \$1.8 billion USD in 2016 and 2018 respectively.

Establishing a Company in Vietnam

There are many ways to enter the Vietnamese market. As we know, entering the market means one investor find the way to operate and collect the benefit from a certain area. In order to enter the Vietnamese market, foreigners may conduct some major formation, included: export goods, licensing, franchising, turnkey project, venture and directed investment.

BRIEF SOUTHEAST ASIA MACRO PERSPECTIVE

In 2017, Asia is once again poised to be the growth engine of global GDP and maybe having even more of an importance as a result of US tightening their international trade relations and abandon the Trans Pacific Partnership TPP. This is naturally having a negative impact on global trade and value chains. However it is also opening up opportunities for the remaining 11 nations within TPP to tightening their relations and also looking more towards China and their partnerships with Europe. The Australian government will push ahead for a Trans-Pacific Partnership trade deal without the United States and is open to Indonesia, China and others seeking to join the agreement.

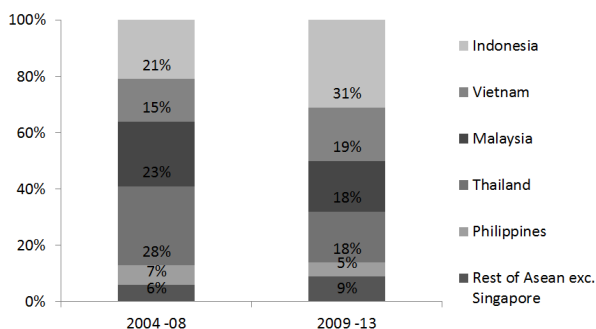
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FDI TREND

With the global economy slowdown, FDI investment for Indonesia's secondary sectors has been cooled. A big drop from 16 US\$ billion in 2013 to 9 US\$ billion in 2015 (Jan - Sept).

ASEAN FDI Market Share (in %)



Source: UNCTADstat

Vietnam attracted increasing FDI since integrated into the world trade, from 15% of total FDI market share to 19% during 2009-2013. In 2007, the real FDI was 6 US\$ billion and in 2008, this number jumped to 11.5 US\$ billion in 2008, while the registered capital rose significantly to 71,7 US\$ billion, the highest number in the history, thanks to the information that Vietnam joined WTO.

WAGES

In term of daily minimum salary, Indonesia and Vietnam have the advantage of comparative lower wages than China, at about two third and only half of Thailand's wages.

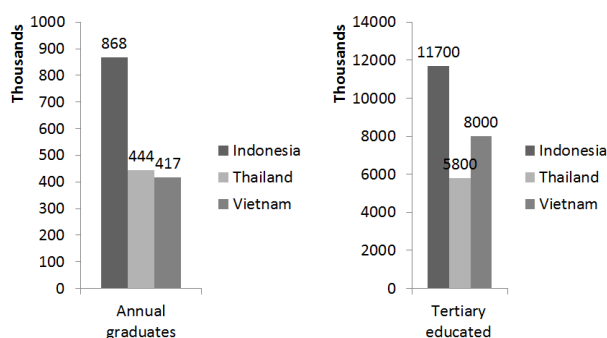
Country	Daily Minimum
Myanmar	2.83 \$
Indonesia	2.96 - 7.98 \$
Vietnam	4.56 - 5.15 \$
Lao PDR	3.63 \$
China	4.99 - 10.94 \$
Cambodia	4.67 \$
Malaysia	7.42 - 8.06 \$
Thailand	8.66 \$
Philippines/NCR	9.40 -10.17 \$

Source: National Wages and Productivity Commission

EDUCATION

In order to attract foreign investors to the region, respective countries shown their commitment to have greater spending on education from national budget. Indonesia is leading in both charts because of above reason and its demographics bonus.

Annual Graduates & Tertiary Education

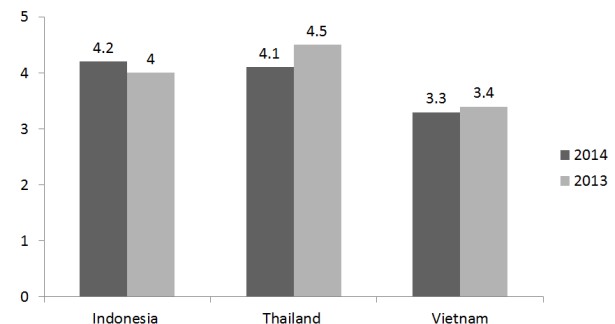


Source: WEF, Human Capital Report 2015

INFRASTRUCTURE

The global competitiveness report ranks countries based on its quality of general infrastructure (eg. transport, telephony and energy). In below chart, Indonesia is overtaking Thailand and is the only country in showing improvement in quality.

Infrastructure Quality Rating in ASEAN



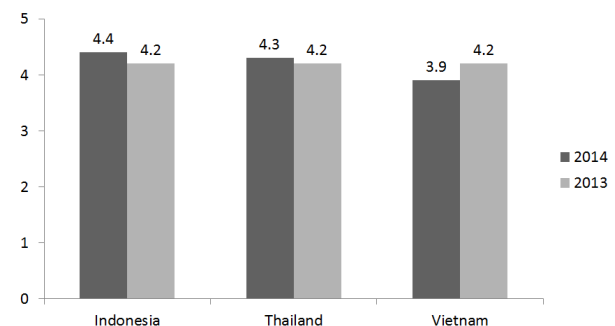
Scale: 1 = extremely underdeveloped, 7= extensive and efficient by international standards

Source: WEF, Global Competitiveness Report 2014-15

EASE OF HIRING FOREIGN STAFF

Indonesia rated as the most open country in the region for hiring foreign labour in comparison to Thailand and Vietnam.

Rating for Ease of Hiring Foreign Staff

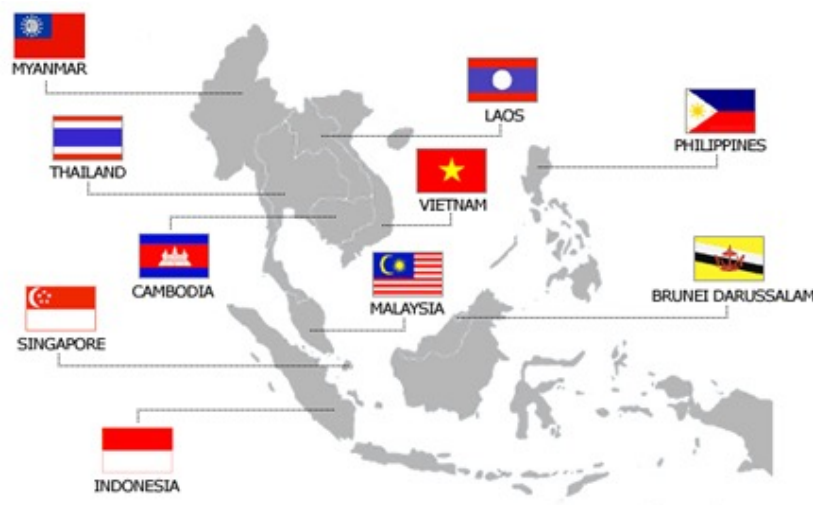


Scale: 1 = very complicated to hire foreign staff, 7= no limits to hire foreign staff

Source: WEF

THE ASEAN ECONOMIC COMMUNITY

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SINGLE MARKET

AEC will establish ASEAN as a single market and production base by focusing on 12 sectors: agro-based products, air travel, automotive, e-ASEAN, electronics, fisheries, healthcare, logistics, rubber-based products, textiles and apparel, tourism, and wood-based products.

To create a community based on open market and industrial base, there are certain agreements as following:

- Lower tariff schedule under ASEAN free trade zone through AFTA and CEPT. Under

this measure ASEAN members will apply a tariff rate of 0 to 5% for imported goods originating within ASEAN, and the local ASEAN content must be at least 40% of FOB value of goods.

- Removing non-tariff barriers within ASEAN, so only one set of standardized documents for certification and testing are needed by 2025.
- Invest in new infrastructure project. The flagship investment is the TransAsia bus from Kunming to Singapore.

ASEAN is among the top 3 non-EU trade partners and EU is the most important foreign investor in ASEAN and 3rd largest trading partner. The inauguration of ASEAN economic community will make it more convenient to use neighbouring markets and cheaper labor force of least developed countries.

Two accomplishments of ASEAN economic community are the abolition of most tariffs and

gain higher level of mutual investments. However, it is still lacking standardised regulations and common agreements on services and free movement of workers. By having greater cooperation with ASEAN, European companies could increase export, investment and job opportunities. ASEAN and EU should cooperate to combat terrorism and solve global challenges to strengthen the interest of European companies.

"We predict that the first five years will be chaos," said Constant Ponggawa, managing partner and founding member of the Hanafiah Ponggawa & Partners (HPRP) law firm of the upcoming ASEAN Economic Community (AEC). "But we believe it will then find its equilibrium and finally be effective."

source: Globe Asia

Overall, the AEC is well behind schedule and individual countries are in various different positions, some heading in opposite directions in terms of achieving an AEC. Progress has been slow, a not unexpected outcome for what is a challenging exercise.

Besides AEC, other free trade agreements are creating impacts to Asean economies. The two significant FTAs to mention are the Trans-Pacific Partnership (TPP) and EU-Vietnam Free Trade Agreement.

THE TRANS-PACIFIC PARTNERSHIP

"The Trans-Pacific Partnership was the biggest trade agreement in history" according to Bloomberg. The deal was then abandoned by the US the 23rd of January 2017, during his first Monday in office. This will have more or less impact on the other 11 TPP members: Japan, Vietnam, Brunei, Malaysia, Singapore, Australia, New Zealand, Canada, Mexico, Peru and Chile. The nations jointly still are a large and important part of the global economy. It opens up for

opportunities to strengthen their internal relations and rather look at China and the EU. There are other countries that interested to be part of TPP namely Taiwan, Philippines, Columbia, Thailand, Laos, Cambodia, Bangladesh and India.

"Jusuf Kalla stated that Indonesia which had shown interest to join TPP last year was decided that it would not follow up the plan to join TPP after President Donald Trump announced that the US would withdraw from its negotiations." said Dewi Fortuna Anwar, the Vice Presidents Deputy Secretary for Government Policy Support.

Before Indonesia's Vice President, Jusuf Kalla, announced the cancellation, the Trade Ministry of Indonesia has predicted that there could be high probability of TPP cancellation. However, the cancellation itself viewed has limited impact on Indonesia's economy. As mentioned by Tjahya Widayanti, Head of Trade Policy Research and Development at the Trade Ministry on 16th November 2016 "The cancellation of the agreement would make Indonesia remains competitive among other Asian countries, such as Vietnam in the fishery commodities and Malaysia in oil palm commodities."

source: Tempo, Antara News

The goal of TPP itself are to promote economic growth; support the creation and retention of jobs; enhance innovation, productivity and competitiveness; raise living standards; reduce poverty in our countries; promote transparency, good governance and enhanced labor and environmental protection among its member countries. One of the most important key features is to eliminate or reduce tariff and non-tariff barriers among member countries.

The benefits for EU companies would be for those who has the market and at the same time sourcing within TPP member countries.

Vietnam is one of the countries who will be enjoying the benefit of joining TPP. Apparel manufacturers will benefit from reducing import duties in the US and Japan markets. Fishing industry will benefit from elimination of import tax on shrimp, squid and tuna.

Another industry in Vietnam which will affect from TPP is pharmaceutical industry. There will be tougher competition between Vietnamese domestic companies and foreign companies due to the eliminating import tax. Moreover, TPP will increase patent protection, restricting Vietnam companies access to new products as well as their ability to produce new drugs.

EU-VIETNAM FREE TRADE AGREEMENT (EVFTA)

EVFTA is a comprehensive – high-quality – balanced for both Viet Nam and the EU, in line with WTO's rules and regulations. The FTA negotiators reached a comprehensive deal after the 14th round of negotiations during 13 - 17 July 2015. The formal conclusion of the negotiations took place in December, 2015, after all legal texts and schedules of concessions have been finalized.

According to this, 99% of tariffs both in value terms and number of tariff lines will be eliminated and the longest periods for tariff elimination will be 7 years for the EU and 10 years for Vietnam.

Vietnam's commitment includes liberalising almost 100% of import duties, opening up government procurement to EU companies, dismantling non-tariff barriers,

eliminating vast majority of export duties and building a good regulatory package, including disciplines for State Owned Enterprises (SOEs).

In term of goods trade, Vietnam will liberalize 99% of import duties on EU exports over a period of 10 years. Besides, 65% of EU's export lines will be free from duty already at entry into force of FTA, including:

- Machinery & appliances (vast majority)
- 50% of pharmaceuticals
- Textile fabrics
- 70% of chemicals
- Some seafood products

Whereas, automobiles and motorbikes will be eliminated import duties after 9 or 10 years (7 years for motorcycles with engines larger than 150 cc). Also, wines and spirits, beer, frozen pork, chicken to be liberalised within 10 years. While Viet Nam undertakes commitments to remove export duties for a larger number of products, it reserves the rights to apply export duties on, among others, crude oil and coal.

Yasmin Aladad Khan, regional director of Southeast Asia and South Asia for DHL Express, views the region's lowest-cost countries as being the most progressive in implementing agreements liberalising trade and investment, although facing capacity constraints in other areas.

"Countries such as Cambodia, Laos and Vietnam ultimately believe that a high level of foreign investment will help boost their economic growth and competitiveness, so they are more willing to liberalise trade and investment regimes," she said.

EU commits to eliminate import duties for 85.6% of the tariff lines, representing 70.3% of total export revenues from Viet Nam upon entry into force. After 7 years, EU will remove import duties for 99.2% of the tariff lines, or 99.7% of total export revenues of Viet Nam. The remaining 0.3% of export revenues, EU will partially liberalised through Tariff Rate Quotas (TRQs). In conclusion, nearly 100% of the exports of Viet Nam will be liberalised after 10 years. This represents the highest commitment of an FTA Partner for Viet Nam so far.

In details, Vietnam's key commodities' tariff elimination scheme as following:

- Apparel and textile, footwear, seafood (except for surimi and canned tuna): EU to remove import duties over a 7-year period
- Rice: significant TRQs for milled rice, husked rice and fragrant rice. Imported rice under TRQ will be liberalised. For rice products, EU will remove import duties over a 7-year period.
- Vegetables and fruits, processed vegetables and fruits, fruit juice, plastic products, ceramics, glassware: basically will enjoy full market access upon entry into force of EVFTA.
- Some sensitive agricultural products will not be fully liberalized, EU instead offers market access through TRQs : rice, sweet corn, garlic, mushrooms, sugar and some sugar products, manioc starch, surimi and canned tuna.

DOING BUSINESS IN ASEAN - WHAT TO THINK OF

As one of the strongest economic communities in the world, ASEAN offers huge opportunity with potential customers of more than 620 million and the AEC that increase the region's integration into the global economy. However these benefits are not yet evident in all AEC countries, international companies have to be prepared of unexpected challenges during their business expansion ASEAN. To capture the business opportunities that are described in the Rising Stars in Southeast Asia, one should be aware of potential challenges, that if they are managed well, can become opportunities for a rapid ROI.

REGULATIONS AND OFFICIAL PROCEDURES

The regulatory environment is often immature in terms of adherence to international standards and procedures. This often complicates official procedures and equally makes it complicated for the regulators and policy makers to keep up with the speed of development.

To mention a two examples:

- Banking and financing system is a highly regulated sector and it remain closed to international banks and also within ASEAN/ AEC. Regulators have challenges to regulate and keep up with the players in the market, closing loopholes and increase transparency in the system. The stability and maturity of the financial system, the liquidity and financing solutions available is often far from international standards.
- Healthcare sector is another sector that is highly regulated with limited standardisation and an equal challenge for the regulators to keep up with the risks of fals and contaminated medicine, making the registration processes very complicated. The regulations and procedures are different in all AEC countries and there are no standardised definitions or terminology available. We recently experienced this with one of our clients when registering their products in Indonesia, Vietnam and Thailand. Each country categorise the products differently and require very

different information for the products to be registered.

HETEROGENEOUS REGION

There are large differences between the countries in ASEAN. From some of the poorer countries in the world, Lao PDR and Cambodia, both with fairly small populations, to Indonesia a G20 member and one of the largest countries in the world (by population) and the City-State Singapore with a small population and the highest income per capita in ASEAN and higher than many developed countries.

The political climate is very different in ASEAN, just to mention a few:

- In Myanmar the military junta has ruled the country since 1962 and started democratising the country in 2010/11 and the election in 2015 was won by the opposition National League for Democracy and the leader Aung San Suu Kyi got enough votes to form a government.
- Vietnam "The Socialist Republic of Vietnam" is defined by a single-party socialist republic framework.
- In Singapore politics have been dominated by the People's Action Party (PAP) since the 1959 general election.
- Thailand was a constitutional monarchy, until the coup the 22 of May 2014, when the 2007 constitution was revoked. Since

then Thailand has been under the rule of a military organisation called National Council for Peace and Order (NCPO), which has taken control of the national administration.

International companies should be aware of these and many other differences between the ASEAN/AEC countries. The survey/ranking on "Ease of doing business" in the region is not enough to represent the overall country condition. For instance Singapore should be compared with Kuala Lumpur, Jakarta and Bangkok, but it may not be a valid measurement for second or third tier cities.

In addition, how international companies do business in respective countries are different. Some countries are more centralised while other countries are more decentralised. In Indonesia, international companies who got a permit from central government still have to apply for permit from regional government. What we have experienced from working with State Owned Enterprises (SOE), head office approval and regional office approval are two separate things. Thus, international companies have to do thorough stakeholder management, knowing who are the influencers and decision makers, to make the business transaction to run smoothly.

CORPORATE GOVERNANCE & PUBLIC REPORTING

Singapore, Malaysia and Thailand are the top three ASEAN/AEC countries that emphasise the importance international corporate governance standards. When the international companies decided to invest or partner up with local companies, thorough due diligence is highly recommended. Even though many local companies may be registered as listed companies, only few adhere to international corporate governance standards and public reporting. Therefore it is harder for foreign companies to understand local companies' condition and performance in market. Public

information can be misleading and not show the full picture.

NATIONAL BUDGET PRIORITY

Diverse economic achievements and more or less dependancy on international development banks and donors to the national budget makes the prioritisation and allocation process complicated. For example healthcare sector in Indonesia is 3.1% in comparison with Cambodia's 7.5% of, education sector in the Philippines' is 3.4% and 7.6% in Thailand. How the nation prioritise their budget allocation will impact the development of the sector from infrastructure, equipment and technology to availability of a skilled workforce.

Understanding these priorities and how they will impact the development of the sector will have an impact on the short-term and certainly the long-term ROI.

Rising Stars in Southeast Asia

Thailand Business Opportunities



THAILAND

Thailand is the second largest economy in Southeast Asia, after Indonesia. It has been ranked among the top 46th in the world and the third among ASEAN countries on the ease of doing business by the World Bank Group. Moreover, geographically, Thailand situated in the middle of ASEAN with excellent infrastructure, Thailand has a potential to be a logistics hub of Asia.

THAILAND OVERVIEW

As a member of ASEAN, investors in Thailand will benefit the free flow of goods, services, capital and labour within the region. Investors will benefit from market access through the country's FTAs with Japan, China, India, Australia and New Zealand.

Moreover, Thailand has signed many bilateral agreements with many countries such as Australia, Japan, New Zealand and Peru. There are also some FTA negotiations on going.

- Thailand-EU Free Trade Area
- Thailand - European Free Trade Association: EFTA
- Thailand - Turkey
- Thailand - Canada

Apart from Free Trade Agreements with many countries, which will reduce or eliminate import duties, Thailand has agreed with 56 countries on Double Tax agreement (DTA). The focus of a DTA is the elimination of double taxation which applies to only income taxes, namely personal income tax, corporate income tax and petroleum income tax.

Area	513,120 sq km
Population	Approx. 68.2 million (July 2016) Population in the working age approx. 38.45 million (2016)
Capital city	Bangkok
Major cities	Bangkok, Phuket, Nakhon Ratchasima, Khon Kaen, Chiang Mai, Chonburi
Government	Constitutional monarchy (currently under martial law) Elections are tentatively set for mid-2017.
Language	Thai English is a secondary language of the elite (2010 est.)
GDP	GDP 1.161 trillion USD (2016 est.) GDP per capita: 16,800 USD (2016 est.) Real growth rate 3.2% (2016)
FDI	12.6 billion USD (net inflow), the 5th largest FDI recipient in East and South-East Asia
Unemployment	0.9% (2016 est.)
Minimum wage	300 baht (10 USD) per day
Tax rate	Corporate tax upto 30% , VAT 7%
Public debt	50.4 % of GDP
Inflation rate	0.2% (2016 est.), -0.9% (2015 est.), 1.9% (2014 est.)
Export	190 BUSD (2016 est.), 214.8 BUSD (2015 est.)
Import	171.3 BUSD (2015 est.), 196.4 BUSD (2015 est.)

KEY INFRASTRUCTURE

Thailand's cabinet approved an infrastructure action plan 25.2 billion USD for 2017 which includes 36 infrastructure projects throughout Thailand.



There are 38 airports, including 7 international airports.



6 deep sea ports and 2 international river ports, including containers, tank farms and liquid jetties.



Railway are connected between regions. There are transportation projects of dual track railway within 2020.



Road standard will be upgrade to ASEAN class.



High Speed Internet connection in big cities, Broadband penetration is 9.52% per population and 39,466,260 internet users. (2015)



4G mobile network and mobile subscriptions 123.52% of population. (2014)

INCREASING PURCHASING POWER

Since 2013, Thailand's minimum wage raised and becoming a middle and upper income country. Thailand might not be the cheapest place in ASEAN to outsource anymore. However, increasing of minimum wage means better standard of living and luxury goods are affordable. Thailand is a big market to explore.

Even though labour cost is rising, well developed infrastructure and skilled labours are an advantage for Thailand. Many manufacturers are operating in the market for a long time. They are well established with international trade experiences.

CHALLENGES IN THE MARKET

Language barrier

Language could be a challenge to do business with Thai. English is a secondary language of the elite. From interviews with companies they agreed that English proficiency in Thailand is quite low compare to other Asian countries. Top management level could speak very good English. Administrative and technical workers could have problem in communication, however, it's not impossible to find a good english speaking worker.

Cultural differences

From our experience in the market, understanding culture different and company's hierarchy and senior system is very important. Thai likes to build a relationship before start doing the business. Thai prefer face-to-face meeting rather than telephone or video conference. To get through a gatekeeper is quite difficult, knowing someone inside always make process goes faster.

Corruption

Thailand ranked 101 from 1176 countries in Corruption Perceptions Index (2016) with score 35 by Transparency International. Countries with score higher than 50 were considered as relatively clean from corruption. This is another challenge for investors. Thai government is aimed to increase their efficiency and transparency in budgetary spending, careful auditing, and effective implementation of projects and schemes for public benefit.

TOP EXPORT/IMPORT INDUSTRIES IN THAILAND

Top Export products 2016	Top Import products 2016
1 Motor cars, parts and accessories	1 Machinery and parts
2 Computer parts and devices	2 Crude oil
3 Precious stones and jewellery	3 Electrical machinery and parts
4 Electronic integrated circuits	4 Chemical products
5 Plastic beads	5 Iron and Iron products
6 Machinery and parts thereof	6 Automotive parts
7 Rubber products	7 Electronic circuit
8 Chemical products	8 Jewelry, stones, silver and gold
9 Petroleum products	9 Computer and parts
10 Iron and steel and their products	10 Metal ore and others

Source: Ministry of Commerce

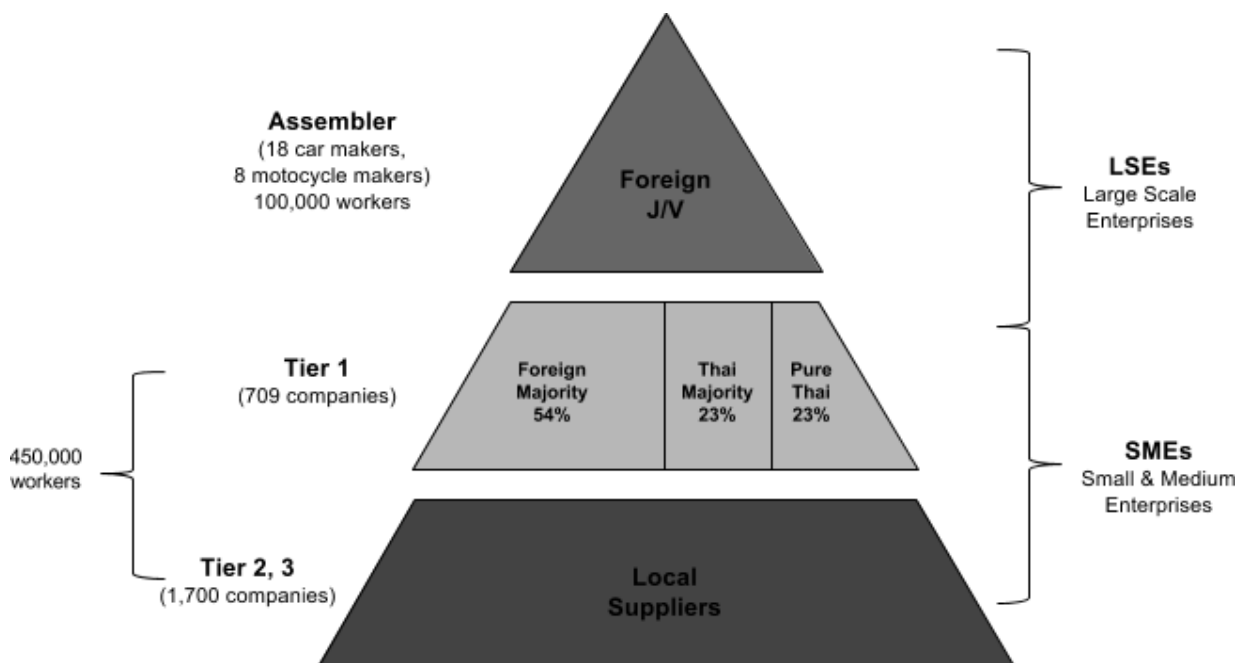
Based on our analysis and interviews, we decided to narrow down the focus to cover few industries that have strongest potential for EU companies.

AUTOMOTIVE AND PARTS

Thailand is the biggest automotive manufacturer in Asia and the 10th biggest in the world. There are 1,657 automotive parts manufacturers and total 2,237 factories, most of them are SMEs (2014).

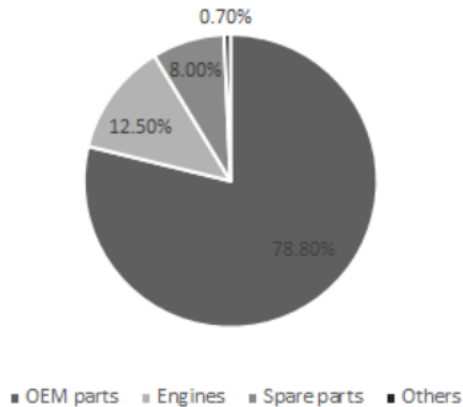
There are approximately 2,400 automotive suppliers in the country, 709 of which are original equipment manufacturers (OEMs). 78.8% of Auto Parts export is OEM parts. The Japan Automobile Manufacturers Association stated in their report that Thailand-made automotive parts have the highest quality among ASEAN countries.

Structure of Thai Automotive Industry



Source: Thai Autoparts Manufacturers Association, 2014

Thailand's Auto Parts Export 2014



Source: BOI

KEY STAKEHOLDERS

A few decades ago Japan, America and Europe has moved their manufacturing base to Thailand. These investment helped building the good manufacturing infrastructure in automotive and parts. The quality of Thailand's automotive parts is trusted by many car manufacturers. Deloitte Touche Tohmatsu Limited (Deloitte Global) and the Council on Competitiveness (the Council) released the 2016 Global Manufacturing Competitiveness Index (GMCI) and Thailand is ranged the 14th.

Automotive Manufacturers with Assembly in Thailand



In 2016, BMW announced that they are increasing their production capacity. Moreover, they are planning to open a Global Purchasing Office to buy automotive parts from Thailand to support 30 factories in 14 countries. Honda opened a new automobile assembly in Prachin Buri to serve their production as well.

OPPORTUNITIES IN THAILAND'S AUTOMOTIVE INDUSTRY

There are approx. 1,9 million personal and commercial cars produced in 2015, 40% sold domestic and 60% export.

Most of the manufacturers and parts suppliers are located in the central of Thailand; Bangkok, Ayutthaya, Pathumthani, Samut Prakarn, Prachin Buri, Chachoengsao, Chonburi and Rayong.



The central location builds a strong cluster. Parts manufacturers and assemblers are connected by a good logistics infrastructure to deep seaports in Bangkok and Chonburi and main airport in Samutprakarn.

Automotive and parts is a strong government support industry. The Thai government's vision is for Thailand to be the automotive production hub of Asia. There are many benefits from the Thailand Board of Investment (BOI) for foreign companies who invest in the industry such as

- 3-8 year Corporate Income Tax (CIT) exemption and an additional 5-year reduction of 50%
- Exemption of import duty on machinery
- Exemption of import duty on raw materials used in manufacturing export products
- Permit to bring skilled workers and experts to work in investment promoted activities
- Permit to own land
- Permit to take out or remit money in foreign currency

Moreover, if the companies invest in the Super Cluster Automotive zone (Phatumthani, Ayutthaya, Nakhon Ratchasima, Prachin Buri, Chachoengsao, Chonburi, and Rayong) in 2016/2017 there will be additional benefits.

- 8 year CIT exemption and an additional 5-year reduction of 50%
- Possible to extend to 10-15 year CIT exemption
- Personal income tax for specialists both Thai and Foreign
- Possibility to get a permanent residence permit

Many companies have enjoyed these BOI benefits and they are planning to expand their production to the super cluster zone in 2016 such as

- Ford Thailand Manufacturing factory (FTM) has committed an additional 186 million USD to expand its new plant in Rayong.
- BMW Group Thailand announced the opening of a new parts distribution center, spanning a total area of 14,000 square

meters (6.3 million USD) in Bangkok Free Trade Zone.

- Mazda invested over 500 million USD in its joint venture Auto Alliance Rayong plant to manufacture Mazda's new line of eco-cars, the Mazda2.

The ASEAN agreement is also an opportunity for Automotive industry to reach to 585 million people in the member nations with no tariff since 2015. Tariffs on auto parts exported to ASEAN nations have been eliminated entirely since 2010.

INDUSTRY CHALLENGES

Although the industry had developed and named as "Detroit of Asia", there are still challenges in the industry.

Environmental friendliness and International standard

Thailand need to increase the knowhow and also do R&D to stay ahead of the automotive technology trends as well as focuses on energy efficiency, eco friendliness, and safety standard.

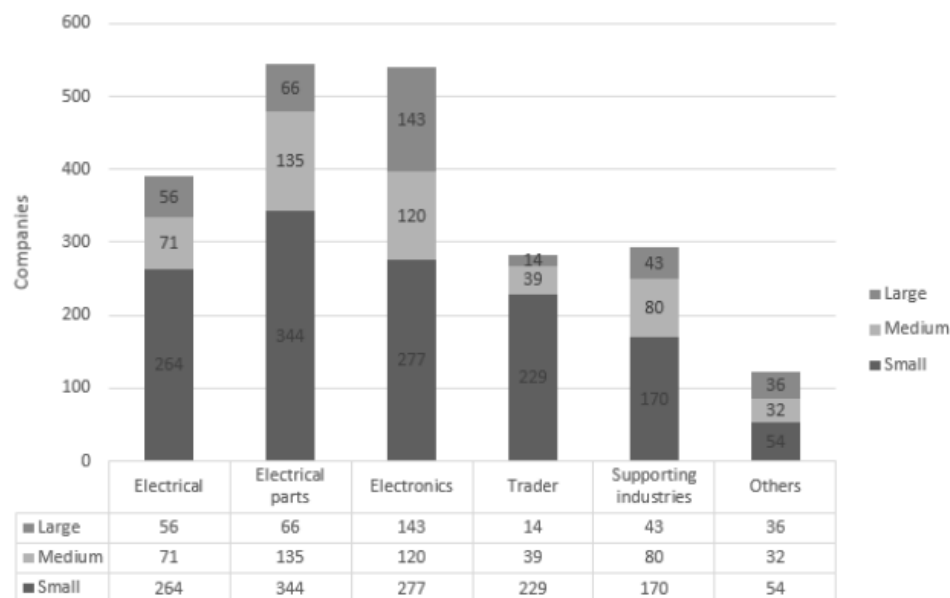
Competition among ASEAN countries

ASEAN agreement create a larger market and at the same time a competition among ASEAN countries. Foreign investment and similar products will create intensive competition between the countries.

ELECTRICAL APPLIANCES AND ELECTRONICS

In 2014, the electrical appliance and electronics industry accounted for 24% of Thailand's annual export revenues. Thailand is the world's largest manufacturer of hard disk drive (HDD), a leading country in producing Integrated Circuits (IC), being the world's 2nd largest producer of air conditioning units (more than 21 million units produced in 2015) and the 4th largest for refrigerators (6.57 million units in 2015).

Electrical and Electronic Companies



Source: Electrical and Electronics Institute

There are more than 2,000 electrical appliance and electronic manufacturers and subcontractors in Thailand, most of them are SMEs. This is an advantage of the industry to be able to source electronic parts and produce finished product in the country.

KEY STAKEHOLDERS

These are the name of some electrical appliance manufacturers who have manufacturing base in Thailand.

Electrical appliance manufacturers



Electrolux produces washing machines in Thailand since 2004 and in 2013, Electrolux has chosen Rayong as a refrigerator base. This refrigerator factory targeted to reach 600,000 units a year and aimed at taking advantage of AEC to reach a market of 600 million people.

Electronic manufacturers



Chachoengsao, Chonburi, and Rayong) to benefits from BOI incentives is applied with electrical appliance and electronic industry as well.

OPPORTUNITIES WITHIN THE ELECTRICAL APPLIANCES AND ELECTRONICS INDUSTRY

The global sales of Air Conditioning Systems are projected to reach 137.8 million units by 2020 and main market is Asia-Pacific, said Global Industry Analysts Inc. This is an effect from global warming rising standards of living and urbanization. Not only air conditioning which is increasing, demand on small appliance such as refrigerator, washing machine, kitchen appliances and vacuum cleaner also rise. In the first six month of 2015 small appliances sales increase by 12% according to GfK.

Demand on Integrated Circuits (IC) is increasing. The global market value is forecast to reach US\$314.4 billion within 2020. The quality of automotive parts in Thailand is the highest among ASEAN countries, according to the Japan Automobile Manufacturers Association. However, most of the automotive electronics used in car production in Thailand are imported from Malaysia and Japan. IC local production capacity is still limited and this is an opportunities to invest in this area.

The production of electrical appliance and electronic is located in the central of Thailand. The central location builds a strong cluster. There is a good logistics infrastructure to deep seaports in Bangkok and Chonburi and main airport in Samutprakarn.

The Super Cluster area (Phathumthani, Ayutthaya, Nakhon Ratchasima, Prachin Buri,



INDUSTRY CHALLENGES

HDD to SSD - Thailand, one of the biggest hard disk drive (HDD) producer, is facing a challenge to find new products and technology due to a reduction of demand in the global market. The replacing of HDD by solid-state drive (SSD) affect the demand of new models of personal computers and laptop production. According to SCB Economic Intelligence Center, Thailand has not participate in the SSD production network due to a very high investment. HDD parts producers need to look for new markets to prepare for the change.

CREATIVE INDUSTRIES - SOFTWARE, ANIMATION & GAMING

United Nations Conference on Trade and Development or UNCTAD has introduced the creative industries which are at the crossroads of the arts, culture, business and technology. All these activities are intensive in creative skills and can generate income through trade and intellectual property rights.

Creative Industries			
Heritage	Arts	Media	Functional Creations
Traditional cultural expression <ul style="list-style-type: none"> • Art crafts • Festivals • Celebrations 	Visual arts <ul style="list-style-type: none"> • Painting • Sculpture • Antiques • Photography • etc 	Publishing and printed media <ul style="list-style-type: none"> • Books • Newspapers • Press and other publications 	Design <ul style="list-style-type: none"> • Interior • Graphic • Fashion • Jewellery • Toys
Cultural sites <ul style="list-style-type: none"> • Historical monuments • Museums • Libraries • Archives • etc 	Performing arts <ul style="list-style-type: none"> • Live music • Theatre • Dance • Opera • Puppetry • Circus • etc 	Audio-visuals <ul style="list-style-type: none"> • Film • Television and radio broadcasting New media <ul style="list-style-type: none"> • Digitized content • Software • Video games • Animations • etc 	Creative services <ul style="list-style-type: none"> • Architecture • Advertising • Creative R&D • Cultural services • Digital Services • etc

Source: unctad.org

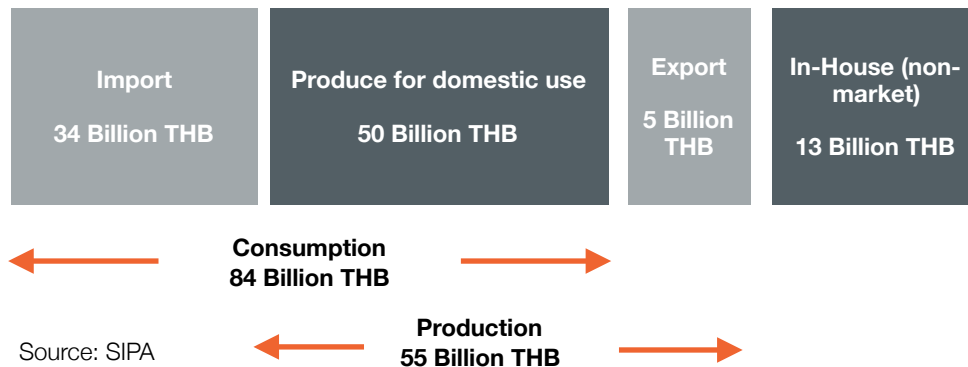
The Thai government has adopted UNCTAD's creative economy model, with some classification adjustments according to UNESCO. The focus industries divided into culture and non-culture categories and four sub-categories: cultural heritage, the arts, media, and functional creation.

Classification of Thailand Creative Economy			
Culture		Non-Culture	
Cultural heritage <ul style="list-style-type: none"> • Crafts • Historical & Cultural Tourism • Thai Food • Thai Traditional Medicine 	Arts <ul style="list-style-type: none"> • Performing arts • Visual arts 	Media <ul style="list-style-type: none"> • Film • Publishing • Broadcasting • Music 	Functional creation <ul style="list-style-type: none"> • Design • Fashion • Architecture • Advertising • Software

In January 2015, BOI "seven-year investment promotion strategy" was effective. The new investment promotion strategy is focusing on high technology and creative and digital economy activities, as well as the industries that are developed from domestic natural resources. The approved project will be granted two years extra on corporate income tax exemption. TCDC (Thailand Creative & Design Center) is another organisation who works as a resource and information center in creativity and design to exceed the capacity of Thai designers and entrepreneurs in the global market. TCDC has it's center in Bangkok, Chiang

Mai and will be opened in Khon Kaen in 2018. Based on our analysis and interviews we decided to focus on Software industry and Digital content industry which we see the strong potential for EU companies.

SOFTWARE MARKET VALUE 2014



SOFTWARE INDUSTRY

Thai software industry valued 54,980 million baht in 2014 (61,145 million baht including embedded software), which is 9.4% growth from last year. Package software valued 15,031 million baht (4.5% growth), embedded software value 6,165 million baht (6% growth) and ITO service valued 39,949 million baht (11.4% growth). Software export grew 6.1% in 2014. The software industry is expected to grow 12.8% in 2016.

KEY STAKEHOLDERS

Thailand is an attractive software investment location. It has a reliable electricity supply and a stable internet connection via fiber optic and ADSL broadband. There are skilled and affordable workforce approx. 50,000 employed in software industry (2012) and there are approx. 17,000 new graduated every year.



OPPORTUNITIES IN SOFTWARE INDUSTRY

According to the Software market value, Thailand software production could not serve domestic demand. Thailand still import software package valued 33,751 million baht. This is an opportunities for Swedish/EU companies to enter the market by exporting package software or invest in developing the software in Thailand.

People go online - There is a need of new technology to serve the new lifestyle; mobile devices, e-commerce, cloud computing, IoT and wearable devices. There are many benefits from other industries growth which is an opportunity for software industry such as payment system in retail e-commerce industry still need to developed.

"Thailand 4.0", the country's strategy is to drive Thailand by innovative technology to improve quality of life, productivity and efficiency for all businesses in the nation. Software industry has a very strong support from Thai government. Software industry will benefits from the strategy and BOI attractive tax and non-tax incentives. BOI granted up to 8-year corporate income tax (CIT) to software enterprise in the promoted zone: Phuket and Chiang Mai.

INDUSTRY CHALLENGES

Technology changes and Thailand need to follow new technical trends and need to upgrade the skills of workers. - Software Park Thailand's director Thanachart Numnonda says that AEC 2015 represents both an opportunity and a threat for the Thai software industry. Market will be bigger and at the same time more competition. He says Thailand's software industry will need to develop and upgrade the quality of its human resources with international certifications and specialized education about emerging technologies such as mobile applications and cloud computing.

Language barrier - From an interview with Iwa Labs (Thailand) Co., Ltd., Thai programmer is very qualify and affordable. However, English communication skill might be lower than other Asian countries but it is not impossible to find English speaking programmers.

ANIMATION AND GAME INDUSTRY

The animation market in Thailand is divided into seven sub-sectors: TV animation, animation character license fees, VCD/DVD animation, film animation, mobile animation, visual effects for television commercials (VFX for TVC), and VFX & post production. In 2011, TV animation accounted 40% and have a market value of US\$75 million.

There are more than 50 Thai animation companies active in Thailand. According to Thai Animation & Computer Graphics Association, Thailand imported animation products in a value of 3,500 million baht, domestic production is 1,153 million baht, and export only 744 million baht in 2011. Thai nationality animations accounted only for 20% of what we produced, the rest 80% are foreign

companies outsourcing in Thailand or produce abroad.

There are many talented Thai animator involved in animation movies and TV series.

- ShellHut entertainment is behind the animated TV series "Shelldon" which broadcast over 100 countries around the world.
- The Monk Studios, Thailand is one of the animation house behind "Rango" which won 82th Academy Award.
- "Zootopia" (2016) the latest animated film from Walt Disney Animation Studios, has been drawn by Fawn Veerasunthorn, a Thai story artist. She also drawn one of the most popular Disney animated film Frozen (2013).

There are 22 million online gamer in thailand. Gaming markets consists of six subsectors: online games, mobile/tablet games, handheld games, PC games, arcade games and game character licenses. In 2011, online gaming had the largest share at 48% market share with a value of US\$140 million. MMORPG games are the most popular type of online games.

According to an interview with Managing Director of a production house Maewkayan-D Co., Ltd., Thai animators are skilled, creative and low labour cost but still there is a lack international content, management and capital.

Internet penetration in Thailand is increasing. There are 39,466,260 internet users in Thailand (2015). Home internet is developed and many area has access to fiber broadband internet. Broadband penetration is 9.52% per population. Population age 15-24 years use internet the most 58.4%, age 6-14 years use 54.1% and 25-34 years 33.5%. Mobile content will be in focus as the increasing of mobile internet user. Mobile subscriptions in 2014 is 83,053,966 or 123.52% of population.

Moreover, 4G is available which make it easy to access to internet from mobile phone.

According to the report from Yozzo, There are more than 24 million people in Thailand who has smartphones and spend average 4.2 hours on the device. 90% of 18-24 years old access the internet daily via mobile phone.

OPPORTUNITIES IN ANIMATION AND GAME INDUSTRY

Invest locally, creating a good content and sell domestic. Thailand imported animation value are still high, this means there is a lot to grow in the industry. Moreover, Thailand is a good outsourcing place due to a low labour cost. There are approx. 2,500 newly graduated animator every year with a lower salary than other neighbour countries.

Many talented animator are working for international companies or working abroad due to a higher salary.

As internet penetration and smartphone users are rising, online game has a large market in Thailand. One of Swedish mobile game company is going to launch their game in 2016. They are translating and creating local content. By create a touch of localisation would make Thai people spend time and recommend the game to others, says team leader.

INDUSTRY CHALLENGES

Although Thai animator cost less than other neighbouring countries, Thailand's animation production rank the 3rd in ASEAN after Singapore and Malaysia (2011). Thai animation industry still lack support, funding and good content. Singapore and Malaysia has better tax policy for foreign investors. Moreover, English proficiency is another challenge of Thai labour.

DIGITAL CONTENT: MEDIA AND ADVERTISEMENT

Technology plays a big roles in daily life. Everything and everyone goes online. Printed newspaper and magazine subscription declined. Thais consume news from their mobile devices. Television which is the primary source of news can be watched from mobile. Facebook live changes the live streaming experiences. Radio stations are also available online.

In 2016, there is 9,883 million baht spending on Digital Advertising. Facebook ad, Youtube ad and display ad are the top three advertisements. Following are Media agencies in Thailand, they cover approx. 80% of the market share.



OPPORTUNITIES IN THE INDUSTRY

Digital ad is a no ending story not like a printed ad that need to give the idea direct after seeing. Digital ad for one product can be created to a story. It need creativity to create a great content to increase the organic reach.

INDUSTRY CHALLENGES

Many advertiser still not understand the importance of digital marketing and how it works. Media agencies need to adapt themselves to become digital agencies. It is not only increasing organic reach and create awareness, content need to increase engagement and drive to the buying stage.

RETAIL & E-COMMERCE

Thailand is upgraded by the World Bank and become a medium upper income country in 2011. Thai lifestyle is changed; urbanisation, convenience and quality become a new lifestyle. Thai can afford premium/international brands. Shopping mall, departments stores and supermarket are popular place to hang out. E-commerce is also increasing. Social media is also raising brand awareness to people. According to Digital Advertising Association (Thailand), Thailand had about 30 million Facebook users in 2014.

RETAIL

Subsidiary and Franchise is an alternative. H&M opened their first store at Siam Paragon, Bangkok in 2012. In 2016, there are 14 H&M stores in Thailand. IKEA opened their first store in Bangkok in 2011 and 2015 opened order and pick-up store in Phuket. Uniqlo opened their first store at Central World, Bangkok in 2011 and now have 32 stores in Thailand.

Modern trade via shopping mall, departments stores and supermarket is the channels to reach end consumers. Modern Trade accounts 40% of the wholesales and retail industry and Traditional Trade is 60% (2011). To do so distributor is one of the alternatives to penetrate Thai retail market. There are many distribution companies who provide import, logistics and marketing services for example BJC- Berli Jucker Public Co., Ltd., DKSH - Diethelm Keller Siber Hegner and Unilever (Thailand). Levi's, Billabong, Cocoa Dutch, Toni&Guy, etc. are sold in Thailand via distributing companies.

KEY STAKEHOLDERS

Central Group is the biggest player in retail industry. Central Group has eight major subsidiaries. Central Group covers in all product categories and market segmentations. Central Group operates following retail stores:

 26 shopping centers under the name Central World, Central Plaza and Central Festival.



Robinson Department Store, Central Department Store and Zen are premium department stores.



Tops is a premium supermarkets in a different target such as Tops Market, Tops Superstore, Tops Daily, Tops Superkoom and Tops Shop Online.



Central Watson is a retail store which including pharmacy.



Baan and Beyond, Homework and Thai Watsadu are the construction and home decoration retail stores.



Powerbuy is a home electronic appliance retail.



SuperSport is a sportswear store.



OfficeMate and B2S are book store, stationery and office material.



Big C, 697 stores in Thailand (2015), is the second largest hypermarket in Thailand after Tesco Lotus. Big C has customer segmentation and has following store formats to target different types of customer; Big C Supercenter, Big C Extra, Big C Jumbo, Big C Market, Mini Big C, Pure by Big C



Central Group operates Family Mart (Japanese franchise convenient stores) which has more than 800 stores.

CP Group or Charoen Pokphand Group is Thailand's largest private company and is one of world's largest conglomerates. CP is operated through 200 subsidiaries in 18 countries.



CP group operates 7-Eleven. There are 8,469 stores (2015). In 2014, there are an average of 9.7 million customers visit 7-Eleven stores each day.



Makro or Cash and Carries was originated the Netherlands chain store. Siam Makro Public was established 1988. There were 64 Makro stores (2013). In 2013, CP has bought Makro.

Ek-Chai Distribution System Co., Ltd. is an import and distribute automotive parts company.



Lotus (Tesco Lotus) started by CP Group in 1994 but has been bought by Tesco, British supermarket chain in 1998 and now operated by Ek-Chai Distribution System Co., Ltd. Tesco Lotus has 1,400 stores and has following store formats to target different types of customer; Lotus Extra, Lotus Hypermarket, Lotus Department Store, Lotus Talad, and Lotus Express.

The Mall Group is one of the mall operators. The Mall Group started 1981.



The Mall has 6 branches in Bangkok and 1 in Korat.



The Mall Group is also operate the high end department store chain. The Emporium, The EmQuartier, Paragon Department Store, and the upcoming The EmSphere, Blu Port, Blu Pearl, and Bangkok Mall (Bangna).



Home Pro or Home Product Center PCL is a retailer of building materials and home improvement products.



Home Pro started in 1995 from the Joint Venture of Land and House PLC and Quality House PLC, the two big real estate companies. There are 77 stores in Thailand.

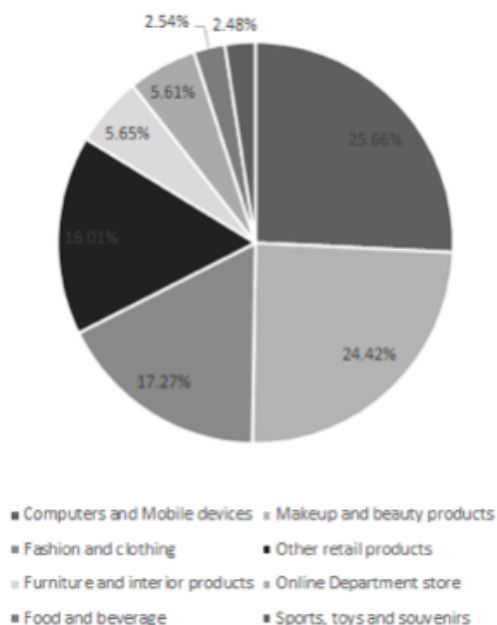
E-COMMERCE

E-commerce in Thailand was increasing 3.65% in 2014- 2015 and 22.52% increase in B2C. In 2014, e-commerce in Thailand valued 2,033 billion THB and 2015 valued 2,245 billion THB increasing 190% from 2013.

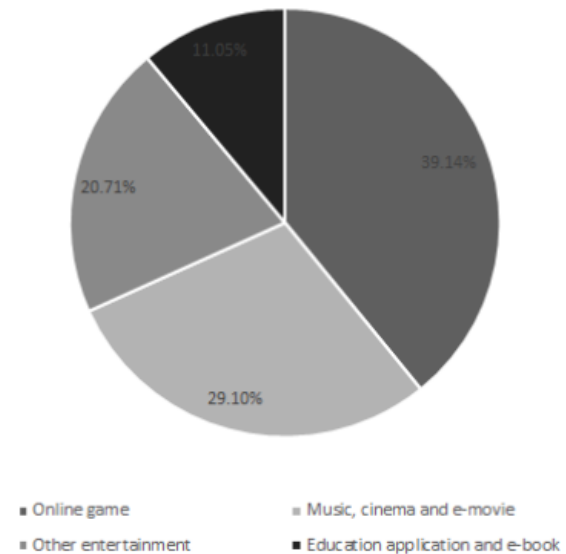
Access to the internet and smartphone link buyers and sellers. Report from Yozza says 69% of smartphone users doing products research online but purchase offline. Social media, facebook, line, instagram increasing chance to exposure products and leads to buying.

Internet penetration in Thailand is increasing. There are 39,466,260 internet users in Thailand (2015). Home internet is developed and many area has access to fiber broadband internet. Broadband penetration is 9.52% per population. Mobile subscription in 2014 is 83,053,966 or 123.52% of population.

E-Commerce Retail products sales 2014



E-Commerce Services sales 2014



Moreover, 4G is available which make it easy to access to internet from mobile phone. Computer and Mobile devices, Makeup and beauty products, Fashion and clothing is top three product groups in e-commerce market and online games is the top service in e-commerce market.

KEY STAKEHOLDERS

There are 502,676 e-commerce entrepreneur registred in Thailand which include B2B, B2C and B2G. Main players in e-commerce market are Lazada, Chillindo (an auction online store), Tarad and We Love Shopping.



Lazada is the biggest e-commerce in Thailand (30,567,000 pageview in March 1, 2016) . In 2015, the sales transaction was 10 billion baht, C2C is accounted 85% of the transaction and 15% is B2C. Lazada operates in Thailand by

subsidiary Lazada IHQ and has been granted tax incentives from BOI. In April 2016, Alibaba has announced that they bought Lazada, which will help expanding e-commerce to 560 million consumers in Southeast Asia. Wide range products and good payment system from Alibaba combine with a good logistics and customers on hand from Lazada will make the online retail industry in Thailand more reliable.

Moreover, in December 2016, Thai government and Alibaba Group signed an agreement to help Thai SMEs succeed in E-commerce including training, shipping and logistics development. Thailand Post will take Alibaba's inventory management and international e-commerce fulfilment services. Alibaba Group aim to train talent 10,000 individuals in People and Talent Development Program so they can be proficient in digital technology.

E-Commerce companies localisation

According to Electronic Transactions Development Agency (ETDA), more than 65% of e-commerce customers are in Bangkok and the neighbour cities due to the good infrastructure, internet connection, payment method and better logistics.

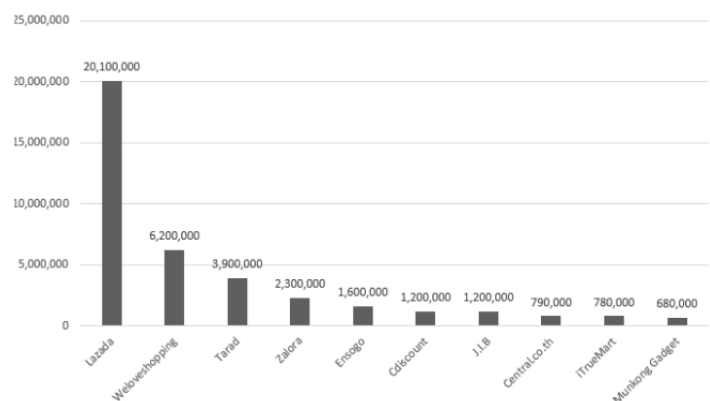
E-Commerce payment methods

One of the common payment method in Thailand is Cash on delivery (COD). This method increase security for customer by receiving product before make a payment. There are many alternative payment method such as pay via counter service (7-eleven, Tesco Lotus, BigC, etc.) or online payment such as Credit card, Paypal, iBanking and mBanking. E-banking (iBanking, mBanking and ATM) is the most popular online payment with 54.25% of payments. The online payment is increasing as the Government's Digital Economy policies given that transactions are secure, convenient, and reduce the cost of doing business.

E-Commerce delivery methods

Alternative delivery services are post service, courier companies (DHL, FedEx), third-party companies, own transport company and counter service.

E-Commerce sites page visits 2015 (jan)



Source: Similar Web

OPPORTUNITIES IN THE RETAIL & E-COMMERCE INDUSTRY

Premium and International brands primarily. Thailand is a medium upper income country since 2011. Lifestyle changes and everyone aware of premium/international brands and products. Thailand is a big consumer market with a population of 68 million people, 20th in the World and 11th in Asia. ASEAN trade agreement also open the doors to more than 580 million people.

Government support - BOI investment promotion allow 100% foreign shareholding when invest in a new project to operate an E-commerce business.

Increasing trend of buying product online in other business sectors.

- **Logistics and distribution:** There are still limited distribution companies in Thailand. Thai Post covering a whole country, however, the service is still slow and under

customer satisfactions. Other players are quite small players, who only deliver to main cities then need to change the distribution company to deliver to the end destination.

- **E-payment Software:** Thailand is on its way to become cashless. One of the key players is 2C2P who claim that they have only 50% of the market share in the payment gateway sector.

INDUSTRY CHALLENGES

Trust between buyers and sellers - according to our study above, people looking for information of goods online but they still prefer to buy offline. Thai still not trust e-commerce in quality of products, payment service and delivery.

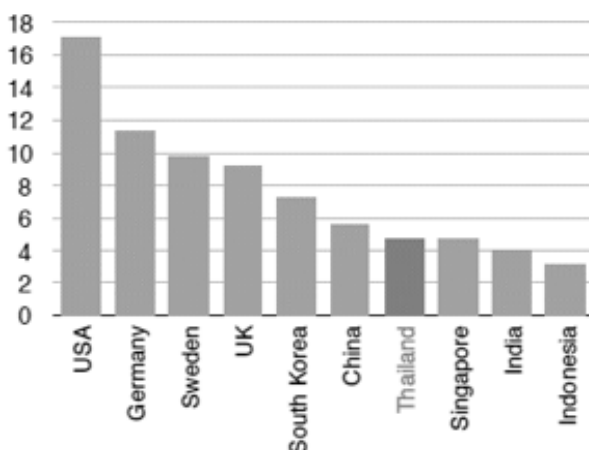
HEALTHCARE – PHARMACEUTICAL & MEDICAL DEVICE

Thailand is positioning itself as a medical tourism hub and aims to be a cost-effective production location for pharmaceuticals and medical device companies. 2.35 million foreign patients from Japan, USA, South Asia, UK, Middle East, ASEAN countries came to Thailand in 2014. Most popular medical treatment is orthopaedics, heart surgery, cosmetic surgery and dental works.

The government spent 14% of its total budget on the healthcare which accounts for 4% of Thailand's GDP (2015).

HEALTHCARE SECTOR

Thailand's Healthcare Expenditure as Percentage of GDP



Source: World Bank 2015

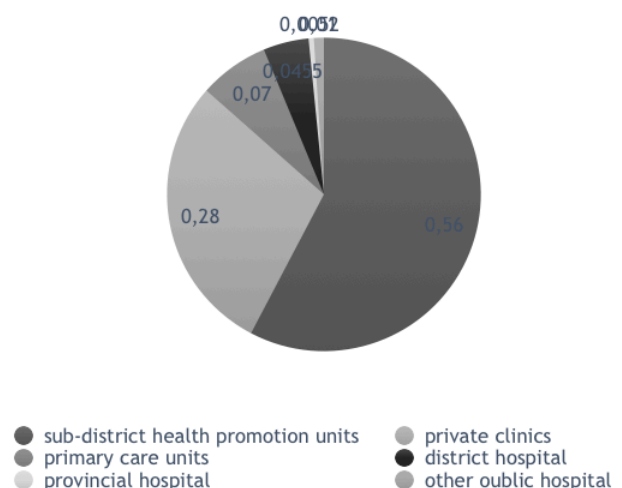
Thai government spent 376.3 million USD and private sector spent 120.4 million USD for health care. Thailand spent 242.8 USD per capita in health 2012 which is the highest in ASEAN however, it is still low compared with the US which spent 8,608 USD per capita.

Thailand imported nearly 80% of the medical equipment to a value of 1.1 billion USD in 2015. Thailand has Asean's largest diagnostic Imaging market. Asean countries currently import most of their medical equipment such as ultrasound, x-ray machines and MRI

scanners from the US, Japan, Germany and the Netherlands.

There are more than 17,000 health care facilities in Thailand (2015). Estimated 70% of all facilities are public. There are 336 private hospitals in the country, of those are 53 accredited by Joint Commission International (JCI). The hospital beds per person is 21 per 10,000 people which is near the global average of 26.

Healthcare facilities in Thailand (%)



Thailand implemented the universal healthcare coverage in 2002. The policy covered about 99 percent of the Thai population by the end of 2013. Moreover, the government is focusing on

prevention and control practices by giving annual check-ups for major diseases such as HIV, blood pressure, cervical cancer, blood sugar and x-ray for patients with high risk of contracting tuberculosis.

The private healthcare sector plays an important role in the medical tourism industry. The government is encouraging the private sector to make greater investments in research and development.

Key Private Hospital chains in Thailand



The healthcare sector is a big and growing market, especially in the private sector which expand to support the middle-high income society. Big chain hospitals have started to buy the smaller independent hospitals to strengthen their brand. For example, Bangkok Dusit Medical Services (BDMS) were planning to have 50 hospitals by the end of 2016 (It was 42 hospitals at the end of 2015). The estimated investment in healthcare sector in 2017 is 70 billion THB, and if including the big investment of BDMS last year, the estimate will almost be 100 billion THB. The private hospital chains also see opportunities in the neighbouring countries. Bamrungrad, BDMS and Thonburi have already established branch hospitals in other countries.

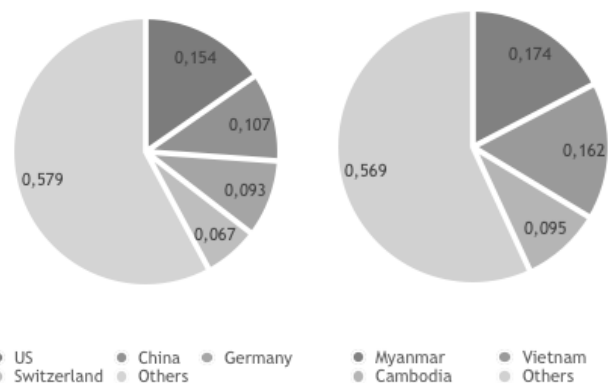
In 2010, public hospitals had to limit their purchases according to the Central Price Regulation procurement policy from the Ministry of Public Health. The prices of medicine and

medical devices market has been pressed to a very low level. Competitive pricing is the key win the tenders, which often are closed reversed actions.

PHARMACEUTICAL SECTOR

There were 171 local manufacturers and 650 importers in the pharmaceutical industry (2011). The distribution channels of major medicines are via hospitals (62.5%), pharmacies (26.3%), ambulatory health settings (6.5%), and other channels (4.7%). Thailand's export of pharmaceutical products has been growing with 6.12% under the past five years. The main export countries are Myanmar, Vietnam and Cambodia. US was the largest supplier of pharmaceuticals which accounts for 15.4% of total imports. (2015)

Thailand Pharmaceutical
Expenditure (%) Export (%)



Thailand also offers also well-developed clinical trial infrastructures. It gives the large target population, qualification and credentials of researchers, low costs and good clinical capabilities and high standard.

Key International Pharmaceutical companies in Thailand



MEDICAL DEVICE SECTOR

The medical tourism is increasing the demand of medical devices. The Thai government provides support for new development and innovation, for example, the Thailand Center of Excellence for Life Sciences (TCELS) was founded in 2004.

TCELS has the responsibility of providing a link between innovation in life sciences and investment, and spurring domestic and international partnership in the life science business in Thailand. The focus areas are:

- Pharmaceuticals and biotechnology - Pharmacogenomics
- Natural products
- Biomedical engineering in medical robotics, medical devices, and operates the Advanced Dental Technology Center (ADTEC)
- Medical services such as Advanced Cell and Gene Therapies Program and Automated Cell and Tissue Production Plant.

Thailand increase the capability to provide one-stop solutions and deliver innovative diagnostic kits in biochemical space and the electronic field. Moreover, TCELS has established a Center for Advanced Medical Robotics and aim

to be a research base for international and regional users.

Key International Medical Device companies in Thailand



OPPORTUNITIES IN THE INDUSTRY

- Aging Population in Thailand is increasing. Life expectancy is 74.9 (WHO, 2015). In 2005, the ratio of senior citizens was 5% of the population and 12% in 2014. It is estimated that in 2025 will be 25%. There will be needs of many business such as food provision, medical equipment, pharmaceutical, health services, and nursery and home-care services.
- Medical device sector can take advantage of BOI's Super Cluster which gives 8 years income tax exemption and additional 50% reduction of corporate income tax for 5 years.
- Many medical devices are manufactured in Thailand, the rising demand of the high-grade and sophisticated medical devices are being imported and still leave rooms for new investments.
- There are still large opportunities for new investors in the pharmaceutical sector as Thailand imports most active pharmaceutical ingredients overseas.

INDUSTRY CHALLENGES

- The Central Price Regulation procurement policy gives pressure to the companies to set a competitive and low price.
- Limited healthcare resources can hold back the industry. There is a ratio of 1:3,347 medical worker per population but WHO requires 1:1,000. Number of doctor is 4 per 10,000 population which is much lower than the global average which is 13. This cause the doctors to work overtime, at the public hospital and private hospital. Moreover, many doctors has their own private clinic in the evening.

ESTABLISHING A COMPANY IN THAILAND

Thailand ranked the 46th place on the ease of doing business by the World Bank Group in year 2017. The government aims to bring the Kingdom to the world's top 20 by May 2017. The government plans to upgrade the efficiency of doing business by approve a business via an electronic registration system so the setup time will be less than 20 days.

Department of Business Development, Ministry of Commerce is responsible for setup company in Thailand. Board of Investment (BOI), Prime Minister's Office is responsible for promoting foreign and domestic investment and approving most project proposals in Thailand. With the strong support from government, foreign investor can enjoy many benefits doing business in Thailand.

RIGHT TIME, RIGHT PLACE

Thailand has a strong government support for foreign companies to invest in Thailand. BOI offers an attractive and competitive package of tax incentives. BOI has set up free zones and industrial zones with aim of build a strong cluster for the industries. Manufacturers who located in these zones will be able to enjoy benefits such as exemption for import duty for machinery, exemption of raw material import duty when products are going to be re-export.

In January 2015, a BOI "Five Special Economic Zones" was implemented to support ASEAN Economic Community. The new economic zone are:

- **Mae Sot/Tak:** Thailand/Myanmar border
- **Sadao/Songkhla:** Thailand/Malaysia border
- **Mukdahan:** Thailand/Lao border
- **Aranyaprathet/Sa Kaeo:** Thailand/Cambodia border
- **Klong Yai/Trat:** Thailand/Cambodia border

The opening of AEC is likely to increase manufacturing in Myanmar, Cambodia and Laos due to the cheaper labour cost. Thailand with the well established infrastructure will be able to act as a regional hub for trade, transportation, and efficient production chain in the region.

Investment project in these special economic zones will receive corporate income tax exemption for three years more than the normal criteria.

TYPE OF LEGAL PRESENCE IN THAILAND

There are various ways for an investor to enter Thailand, depending on the investor's type of business. Types of legal presence for foreign direct investment in Thailand are:

Direct investment:

- Partnership
- Limited company
- International Headquarters (IHQ)
- Representative office

Indirect investment

- Agent / Distributor

See coming 2 pages for details

Details regarding alternative legal presence in Thailand

Type	Direct investment						Indirect Investment
	Partnership		Limited company		International Headquarters (IHQ)	Rep. office	
	Ordinary	Limited	Private	Public			
Activity Scope	Partnership can do all business activities. However, there are some limitations due to the shareholder responsibility.		Limited company can do all business activities.		IHQ can provide following activities to their enterprises: management or technical services, financial management, or supporting services such as general management, business planning, and business coordination, procurement of raw materials and parts, research and development of products and other similar activities. It can also include treasury centers and international trading centers.	Finding sources of goods or services, checking and controlling the quantity of goods, and reporting on business developments in Thailand to the head office. If the representative office engages in other activities for which permission is not granted, such as buying or selling goods on behalf of the head office, it will be regarded as doing business in Thailand and may be subject to Thai taxation on all income received from Thailand.	Agent or Distributor is a local Thai partner who take care of import and distribution including marketing and sell activities.
Location	Anywhere		Anywhere or BOI cluster zones		Anywhere or BOI cluster zones	Anywhere	Anywhere
Foreign owner restriction	Partnership is usually low start capital which can be a problem when applying a work permit.		Foreigner participation is generally allowed up to a maximum of 49% capital shares start-up capital except have been promoted from BOI privilege.	The board of directors must have a minimum of 5 members, at least half of whom must have a domicile in Thailand.	-	-	-
Minimum capital	No min. capital. One or more partners can invest by working but need to value the work.		Min.5 baht/ share. Normally not less than 25% of the average per year of three year estimated expenditure. However, to be able to apply for work permit for foreign worker, min. capital must be 2 million baht.	No min. capital/ share but minimum 15 shareholders and each share of the company shall be equal to value and be fully paid up start-up capital. Normally not less than 25% of the average per year of three year estimated expenditure.	-	-	-

Details regarding alternative legal presence in Thailand							
Type	Direct investment						Indirect Investment
	Partnership		Limited company		International Headquarters (IHQ)	Rep. office	
	Ordinary	Limited	Private	Public			
Share-holders	Min. 2 partners. All the partners are jointly and wholly liable for all obligations of the partnership	Min. 2 partners. One or more partners whose liability is limited to such amount as they may respectively undertake to contribute to the partnership, and One or more partners who are jointly and unlimitedly liable for all the obligations of the partnership.	A minimum of three shareholders is required at all times. The shareholders enjoy limited liability All shares must be subscribed to, and at least 25% of the subscribed shares must be paid up	A minimum of 15 promoters is required for the formation and registration of a public limited company, and the promoters must hold their shares for a minimum of 2 years before they can be transferred, except with the approval of the shareholders at a meeting of shareholders.	-	-	-
Responsibilities/ Reports Finance Tax Other	Partnerships must be registered and are taxed as a corporate entity.		Limited company must be registered and are taxed as a corporate entity.		-	If the representative office engages in other activities for which permission is not granted, such as buying or selling goods on behalf of the head office, it will be regarded as doing business in Thailand and may be subject to Thai taxation on all income received from Thailand.	-
Key advantage	-		Can take advantage of BOI privilege such as 100% foreign shareholder, corporate income tax reduction, work permit for foreign worker, or own land.		Can take advantage of BOI privilege such as 100% foreign shareholder, corporate income tax reduction, work permit for foreign worker, or own land.	Can take advantage of BOI privilege	-

The most common way for a foreign company to enter Thailand is starting up a limited company. Limited company will allow you to hire foreigner to work in the country. (Please see list below of profession which is not allow foreigner to work.)

RESTRICTED OCCUPATIONS

A Royal Decree in 1973 listed 39 occupations and professions that were then prohibited to foreigners. This list has been amended on several occasions by subsequent Royal Decrees, the latest one in 2005:

- | | | |
|---|---|---|
| 1. Labor work, except crewmen engaging in fishery activities included under Item 2 below; | 13. Manufacture of manual fibrous paper; | advisory work, except work requiring specialized skills; |
| 2. Cultivation, animal breeding, forestry and fishery work, except for labor work in maritime fisheries and work requiring specific skills in farm supervision; | 14. Manufacture of lacquerware; | 30. Architectural work concerning designing, drawing, estimating, construction supervision, or advisory work; |
| 3. Masonry, carpentry, or other construction work; | 15. Thai musical instrument production; | 31. Dressmaking; |
| 4. Wood carving; | 16. Manufacture of nielloware; | 32. Pottery or ceramics; |
| 5. Driving motor vehicles or nonmotorized carriers, except for piloting international aircraft; | 17. Goldsmith, silversmith and other precious metal work; | 33. Manual cigarette rolling; |
| 6. Shop attendant; | 18. Manufacture of bronzeware; | 34. Tourist guide or tour organizing agency; |
| 7. Auctioneering; | 19. Thai doll making; | 35. Hawking business; |
| 8. Supervising, auditing or giving services in accounting, except occasional international auditing; | 20. Manufacture of mattresses and padded blankets; | 36. Thai character type setting; |
| 9. Gem cutting and polishing; | 21. Alms bowl making; | 37. Manual silk reeling and weaving; |
| 10. Hair cutting, hairdressing and beautician work; | 22. Manual silk product making; | 38. Clerical or secretarial work; |
| 11. Hand weaving; | 23. Buddha image making; | 39. Legal or litigation service, except |
| 12. Mat weaving or making of wares from reed, rattan, kenaf, straw or bamboo pulp; | 24. Manufacture of knives; | (a) Working as arbitrator |
| | 25. Paper and cloth umbrella fabrication; | (b) Conducting lawsuits in Arbitration Court in cases where the law which enforces the dispute is not Thai Law or in cases that do not require judgment of Arbitration in the Kingdom of Thailand |
| | 26. Shoemaking; | |
| | 27. Hat making; | |
| | 28. Brokerage or agency work, except in international business; | |
| | 29. Engineering work, civil engineering branch, that concerns planning and calculation, systemization, research, planning, testing, construction supervision or | |

Limited company will be able to apply for BOI privilege and enjoy benefits from BOI such as a possibility of having 100% foreign shareholders, import and re-export duty exemption, CIT exemption and landowner. In retail business, distributor is one alternative.

Rising Stars in Southeast Asia

Indonesia Business Opportunities



INDONESIA

Indonesia is Southeast Asia's largest economy with 255 million people and with GDP of 888.5 BUSD in 2014. Despite the economic slow down during 2014 and 2015, Indonesia's economy was among the top worldwide performers. Indonesia is the only ASEAN country in G20. Solid macroeconomic fundamentals, strong domestic demand and recent upgrades in S&P ratings from BB+ stable to BB+ positive have made Indonesia an economy to watch in the coming decade.

Strong consumer spending will likely boost production and growth in the coming years. However, most of Indonesians (81.5%) are still living under poverty and have limited access to finance institutions.

Area	1.905 million sq km
Population	254.5 million (2014)
Capital city	Jakarta
Major cities	Surabaya (East Java), Bandung (West Java), Medan (North Sumatera), Bekasi (West Java)
Government	Officially the Republic of Indonesia. Indonesia's republican form of government includes an elected legislature and president.
Language	Indonesian
GDP	888.5 billion USD (2014) 3492 USD per capita (2014) 4.7% GDP Growth
FDI	365.9 trillion IDR
Unemployment	5.9% (2014)
Minimum wage	38,333.33 - 103,333.33 IDR (2.96 - 7.98 USD) per day
Tax rate	Corporate tax - 25 % , VAT - 10%
Public debt	26% of GDP
Inflation rate	3.35% (2015)
Export	150 282.3 million USD
Import	142 694.8 million USD

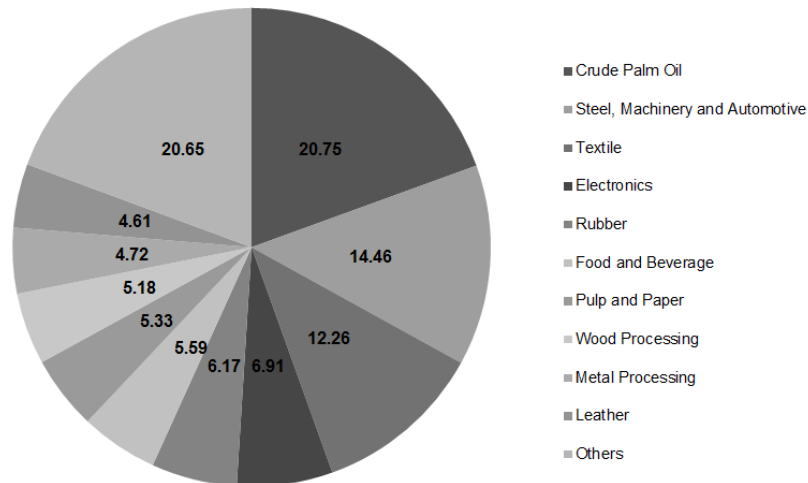
INDONESIA OVERVIEW

In this report, we highlighted that the manufacturing industry in Indonesia is highly affected by external factors such as currency fluctuation and government regulations. Indonesia's manufacturing sector is unseparated from the fact that raw materials and components are still imported from overseas.

Indonesia is well known for its natural resources and still the country relies on imported materials from Thailand. In April 2016 PT Denso Indonesia, a Tier 1 company in the automotive industry, told us that the company has to import raw materials such as plastic and aluminium from Thailand.

Despite the fact that Indonesia's neighbouring countries; Malaysia and Vietnam which have similar industry characteristics as Indonesia, joined the Trans Pacific Partnership (TPP) cooperation. Indonesia is taking further consideration before making any decision to be part of the TPP.

Manufacture Industry Contribution to Indonesia's Export 2015 (BUSD)



Source: Ministry of Industry of Indonesia

It is true that this TPP is a big hit for Indonesian manufacturers, however, some manufacturers remain positive and optimistic that in the year 2016 onwards the state of the economy will start to get better.

The scope in the economic partnership between the EU and Indonesia entail issues such as trade in goods, customs and trade, technical regulations, trade in services and investment, public procurement, intellectual property rights, competition policy, transparency of regulations, dispute settlements and trade and sustainable development.

The outcome of Jokowi's state visit to Belgium in April 2016 has resulted in positive impact on many industry players. Despite the agreement will take a few years to be effective, we noticed that some key industries will continue to give contribution to Indonesia's GDP, however worth to note that other key industries have shown significant growth that can't be neglected. In this report, we strongly believed there are numerous opportunities within below mentioned areas:

- Sourcing of textile and products and distribution of textile machineries

- Entertainment and media
- Telecommunication esp. mobile payment and mobile advertising
- Ecommerce
- Distribution of medical equipment and IT healthcare system and sourcing of pharmaceutical product

"Official negotiations on the European Union – Indonesia comprehensive economic partnership agreement (IE-CEPA) are expected to start shortly this year and its completion is anticipated for 2019." said Indonesian Trade Minister Thomas Lembong on April 24, 2016.

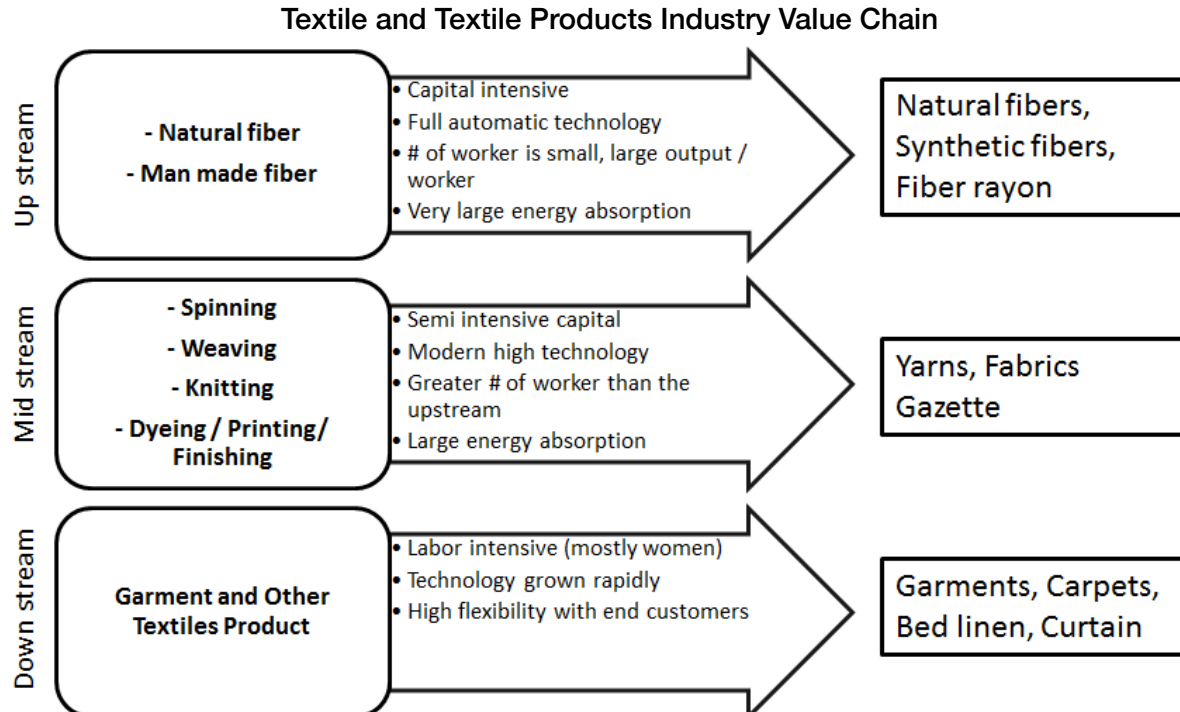
Source: The Jakarta Post "Indonesia-EU CEPA set for 2019"

TEXTILE AND TEXTILE PRODUCTS

Textile and Textile Product Sector (TPT) is one of the main drivers of Indonesia's exports. Despite a big drop in terms of GDP contribution, only 12.3 BUSD last year, down 4% from the previous year, the Government is confident that TPT will be able to play a stronger role in the coming future. The Government has implemented a machinery restructuring program and continues to oversee if any policy tweaks within special economic zones, new tax holiday, incentive to purchase new machineries would be able to bring positive impact to manufacturers.

According to BKPM (Indonesia Investment Coordinating Board), the investment in this sector continues to rise and 2016 was a good year. In 2015 BKPM recorded a positive growth on TPT investment realisation, in the first 1/2 year the investments increased by 58 percent, Rp 3.88 trillion (US\$290.52 million) compared to the first semester of 2014. The textile fiber processing industry grew 213 percent to Rp

2.4 trillion (US\$176 million), the weaving textile industry grew 613 percent to Rp 163 billion, the clothing industry grew 16 percent to Rp 941 billion and the clothing accessories industry grew 563 percent to Rp 216 billion.



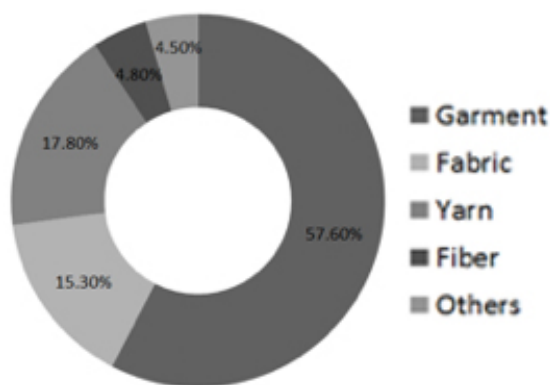
Source: BKPM, API

Indonesia has been a long time textile and garment player in the international market. This industry operates in an integrated way, embracing synergies across industries, including spinning, weaving, knitting and garment manufacturers.

Based on the observation of TPT export statistic, garment, yarn and fabric were the main contributors for the sector revenue. Garment will continue to be the most important product with US, Middle East countries and EU countries (particularly Germany and UK) as the top exporters of Indonesia's garment product.

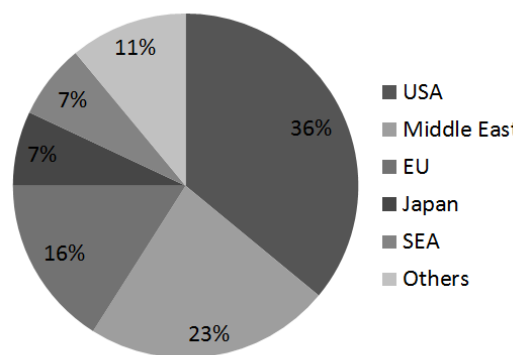
Indonesia's TPT subsector export in 2012

(100% = US\$ 12.46 billion)



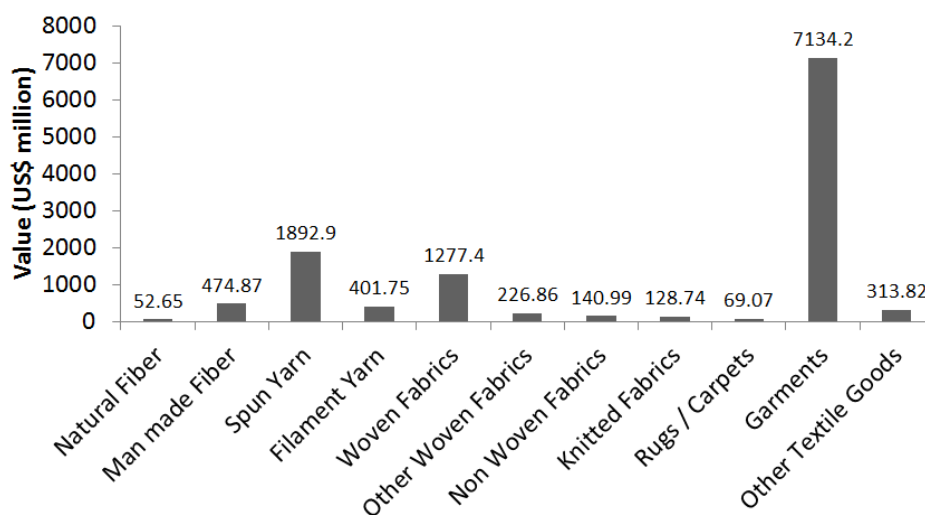
Source: BPS, API

Indonesia's Textile and Textile Products Export Market Share 2015 (%)



Source: API

Indonesia's TPT sub-sector export 2015



Source: BPS, APSyFI

KEY STAKEHOLDERS

In 2012, it is reported that number of TPT companies in Indonesia were 2930 companies. However, in 2015 several smaller companies had to close down because of high production cost and low market demand.

Few reputable companies that should be noted as important key players based on each product category.

Company	Product
Ever Shine Tex	Yarn, Greige, Fabric
Unitex	Yarn, Greige
APAC Citra Centertex	Yarn, Greige, Fabric
Pan Brothers	Garment

Brief profiles of a few TPT companies in Indonesia:

- Pan Brothers is known for its high quality garment manufacturing facilities that can produce from the basic to the high end model of apparel and a proven ODM/OEM for superior brands - H&M, Uniqlo and many others. The company can produce up to 75 million pieces / year and is currently adding another 3 new facilities with the expectation of production capacity to reach up to 96 million pieces / year
- Sritex is known for its yarn, fabric, apparel and military uniform that has 100% of its production exported. Sritex is supplying military uniforms to more than 30 countries including NATO, European countries (Germany, Sweden, Norway, Netherlands, etc.) and other Southeast Asian countries
- Metro Group is known for its high quality men apparel products and is trusted by European Principles such as Pierre Cardin (for the past 25 years), Olymp, Mexx and many others. The company group can produce as many as 14.4 million pieces of men shirt / year

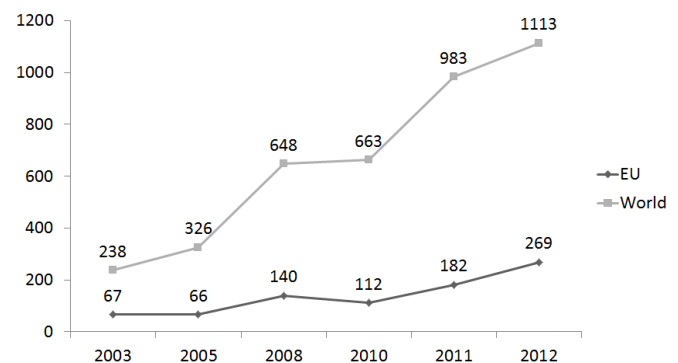
OPPORTUNITIES IN INDONESIA'S TPT INDUSTRY

Garment sourcing and distribution of TPT machineries are key opportunities in Indonesia.

Indonesian manufacturers are optimistic that Government will be cooperative with the industry players. Indonesian textile and garment capabilities are well known internationally for its high quality products and are supported by international certification such as WRAP, ISO, GSV etc. New machinery are mostly imported from Europe and Japan (Saurer, Staubli, Muratec, Goller and others) with routine maintenance schedules.

Indonesia is not only a potential country for manufacturing or sourcing base, there are opportunities for textile machinery companies to find potential distributors/customers in the market. As can be seen from below machinery import value from European countries.

Textile Machinery Import Value (MUSD)



Source: API, Ministry of Trade of Indonesia

Based on data gathered by Ministry of Trade, Germany, Switzerland, Italy, France and Belgium were the countries where most of the textile machinery originated. The growth of imported machinery will continue to grow since Indonesia's Government initiated the machinery restructuring program to boost TPT industry.

INDUSTRY CHALLENGES

Although the industry had a presence for long time, it does not mean that companies are able to solve the problems and challenges that exist in the sector. Most of the challenges are caused by external factors as stated below.

Foreign exchange volatility

The fluctuation of foreign currency, in particular USD towards Indonesian rupiah (IDR), over the past few years had big impacts on companies. Indonesian manufacturers had to source high quality raw materials overseas, mainly cotton from China and fabrics from India. It was reported in 2015, the total imported cotton had reached 674 450 tonnes (valued at 1.096 BUSD)

High production cost

The minimum salary level in Jakarta and most cities in West Java province is now much higher than it was 3 - 4 years ago. Few years back many companies decided to relocate to the city/province where the employee salaries were lowest. Central Java is the province with lowest minimum salary level in comparison to other provinces in Java island. Unfortunately, the relocations were unable to solve the companies' issue. All companies were not ready to cope with these changes and furthermore, the skills and experience available in the new locations did not fully match expectations.

The same goes with cost of electricity which has increased about 40% since mid-2014 until now, which is massive hike in such a short period of time. And lastly, high/increasing land price have forced companies to close down and relocate to more economical places. These are some key obstacles that caused current Indonesian TPT development to be much slower.

Low domestic and international demand

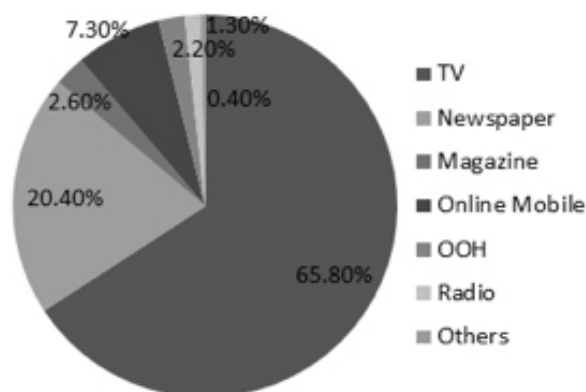
Economic slowdown has hit almost every sector of Indonesia's economy not only TPT. In addition to that Indonesia is flooded by imported goods from China that disrupt the flow of local goods. Illegal trade activity in textile and imported patchwork and used clothing (which should not be imported) has become an additional threat to the local TPT market.

ENTERTAINMENT AND MEDIA

Indonesia's spending on entertainment and media has grown rapidly although the value is relatively low in comparison to the world, US\$10.2 billion vs US\$1.8 trillion.

According to Statista and meetings conducted for this study, our respondents agreed that TV is the most common and most popular medium used to reach Indonesians' attention; it has 95% penetration rate compare to other medium such as radio which only has a 20% penetration rate. Advertisers use TV to reach their target market, as illustrated in the chart below. Because of the fact that most Indonesians like to watch TV, it is a natural way for advertisers to use TV as a channel to promote and market the products or services.

Indonesia's Media Advertising Market Share 2014 (%)



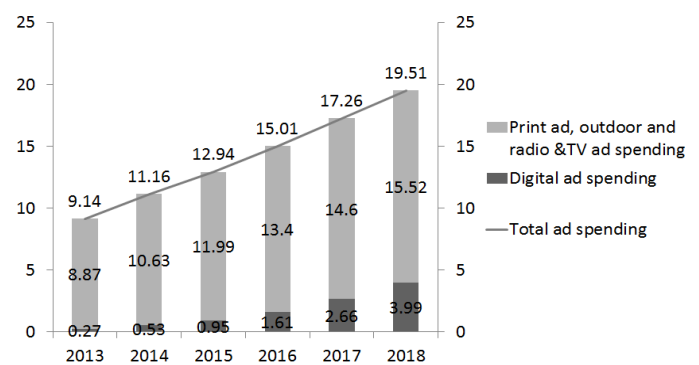
Source: MNC Media, Media Partners Asia

The second most popular mode of advertising is newspaper, where we will see things change in the coming years. We cannot ignore the impressive growth of digital business and how it has changed our lives tremendously not only the media business. It was reported that the Indonesian print media outlets declined with 40% and print circulation declined with -11%.

Some of the major publishers have established their online news portals in order to reach the younger generation (including millennials). However the online version of news is not

enough. The online news portals finds it challenging to retain their readers. Most of the readers that access online news do not do so directly through their online website. They reach the news from other platforms used by the readers and social media connections that share the article posted by the online news. In that sense the media have to work closer with various stakeholders in this digital market.

Total Media Advertising Spending (BUSD)



Source: emarketer

KEY STAKEHOLDERS							
Company	Owner / Founder	National TV	Other TV	Radio stations	Newspapers	Magazines / Tabloids	Online media
Media Nusantara Citra (MNC)	Hary Tanoesoedibjo	RCTI, Global TV, MNCTV	Indovision, Sky vision, Sindotv network and other local channel	Sindo Radio (TrijayaFM), Radio Dangdut, ARH Global Radio	Seputar Indonesia (Koran Sindo)	High end magaz, Genie, Mom and Kiddie tabloids	Okezone.com, SeputarIndonesia.com, Sindonews.com
Mahaka Media	Erick Thohir	-	JAK TV, Alif TV	JakFM, PramborsFM, DeltaFM, Female, GenFM	Republika, Harian Indonesia (in Mandarin)	Parents Indonesia, A+, Golf Digest Area	Republika Online, Rileks.com, Rajakarcis.com
Kompas Gramedia	Jakoeb Oetama, Agung Adiprasetyo	-	Kompas TV Network	Sonora Radio network, Otomotion Radio, MotionFM, EltiraFM	Kompas, Jakarta Post, Warta Kota, + other 11 local papers	Intisari, +43 magazines and tabloids, 5 book publishers	Kompas Cyber Media
Jawa Pos	Dahlan Iskan	-	JPMC Network	FajarFM (Makassar)	Jawa Pos, Indo Pos, Rakyat Merdeka, Radar, + others (total 151)	Mnetari, Liberty magazine, + 11 tabloids	Jawa Pos Digital Edition
Media Bali Post	Satria Narada	-	Bali TV Network, Jogja TV, Semarang TV, Sriwijaya TV, others	Global Kini Jani, GentaFM, GlobalFM, LombokFM, FajarFM, Suara Besakih, SingarajaFM, NagaraFM	Bali Post, Bisnis Bali, Suluh Indonesia, Harian Denpost, Suara NTB	Tokoh, Lintang, Wiyata Mandala tabloids	Bali Post, Bisnis Bali
Elang Mahkota Teknologi (EMTEK)	Eddy Kusnadi Sariaatmadja	SCTV, Indosiar	O'channel, ElShinta TV	ElShintaFM	-	ElShinta, Gaul, Stpry, Kort, Mamamia	-
Lippo	James Riady	-	First Media, Berita Satu TV	-	Jakarta Globe, Investor Daily, Suara Pembaruan	Investor, Globe Asia, Campus Asia magazine	Jakarta Globe Online
Bakrie and Brothers (Viva Media Asia)	Anindya Bakrie	antv, TVOne	Channel (V)	-	-	-	VIVA news

KEY STAKEHOLDERS							
Company	Owner / Founder	National TV	Other TV	Radio stations	Newspapers	Magazines / Tabloids	Online media
Femina	Pia Alisyahbana, Mirta Kartohadipro djo	-	-	U--FM Jakarta & Bandung	-	Femina, Gadis, Dewi, Ayahbunda + others (total 15)	Femina, GitaCinta, Ayahbunda, Gadis, Parenting online
Media	Surya Paloh	Metro TV	-	-	Media Indonesia, Lampung Post, Borneo Post	-	Media Indonesia online
Mugi Reka Abadi (MRA)	Dian Muljani Soedarjo	-	-	CosmopolitanFM, Hard RockFM, I-Radio, TraxFM	-	Cosmpolitan, Cosmogirl, Fitness + others (total: 16)	-
Trans Corpora (Para)	Chairul Tanjung	Trans TV, Trans 7	-	-	-	-	Detik Online

TELECOM AND MOBILE

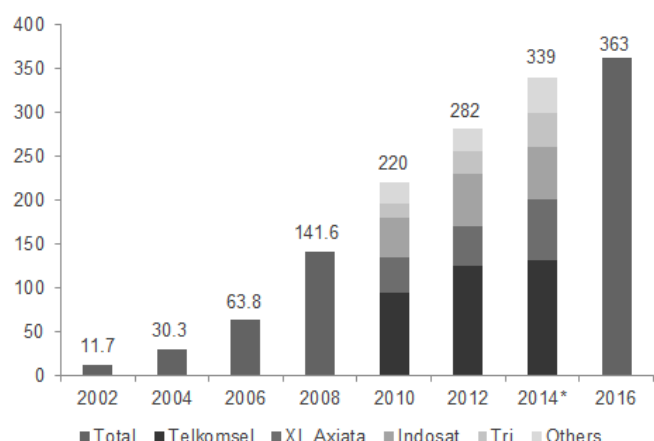
Telecom and Mobile is one of the most prospective sectors in the country and will continue to grow stronger in the coming years. In this section, mobile is the focus, since fixed line is losing popularity because of the declining subscribers. Added with the fact that Indonesia has finalised the national roll out for 4G network (at band 1800MHz) on Mid November 2015, the subscribers are expecting to enjoy faster internet access through their mobile and other gadgets. The data usage growth in Indonesia has been massive, top 3 telecommunication operators (Telkomsel, Indosat and XL Axiata) are increasing or maintaining their CAPEX investments level to improve their services to their subscribers.

CURRENT CONDITION

In 2015, Telkomsel, a Telkom subsidiary has recorded a positive growth in terms of revenue despite the economic slowdown. Indosat Ooredoo has strengthened their position as the second largest mobile operator when they beat XL Axiata based on the number of subscribers. Although XL Axiata tried to secure their position to be the second largest operators from few years back through an expensive acquisition process of Axis mobile (another smaller sized operator with 17 million subscriber base), they have to be happy with the current position as the third largest operator in Indonesia.

Telkomsel, Indonesia's State Owned Enterprise (SOE) mobile operator, still continue to be a market leader with 152 million subscribers; 74 million data subscribers which 40 million are smartphone users, then followed in the second position, Indosat Ooredoo, with 69 million subscribers; 50% of their subscribers are in the 3G / 4G and other half are remain in 2G base, and in the third position, XL Axiata, with 41.5 million subscribers; 22.5 million data subscribers (54%) which 17.7 million smartphone user.

Indonesia Historic and Current Mobile Subscribers (in million)



Source: Telkomsel and XL Company profile, Kompas

Indonesia's internet users have grown significantly from 84 million users in 2014 to 93 million users in 2015 and the number is expected to reach 102 million by 2016. 2015 the internet penetration was 36%. Not to forget that most Indonesian access internet through the mobile internet which again is shown by the 22% increase in mobile internet users from 55 million to over 67 million in year 2014 - 2015.

Smartphones are the preferred and easiest way to access internet. In 2015, Indonesia is reported to have approximately over 52 million smartphone and the nation's smartphone adoption rate was 35%.

Source: emarketer

In addition to the smartphone distribution in Indonesia, Ministry of Telecommunication and mobile operators acknowledged that there are about 20 million devices with 4G features in the market, but, only 40 – 50% users who are utilising the 4G. It is because of the current subscribers have not change their sim card to the latest 4G sim card.

Source: Indonesia LTE conference, 2016

With the high number of subscribers stated above, mobile operators should be able to enjoy increasing revenue. However, that is not always the case in the real market. Most of Indonesian subscribers are prepaid (95%) users while remaining are postpaid (5%) users. Mobile operators are still facing challenges to increase their Average Revenue Per User (ARPU) and to retain their subscribers. Indonesian subscribers is not loyal subscribers, they are price sensitive and operators are competing to offer the best and cheapest package.

We should note that this tremendous growth of mobile internet users and smartphone penetration rate in Indonesia is driven by the trend of social media. Indonesia is well known as the republic of social media, various social media or chat applications are blossoming in Indonesia, Facebook, Twitter, Instagram, Path, Line, Whatsapp and many others. Besides mobile internet that is subscribed to through mobile operators, we can see that many cafes or convenience store chains (Seven Eleven, Indomaret, Alfamart, K Circle, Lawson, etc.) are providing sitting areas with free WIFI connection to attract and retain customers through providing this services.

The movement towards digital lifestyle does not only show in normal daily life, some of the City Governments have initiated the movement and stated that they are part of digital society. Some major cities such as Jakarta, Bandung,

Surabaya and Makassar are challenging themselves to be the role model for the rest of cities in Indonesia. The Jakarta Government is having a smart city team that will be in charge of setting up and monitoring various things happening in the city. Qlue is one of the example of local applications that is developed locally with the objective as a communication platform to connect the city and its society. If Jakarta has Qlue, another city, Bandung has its own command center. The Mayor of Bandung set up and installed a number of CCTV cameras throughout the city. Surabaya and Makassar are cities that implement similar approaches in their own innovative way that suits with their own local culture or habit.

Minister of Information and Communication, Rudiantara, who came from the telco background, has said that Indonesia will definitely need more stringent regulations on the OTT based foreign applications. In April 2016, the Ministry of Communication has issued a regulation that mentioning any international companies with OTT based will have to set up a local establishment in Indonesia in order to do business locally. These regulations are not only pushing international companies to pay tax locally in Indonesia, but also, subscriber to data and information protection, content filtering and others.

From our interview with one telco leader in Indonesia, they had confirmed that there is huge potential available for companies to be part of this mobile advertising and mobile payment segment. However, for international companies to have successful business in Indonesia, they need to localise as much as possible. Sweden continues to leaves good impressions in Indonesia and it is recognised as a leader in technology applications.

Indonesian mobile operators are continuously providing their best effort to meet their subscribers needs through various creative offerings. In general, mobile operators will divide the digital division into three different categories:

- Mobile Infrastructure
- Mobile Payment
- Mobile Advertising
- Big Data

OPPORTUNITIES IN TELECOM INFRASTRUCTURE

Indonesia is unable to meet the subscribers expectation of stable and high speed mobile connectivity. The current BTS towers in Indonesia are far from enough and there are more towers to be built.

"Currently, Telkomsel (largest mobile operators in the market) owns 115000 towers (which still mostly provide 2G and 3G network). Currently, one BTS tower accommodate 1700 subscribers, which compared to South Korea and SK Telecom's high speed internet, where one BTS tower only accommodates 600 subscribers. Network planning and improvement plan will continue to be the important agenda."

Said Mr. Ivan C Permana, VP Technology Planning of Telkomsel

Other operators, the second and the third largest mobile operators, Indosat and XL had achieved positive financial performance on Q1 2016, they recorded a profit y-o-y from previous year which still recorded as a loss. Operators are expected to perform in the most efficient way and to provide the best and 'near free' services since Indonesia call and data rate are the cheapest in the world.

"Network sharing could be considered as one alternative for cost reduction since it could save up to 20 - 50 % for operators' OPEX and CAPEX." Said Mrs. Dian Siswarini, CEO of XL Axiata. "Building tower alone is not enough to accommodate the tremendous growth of data traffic demand, improving and building up the fiber network infrastructure should be followed too." she added.

Source: Indonesia LTE conference, 2016

OPPORTUNITIES IN MOBILE PAYMENT

Cash is still the most preferred method of payment by most Indonesians esp. for those who are not living in the urban areas. The unbanked society in Indonesia is much larger than the banked society, in 2015, only about 20% of 250 million Indonesians have a bank account. The banks and mobile operators are working together to get people in rural areas to put their cash in the system. The main reason why a limited number of people utilise banks in rural areas is not because there are few banks or they do not understand the benefit of saving their money in the banks, Riba, it refers to 'charged interest' in Islamic bank concept. With Riba, people feel more secure to be debtors or creditors because they are aware of where the money comes from and what the money will be used for. In comparison to the banks, most of them hardly trust the banks, they are worried that the money they saved will be use for "less good" purposes, for example, loan given to mining companies that ruin the environment.

Indonesia's banking sector is largely dominated by commercial banks, which control 97 percent of total deposits and assets. It is also highly concentrated: the three top institutions (Bank Mandiri, BCA and BRI) represent 35 percent of the total assets while the top five institutions

represent 50 percent of total assets. However, with a total of some 11,000 bank offices, commercial banks are currently providing access to financial services to less than 20 percent of the population and face some fairly overt limitations in their reach.

Although the unbanked society still is big, on the other side, in major cities, the electronic money card transaction value has increased from 1.4 billion IDR in 2009 to 7.7 billion IDR in 2014. The card can be used for various types of payments such as paying tolls, parking, train ticket, BRT tickets and mini market stores. The reason behind the popularity and widespread usage of these electronic money card is because the card itself is not linked to the user's bank account and users are able to top up the card simply by paying cash to the dedicated top up merchants or banks. Currently there are 19 electronic money issuers in Indonesia consist of 8 public banks (BCA, Mandiri, Mega, BNI, BRI, Bank DKI, Permata, and CIMB Niaga), 1 regional bank and 10 non-bank institutions (including mobile operator companies)

The Government continues to seek for more proper regulated electronic payment systems and transactions in Indonesia. Effective from 9 November 2016, the Regulation recognise providers of payment gateway and e-wallet services, among others, as Payment System Service Providers (Penyelenggara Jasa Sistem Pembayaran—“Service Providers”) in Indonesia, and licensing, approval and reporting requirements now apply to these services.

Some key points of the regulation:

- All payment gateway Service Providers, and e-wallet Service Providers that have (or plan to have) at least 300,000 active users, must obtain a Service Provider license from Bank Indonesia.
- While e-wallet Service Providers with less than 300,000 active users do not require a Bank Indonesia license to carry out their e-

wallet business activities, such companies are required to file regular reports to Bank Indonesia which cover information on, among others, company profile, general overview of the company's e-wallet activities, number of all users and revenue target

Further details can be found on Bank Indonesia Regulation No. 18/40/PBI/2016 concerning the Implementation of Payment Transaction Processing. Source: Bank Indonesia

P2P type of loan applications are available locally and still at early stage development for example Modalku which claims to be the first P2P lending platform that uses an escrow agency to provide transparency in lending and borrowing is backed up by one of the commercial bank and Dana Didik with smaller funds. Dana Didik, a local application which allow their members (mostly vocational school students and university students) that are in need to finance their educational and get loans from lenders. There are still small number of players that exist in this sub segment, thus, numerous opportunities are available for companies to tap into this subsegment.

“With Modalku's technology-based approach, we're very serious in dedicating time to push for access to SMEs that need working capital, in line with efforts to boost the country's growth,”

said Reynold Wijaya, CEO and co-founder of Modalku

In Q4 2016, Fintech startups grew from 51 to 135 companies during last year's first quarter. The rapid growth needs to be anticipated in order to protect consumer interests, especially related to funds and data security issues and national interests in prevention against money laundering and terrorism funding, and financial system stability

At the end of 2016 OJK issued OJK Regulation (POJK) No. 77/POJK.01/2016 on Information Technology-Based Lending Services (LPMUBTI) which is expected to support the growth of the LPMUBTI industry or Fintech Peer-to-Peer (P2P) Lending platforms, as new financing alternatives for communities that have yet to enjoy optimal services from conventional financial services industries, including banks, capital market, financing companies, and venture capital firm. Source: OJK (Otoritas Jasa Keuangan) / The Financial Services Authority

OPPORTUNITIES IN MOBILE ADVERTISING

The advertising subsegment is another attractive area for companies to look into. With 50 million SMEs in Indonesia and only 100,000 of these businesses are online. The mobile operators also confirms that the shift from conventional advertising to digital advertising is an opportunity to increase the ARPU. The effectiveness of using digital advertising is proven to be higher than conventional advertising. The data is easier to analyse and thereby the ROI of mobile advertising campaigns. The budget spends by companies for digital advertising is much less than the conventional way, however increasing as awareness and knowledge of the Mobile advertising rise.

One of the mobile operator that we met for this study admitted that the growth within their digital ads department were in a double digit growth and this trend is expected to continue in the next 5 years.

The number of SMEs in Indonesia combined with the trend of shifting from conventional advertising to digital, will boost the business opportunities significantly.

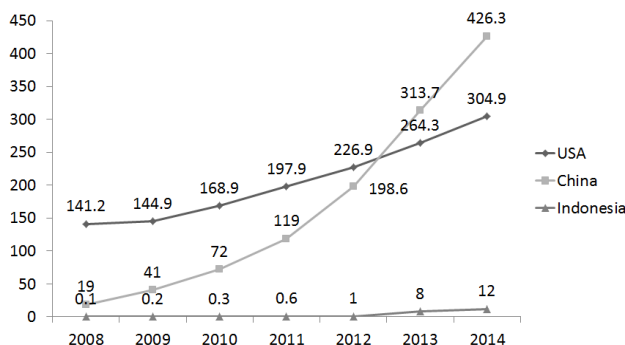
OPPORTUNITIES IN BIG DATA

We mentioned briefly that digital advertising have tools that can be used to measure and gather data about the effectiveness of the campaign. Data capturing is possible as early as from the awareness phase until the last action which is to purchase the goods or services. Other than that, subscribers now perform many of their daily activities through mobile phones which allows mobile operators to have access to valuable data. Big data gathered from each customer means a lot for the product companies as well as the mobile operators. Mobile operators have difficulty in finding the capable human resource to process and formulate these valuable set of big data into a meaningful information. Mobile operators try to utilise data monetisation as a new way of revenue source in the competitive market space. Our finding from industry expert is apparently similar to what had been surveyed by McKinsey (Telcos: the untapped promise of big data) to over 250 top global telecom executives. Most of them are already or about to invest in big data and analytics as part of their strategy to increase company's revenue.

E-COMMERCE

Indonesia's big cities may be filled with malls but with recent technology development, online shopping has become a major trend in the country. Most Indonesian are shifting their shopping preference from offline to online. Indonesia E-commerce association indicates that the potential for internet transaction could reach higher than US\$24 billion. Blibli.com, Bukalapak, Elevenia, Tokopedia, Mataharimall.com, Lazada and Zalora are jockeying to sell their online products with various strategies in order to gain a slice of the business. Thanks to the great job delivered by earlier players, Lazada and Zalora, Indonesians are convinced that online shopping is a good alternative to offline shopping. Most of online shopping companies in Indonesia are backed with strong financial support namely, Blibli.com owned by local conglomerate, Djarum Group, Elevenia, is a JV between mobile operator XL Axiata and South Korean SK Planet, Tokopedia has received a US\$ 100 million investment from a consortium of Japanese and US companies. And lastly, Mataharimall.com which was owned by another local conglomerates, Lippo Group, which set aside US\$500 million as an initial capital.

E-commerce Transaction Value (BUSD)



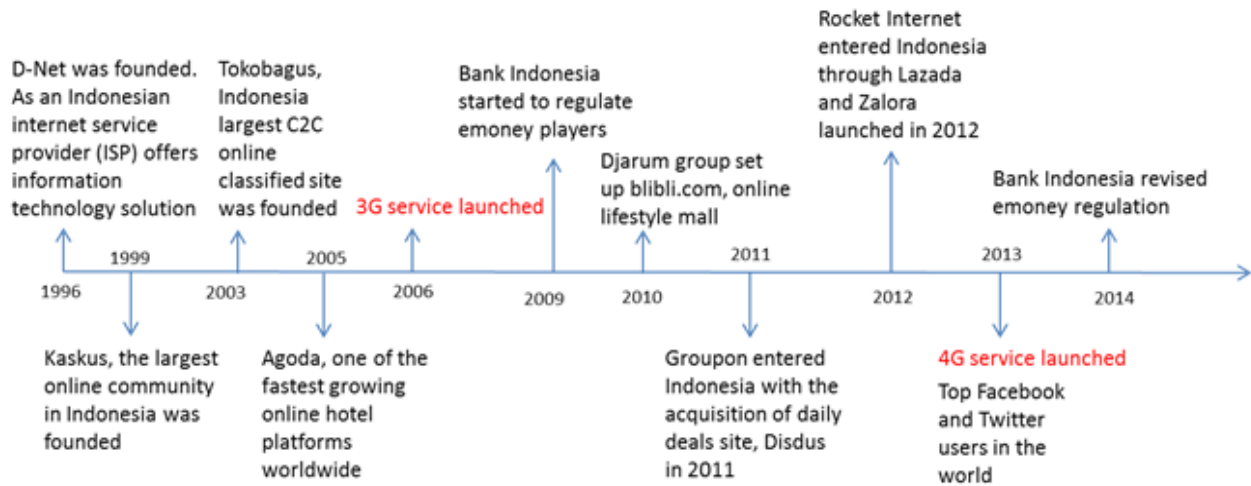
Source: Tempo, Ministry of Finance of Indonesia

empowering SMEs with relevant skills as well as infrastructure, there could be an additional 2% economic growth.

Backing the nation with broadband infrastructure is a big task for the Government. Only 15.8% of the population has access to the internet, with that fact, the Government had decided to focus on building broadband infrastructure in the next five years as part of digitisation national SMEs plan.

In 2015, the value of E-commerce transaction was expected to double to US\$ 24 billion, many are convinced that Indonesia E-commerce market will experience similar trend as with China five years ago. In fact, during the National Online Shopping Days period (3 days), the total sales per day reached up to US\$ 150 million. There are approximately more than 75 000 SMEs that are relying on their businesses from the digital sector. SMEs contributed big portion to the nation's GDP (58% in year 2011). Expert believed by accommodating and

MILESTONES



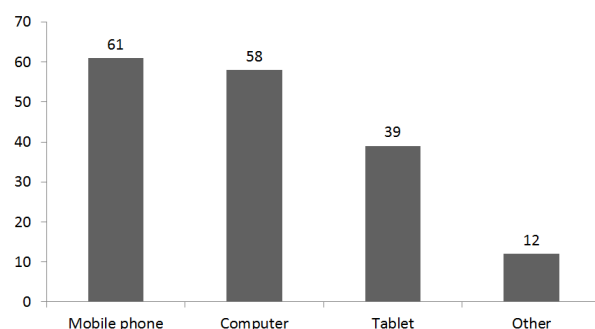
Source: UBS Global Research, June 2014

With Indonesians' increased spending power and the growing middle income class, retailers will continue to enjoy the positive impact of consumption habit in the next coming years. However, retailers should anticipate that potential online shoppers most likely are located far away from big cities. The readiness of E-commerce players should be balanced with the readiness of Government to provide relevant infrastructure in order to make the whole E-commerce business ecosystem work.

that can be minimized by using online retailers, however, some may not fully agree to the above arguments because we are need to take into account of the expenses of current online retailers who rent big warehouse facility to keep their supply of goods.

KEY B2C E-COMMERCE PLATFORMS

Most Used Device to Shop Online (%)



Source: aCommerce

The broad category of products offered by internet retailing is a major threat to store-based / offline retailing. Increasing rental rate and employee salary are key operational cost



VERTICALS

FASHION & APPAREL



BEAUTY



WOMEN & BABY



FOOD & GROCERY



HOME & LIVING



ELECTRONICS & GADGETS



LIFESTYLE & TRAVEL



OTHERS



Sites	Daily pageviews (in thousand, as of Oct 2015)
Kaskus	5952
OLX	5807
Lazada	4574
Tokopedia	3395
Bukalapak	1672
Elevenia	1410
Zalora	1283

TOP E-COMMERCE PRODUCTS

The top product for online shopping in Indonesia is clothing and apparel. During Indonesia E-commerce Summit & Expo (IESE)

"Given the size of Indonesia, it may take some time before digital payments are widely used for retail E-commerce because the required infrastructure will have to be in place first"

said Raj Dharmodaran, MasterCard Asia Pacific's group head for emerging payments

on April 2016, Indonesia e-commerce Association (idEA) highlighted, more than 65% of online shoppers bought items in this category. Other than the fashion (clothing and apparel) category, Indonesians purchased travel and holiday related products which accounted to 35%. Cosmetics category contributed 29%. Electronic goods/gadget are another promising product category that is purchased by Indonesians.

Another insight from the industry expert is that the average of Indonesian online shoppers spending range for fashion and apparel category is between US\$15-20 and for electronic goods is US\$50-60, however, this spending behaviour does not tally with the cost born by the advertiser to get one transaction which costs as much as US\$ 60-80.

E-COMMERCE PAYMENT METHODS

The availability of various types of payment methods provided by online retailers makes Indonesians more confident and secure in their online shopping experience. From the most

popular way in Indonesia, bank transfer (45% and most of them do it via ATM transfer), Cash on Delivery (COD) (30 - 35%), credit card (8%) and internet banking (5 - 6%) as the least popular way of payment. The online shoppers are allowed to choose their preferred method of payment. One drawback when online shoppers choose bank transfer is the rate of cancellation which can be as high as 30%. However, when online shoppers choose the COD type of payment, in most cases, the transaction will not be cancelled.

INDUSTRY CHALLENGES

Although it seems that E-commerce business is well established in Indonesia, the online retailers still find some challenges in the market. Below are some key challenges experienced by the online retailers in doing business in Indonesia:

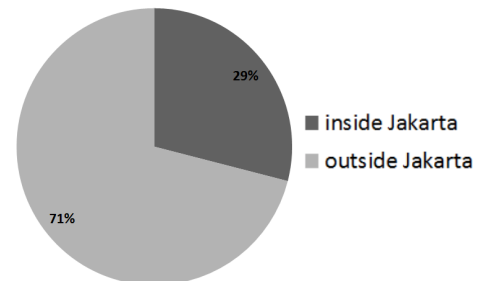
Logistics infrastructure

The development of infrastructure of the western and eastern part of Indonesia are not equally the same. The western part is more developed than eastern part of the nation. This impact the transportation cost to eastern part, which is much higher than the transportation cost to the western part due to limited availability of routes.

As the development of the cities outside Java island may not be as developed as in Java island. The population outside Java island seek online retailers as their alternative shopping place since shopping complex is rather limited.

Indonesia's Chamber of Commerce (KADIN) declares that logistics cost in Indonesia reached 24% of total national GDP which is the highest logistics cost in the world. In comparison to Malaysia which is 15% as well as the US and Japan which are 10% from its GDP.

Zalora's Customer Base Distribution (2014)



Source: Zalora presentation in Mandiri Investment Forum

Payment infrastructure

Most of the Indonesian population is non-bankable population which means that they prefer to use cash payment instead of credit card. Less developed payment infrastructure in Indonesia has led online retailers to adopt more conventional way of payment.

Trust issue

Some shoppers may want to take advantage of a return policy since it is valid for 30 days which is much longer than compare to offline retailers, which only offers a 3 days return policy. Online shoppers will have higher chance to return the products after they have used it. Another example is when shoppers decide to purchase a product, they want to secure themselves by ordering 2 pieces of product with different size and try it when the product arrives. At the end, they will purchase only one product that fits them.

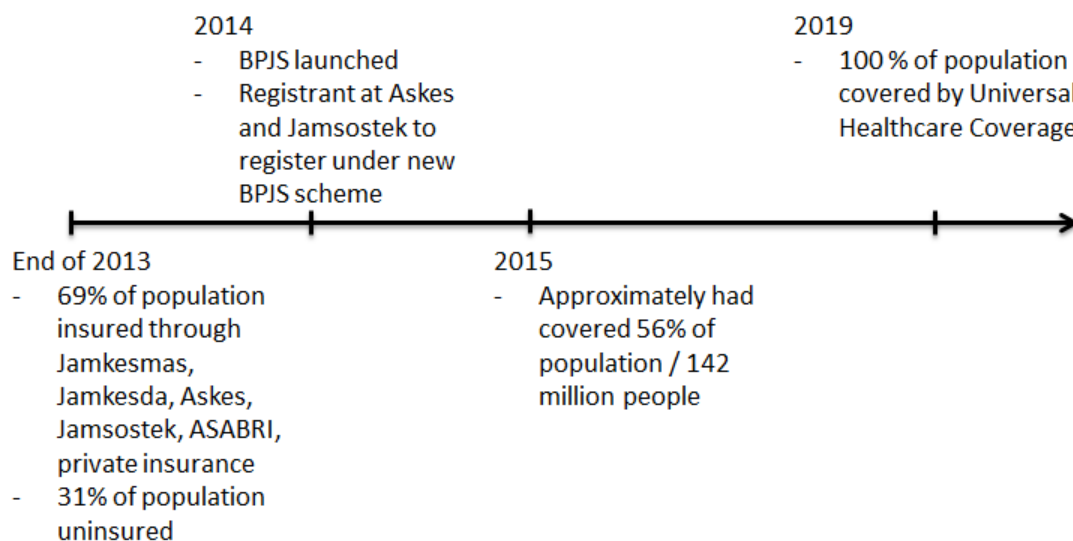
OPPORTUNITIES IN E-COMMERCE

Government of Indonesia earlier 2016 changed a regulation relating to E-commerce, that the business line is no longer in the negative investment list for foreign investment. Considering the huge potential that can be gained from this sector, Government takes a more flexible approach to large foreign E-commerce players to be part and compete with local players. With this positive change, giant players such as Alibaba and Amazon are yet to establish their presence in Indonesia.

HEALTHCARE – PHARMACEUTICAL & MEDICAL DEVICE

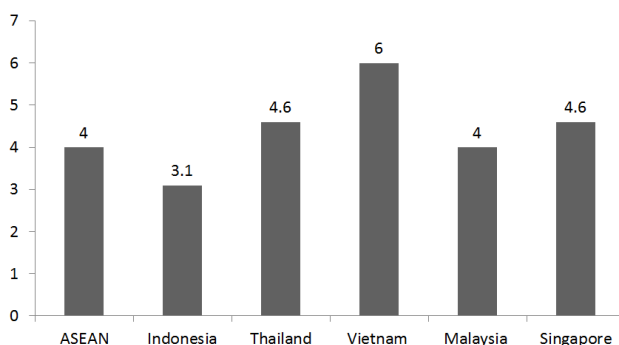
Indonesia's healthcare spending was the lowest among ASEAN countries, only 3.1% of its total national GDP. However, this figure is about to change along the way with the implementation of Universal Healthcare Coverage which by 2019 where all Indonesians will be insured and have an access to basic healthcare services. See below on the progress and timeline of Universal healthcare coverage.

Universal Healthcare Coverage Timeline



Source: Ministry of Health of Indonesia

Healthcare Spending (%of GDP 2013)



Source: World Bank, OECD

Indonesia's healthcare spending is expected to grow in relation to the Universal Healthcare Coverage implementation, however, the figure

will not be seen immediately. Most of the spending will be driven by private spending rather than government spending.

Indonesia's private healthcare sector is much more developed in terms of the speed in implementation new technology - internal hospital management system or medical devices/technology for patient use in comparison to public sector. In most cases, Indonesia's hospitals are computerised, however, each department within the hospital or the hospital branches are not connected to one another. The hospital may developed their in house hospital management system and the development is still at early stage. When it comes to the patient medical record, most of data is still kept manually and handwriting, only

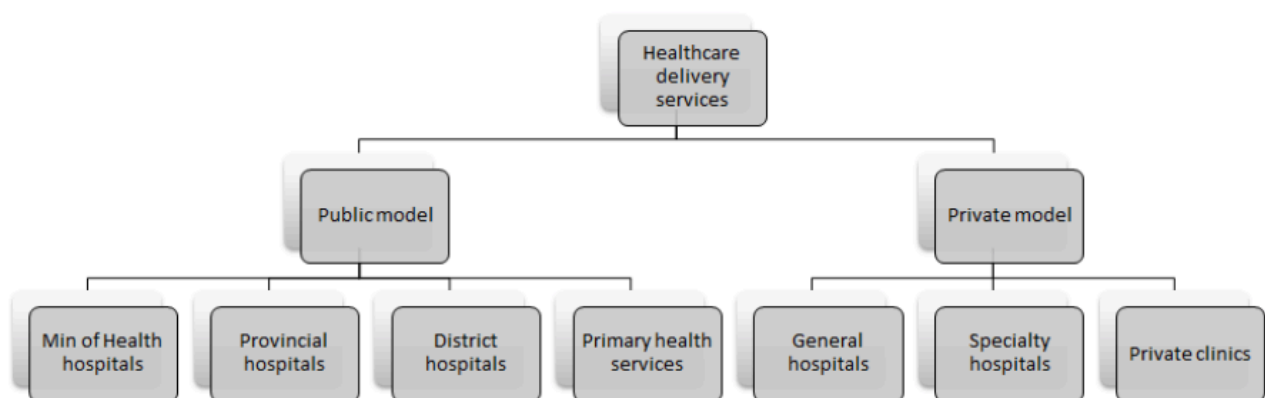
small number of private hospitals in Indonesia that have started to keep the patient medical record digitally.

We believe without integrated data system or standardised data platform suggested by the Government, the information shared by the hospitals can vary and this will potentially create another delay on universal healthcare coverage implementation.

In terms of the quality of services, key private hospital chains have followed international

standard services so called a Joint Commission International (JCI) standard. Although there are basic standard to follow in the healthcare services, in reality, there are big differences in health care services provided in the urban areas and rural areas. People living in urban areas especially Jakarta have greater benefit since there are more hospitals available in the city with more specialty services provided by hospitals.

Indonesia's Healthcare System



According to class classification, hospitals in Indonesia are divided into:

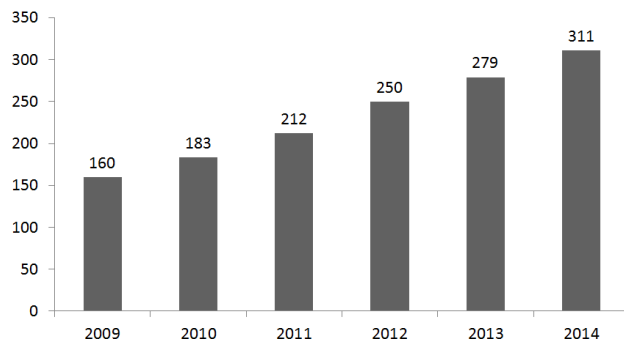
Public hospitals

- Class A: >400 beds capacity
- Class B: 100 - 400 beds capacity
- Class C: 50 - 100 beds capacity
- Class D: <50 beds capacity

Private hospitals

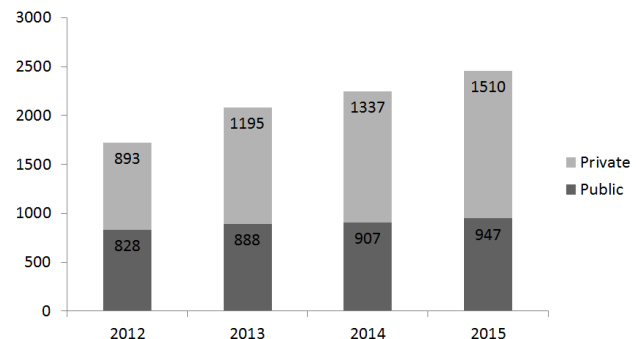
- Priority: general medical services, specialist and subspecialist services
- Madya: minimum of 4 specialist medical services
- Pratama: general medical services

Indonesia Healthcare Spend (IDR trillion)



Source: BPS

Indonesia Public vs Private Hospitals (unit)



Source: Ministry of Health Indonesia

PRIVATE HOSPITAL KEY STAKEHOLDERS

Hospital Group (2016)	# of Hospitals	# of Hospitals in Jakarta	# of Hospitals in outside Jakarta	# of Beds	Specialty
Siloam	23	6	12	4800+	Multi specialty
Hermina	21	10	8	820+	Obstetrics and Gynecology
Mitra	12	7	4	2000+	Multi specialty
Awal Bros	8	4	4	1000+	Multi specialty
Sari Asih	7	6	1	900+	Multi specialty
Ramsay	3	2	1	650+	Multi specialty
Eka	2	1	1	480+	Multi specialty

Source: Ministry of Health, BPS

Although the healthcare sector offers tremendous opportunities, we have to remember that some challenges in the sector remain presence such as:

- Limited human resources especially nurse and specialist doctors
- Limited number of healthcare service bed ratio still low in comparison to neighbouring SEA countries. In 2014, the ratio for number of hospital beds per 1000 in Indonesia was 1.13. In neighbouring countries the ratio is Thailand (2.1), Singapore (2.0), Vietnam (2.0) and Malaysia (1.9). This could be one reason why many

Indonesian move to other countries to find better healthcare services.

- The middle class and above are looking for oversea healthcare services especially in neighbouring countries. Indonesia suffers from outbound medical tourism because of the lack of trust towards the national healthcare system.

MEDICAL EQUIPMENT

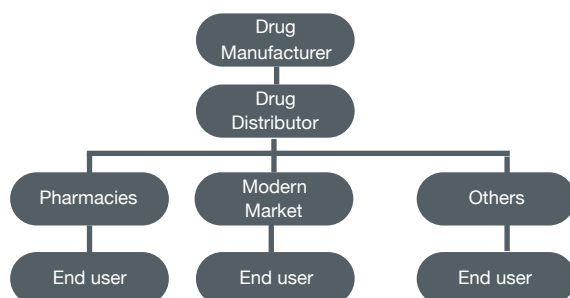
Indonesia's medical equipment are mostly imported (>90%) from overseas with Singapore as suppliers of patient aids and medical consumables and EU countries (mainly Germany) and USA as suppliers of diagnostic imaging, medical and surgical instruments.

Because of the limited knowledge and basic R&D related activities within the healthcare sector, most of Indonesian manufacturers are only producers of basic medical equipment such as beds, wheelchairs and various consumable products. Some of local manufacturers who have exported their products obtained international standard such as US - FDA approved manufacturer, ISO certified, CE European conformity manufacturer and other international certification.

PHARMACEUTICAL

Some foreign pharmaceutical companies have local presence in Indonesia. However, not all foreign companies are setting up their subsidiaries, they may choose a joint venture or a licensing cooperation model. This allow them to cooperate together with local manufacturers under particular international standard of certification and quality control.

Pharmaceutical Distribution Channel



Key players in each category

Pharmacies

- Retail pharmacy chains: Guardian, Century, Apotik Melawai
- Hospital pharmacies
- Clinic pharmacies

Modern market

- Hypermarket: Hypermart, Carrefour
- Supermarket: Sogo Foodhall, Farmers
- Minimarket chain: Indomaret, Alfamart, Seven Eleven

Others

- Traditional medicine stores

OPPORTUNITIES IN HEALTHCARE SECTOR

Various international companies within medical equipment, pharmaceutical or IT related to hospital management system are highly demanded in Indonesia healthcare both private and public. Main drivers:

- The ongoing process of universal healthcare coverage
- The growing middle class
 - More health concerned
 - Spend more on better healthcare services
 - Spend more on quality medicine

Indonesia is a big market for international companies who wish to distribute their products. At the same time, Indonesia holds potential for manufacturing. The local pharmaceutical manufacturers have produced various types of product under licensing with big international names such as Novell, Pfizer, Novartis and many others.

INDUSTRY CHALLENGES

Key challenges in the healthcare sector is driven by protectionism towards local manufacturers. International principals who wish to enter Indonesia market most of the time will have to appoint local partners as their representative. In addition to that product registration itself that may vary from six up to twelve months of waiting time before the product (medical equipment) can be sold in the market and for pharmaceutical products in general will take more time than medical equipment except if the pharmaceutical product contain traditional medicine or herbal ingredients then, the registration procedures of those products will be faster.

ESTABLISHING A COMPANY IN INDONESIA

The Investment Coordinating Board (BKPM) is responsible for promoting foreign and domestic investment and approving most project proposals in Indonesia.

There are various ways for an investor to set up a presence in Indonesia, depending on the investor's type of business. Types of legal presence for foreign direct investment in Indonesia are:

1. Limited Liability Company (PT. PMA)
2. Representative Office:
 - General Representative Office (KPPA)
 - Foreign Trade Representative Office (KP3A)
3. Joint Venture
4. Local partner

Based on Ministry of Trade Regulation No. 10/2006, the company cannot engage directly in sales and is rather for marketing, buying and distribution purposes. Representative office set up is through application to BKPM for companies wishing to engage in areas of business under BKPM's jurisdiction and regional representative offices. Otherwise it is through authorisation from the relevant ministry:

- The Ministry of Industry & Trade for those engaged in bilateral trade
- The Ministry of Public Works for construction companies and contractor services. Foreign Construction Representative Offices are valid for 3 years and have the same status as a National Construction Service Company.
- The Ministry of Energy and Mineral Resources for mining and energy companies.
- The Ministry of Finance for banking and finance companies. Licenses are issued for up to 2 years and then subject to renewal.

It is important for foreign companies to know that various sectors in Indonesia are closed, or

partially closed, to foreign investment. To find out which sectors are open to foreign investment you need to access the Negative Investment List (Daftar Negatif Investasi), a list compiled - and regularly revised by the Government from year to year. The latest version of it was signed on Mid May 2016 and is available publicly in Presidential Regulation No. 44 year 2016. This issuance of updated Negative Investment List is expected to show positive impact towards the nation's FDI performance.

Setting up a joint venture together with local company is another option for foreign individuals or companies to set up a business in Indonesia. This type of cooperation allow the partners to combine their respective expertise to be successful in the market; provided that the partnership arrangements have been thoroughly negotiated and agreed upon. Having trusted local companies as a partner, a foreign firm could gain the opportunity to access into their partner's national network and local market knowledge.

In some cases when foreign companies do not have a choice to pursue specific business in Indonesia because of the sector is included in a Negative Investment List, then, joint venture is the suitable option to solve it.

And lastly, foreign companies may want to consider whether using a local partner (which could be an Indonesian companies or foreign subsidiaries with local establishment) would be more effective choice in penetrating the new market. In general, this option can be applied in most business sector. Any business or trading activities that will require direct interaction and

support from channel distribution will benefit most from this type of cooperation.

Both joint venture and using local partner set ups made foreign companies success rate

heavily determined by its local partner. Choosing the right partner and building up the trust between the foreign companies and local companies are not an immediate process especially in Southeast Asian countries.

Details regarding alternative legal presence in Indonesia

Type	Limited Liability Company (PT. PMA)	Representative Office	
		General Representative Office (KPPA)	Foreign Trade Representative Office (KP3A)
Activity Scope	Can conduct all business activities within the business field it got approval for.	As supervisor, connector, coordinator and to manage the interest of the company or affiliated companies in Indonesia and/or overseas.	-Marketing of goods -Provide information/ instructions for the use and import/export of goods to users/ local companies -Market research and surveillance in domestic sales
Limitation	No limitation, referring to business license obtained	-Not allowed to earn revenue in Indonesia. -Will not participate in any other forms of the management of a company	-Not allowed to earn revenue nor any activities related to sales, participation in tenders, sign contracts, etc
Location	Anywhere	In the capital city of a province in an office building	Anywhere
Best option for	Foreign companies and investors looking for full or partial ownership in a company operating in Indonesia	-Foreign companies studying the market -Foreign companies who don't need to earn revenue from Indonesia	Foreign trading companies that don't need to earn revenue to their Indonesian entity
Foreign ownership restriction	Foreign ownership can be anything from 0% to 100% depending on the business classification. Classifications that are not in Negative Investment List can be owned 100%.*	No restrictions	No restrictions
Minimum capital	Investment plan: Minimum \$1.2 million USD. Paid-up capital: at least 25% of investment plan. For some industries required capital is higher.	No capital	No capital
Shareholders	Min. 2 shareholders – 2 individuals or 2 companies or combination of both	No shareholders	No shareholders

Details regarding alternative legal presence in Indonesia

Type	Limited Liability Company (PT. PMA)	Representative Office	
		General Representative Office (KPPA)	Foreign Trade Representative Office (KP3A)
Responsibilities/ Reports Finance Tax Other	<p>Annual report to a general meeting of shareholders which consists of :</p> <ul style="list-style-type: none"> -balance sheet and P/L statement audited by registered auditor -report on the condition and performance of the company <p>Monthly:</p> <ul style="list-style-type: none"> -Corporate income tax -Employee & other withholding taxes - VAT and Luxury goods sales tax <p>Annual:</p> <ul style="list-style-type: none"> -Corporate income tax -Individual income tax -Land and building tax <p>Quarterly/semi-annual Capital Investment Activities Report ("Laporan Kegiatan Penanaman Modal or LKPM") submitted to BKPM</p>	<p>No public annual report</p> <p>Monthly:</p> <ul style="list-style-type: none"> -Employee & other withholding tax <p>Annual Activity report to BKPM</p>	<p>No public annual report</p> <p>Monthly:</p> <ul style="list-style-type: none"> -Employee & other withholding tax <p>Annual Activity report to BKPM</p>
Timeframe to get licenses	Max. 10-14 weeks, can be more if special license should be obtained**	6-10 weeks**	6-10 weeks**
Key advantage	Can operate fully as an independent limited liability company within the business classification	<ul style="list-style-type: none"> -No capital requirement -Easiest way to have a legal presence in Indonesia 	License can always be extended every 3 years
Key disadvantages	<ul style="list-style-type: none"> -Large capital requirement, higher risk -Ownership restricted or forbidden in some industries* 	<ul style="list-style-type: none"> -Cannot seek and earn revenue in Indonesia -Scope of activities is very limited -License is only valid for max. 5 years 	-Not allowed to earn any revenue

Note:

*See <http://www7.bkpm.go.id/contents/general/117139/negative-investment-list> for more information about Negative Investment List

**Upon the completion of all of the required documents

Rising Stars in Southeast Asia

Vietnam Business Opportunities



VIETNAM

Vietnam has been one of the fastest growing economies in Asia the past 30 years bringing it from poverty to a lower middle income country. Before Political and economic reforms launched in 1986, Vietnam was one of the poorest in the world, with per capita income around US \$100. By the end of 2015, Vietnam is a lower middle income country with per capita income of around US\$2,100, thanks to the average per capita GDP growth of 6.4% in the 2000s.

Area	332,698 sq km
Population	91.7 mil. (2014), Population in working age: App. 77% (2014)
Capital city	Hanoi
Major cities	Ho Chi Minh City, Da Nang, Binh Duong, Hai Phong
Government	Socialist one-party state
Language	Vietnamese
GDP	GDP \$214,750 BUSD (2015 est.) GDP per capita: 2,321 USD
FDI 2014	USD 20.2 bil. More than half from South Korea, Hong Kong and Singapore
Unemployment	2.3% (2015 est.)
Minimum wage	\$107-156 USD per month, depending on regions
Tax rate	Corporate tax 20% since 1 Jan, 2016 , VAT 10%
Public debt	50.5 % of GDP (2014 est.)
Inflation rate	0.63% (2015 est.)
Export	150 BUSD (2014 est.)
Import	148 BUSD (2014 est.)

ADVANTAGES OF THE ECONOMY

Political and social stability

Vietnam with reform commitment and stable political situation makes it one of the safest investment destinations in Southeast Asia. This helps the government to promote Vietnam as an investment avenue and ensuring economic development.

Strategic location

Vietnam's proximity to China and ASEAN countries makes it a potentially trading partner with these countries.

Growing economy

Vietnam has experienced an impressive growth over the last few decades, only second to China. Vietnam's GDP has grown about 10 times from that in 1991, from approximately US\$14 billion in 1991 to approximately US\$138 billion in 2012.

Urbanisation

Fast urbanisation rate with large infrastructure investments, emerging middle class, though remain competitive low labor cost compared to neighbouring countries makes Vietnam a potential big market as well as manufacturing hub.

CHALLENGES IN THE MARKET

Although the business climate in Vietnam is improving all the time, obstacles still remain. The main restraint of doing business in Vietnam are inadequate infrastructure, weak legislation and policy transparency. Transparency International rated Vietnam 112th out of 168 in its Corruption Perceptions Index for 2015. Also, productivity is lower than some neighbouring countries. In particular, labor productivity in Singapore, Malaysia, Thailand, the Philippines and Indonesia were 18, 6.6, 2.7, 1.8 and 1.8 times higher than that of Vietnam in 2013. However, the labor productivity in Vietnam has increased quite fast in recent years thanks to the increasing young skilled labour force, which is a boost to the economic growth.

KEY PRODUCTION HUBS

North Vietnam, Hanoi is the political center. The North is also becoming an industrial hub for heavy manufacturing activities

Central Vietnam (IT & Tourism) Da Nang, a dynamic emerging city in Central Vietnam, is ranking high in high tech development and IT infrastructure. It is also a popular tourist spot.

South Vietnam (Financial and Commercial center) Ho Chi Minh City is the commercial hub, the financial center and headquarters of many foreign and Vietnamese private companies.

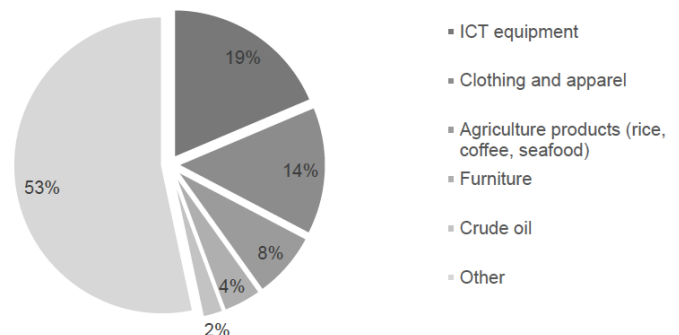


KEY SECTORS FOR EU BUSINESS

Vietnam is an attractive alternative to China and India due to rising costs and attrition rates. This is due to the increasing costs of labor in China; rising Chinese taxes on foreign enterprises and difficulties with the business environment in China. Political stability, giant infrastructure investments, abundant workforces with low salary and a new emerging middle income class makes Vietnam attractive to new investors with the following opportunities

- Garment, textile and leather sourcing
- Furniture sourcing
- Software outsourcing
- Healthcare - Pharmaceutical & Medical Device

Vietnam Top Export Goods 2015



In 2015, ICT equipment contributed \$30.18 billion USD in the total export of \$162 billion USD, comprised 19%. However, the majority of export value came from FDI, with about 90% value from Samsung.

Clothing and apparel, agricultural products and furniture are among the top export with value of \$22.81 billion USD, \$12 billion and \$6.9 billion USD respectively, corresponding to 14%, 8% and 4%.

GARMENT, TEXTILE AND LEATHER SOURCING

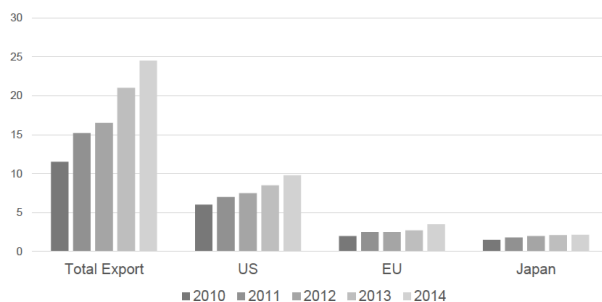
Vietnam is one of the six largest garment exporters to Europe. While China is decreasing its export, Vietnam is rising by 11.46% of market share in 2015, from 10.73% in 2014.

Export turnover in 2016 was estimated at USD\$ 23.5 billion, increase 3.3% compared to 2015. In 2015, Vietnam exports to EU value \$3.36 Billion USD, increased 8% compared to 2014 and comprised 3.5% EU's market share.

CAGR of Vietnam export to EU during 2010-2015 was 12%. This was smaller than the total CAGR on export of 19% and to the US 13% and to Japan 20%. This number shows that there still is a big potential for EU.

Total volume for garment is 4 billion products. Key garment exports are jacket (21%), T shirts (20%), pants and jeans (16%) and shirts (6%). Sport shoes (sneakers) represent 70% of the shoes exports in 2015.

Vietnam Garment Export BUSD



Fashion is the second largest and also the second fastest growth export sector in Vietnam. CAGR was 19% during 2009-2015. In 2015, 64% of the exports were garment, 33 % footwear and the rest textiles.

"Vietnam is always in the top five countries in term of garment export. In 2016, its key export markets continue to have positive signs. The forecast export will be able to reach 30 billion USD, an increase of 8% compared with 2015 in term of revenue and 10% in term of profit before tax."

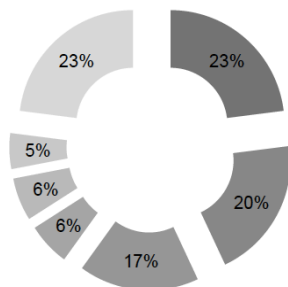
said Mr Hoang Ve Dung, the Deputy General Director of Vietnam Textile and Garment Group (Vinatex)

According to our interview, garment enterprises have a very good business. Furthermore, they forecast a bright business outlook for the next 2-4 years with more investment plans as well as headcount development with the expecting growth of more than 10%.

Jeans and jumpers/sweaters are the two products with high growth rate in recent years. Jeans' export has the growth rate of 10% in 2015. In 2014, knitted wear, jumpers, sweaters and trouser witnessed a strong growth of 22%, 18% and 21% respectively. In 2015, although these categories still grow at high rate, the growth percentages has been slightly declining to 14%, 12% and -3% corresponding. On the other hand, jeans witnessed an impressive growth rate of 10%. The reason is that China, the world's largest jeans manufacturer, launched a new policy that restricted the production of jeans. This made investors have been eyeing Vietnam as an alternative source. It is an opportunity for Vietnam to become a manufacturing hub for jeans and woven products.

Vietnam Garment Export Structure

■ Jacket ■ T-shirt ■ Pant ■ Dress ■ Children clothes ■ Shirt ■ Other











KEY MANUFACTURERS

Vietnam has about 6,000 textile companies, with the labor force accounts for 5% of the total national workforce. Most companies are located in the South (62%), the rest mostly in the North. Besides, FDI contributed increasing export value in recent years. In 2014, the proportion of FDI enterprises is more than 60% of total exports.

Vietnam National Textile and Garment Group (Vinatex) is the biggest player with 15.7% of the export market share. Top 5 Vietnamese OEM manufacturers in Vietnam includes: Viet Tien Garment Corporation, Phong Phu Corporation, Nha Be Garment, Hoa Tho Garment, Garco 10.

EXAMPLE OF BRANDS SOURCING IN VIETNAM & SOURCING LOCATION

 Ho Chi Minh city	 Thai Nguyen Binh Dinh	 Thai Nguyen Binh Dinh	 Hue	 Bac Ninh, Bac Giang, Binh Dinh
 Bac Ninh, Da Nang, Ho Chi Minh	 Binh Dinh, Phu Yen	 Hanoi, Phu Yen, Bac Ninh	 Hanoi, Bac Ninh, Thai Nguyen, Thai Binh	 Bac Ninh, Binh Dinh, Hue, Ho Chi Minh

KEY STRENGTH

The key competitiveness of sourcing fashion in Vietnam is not only cheap price but also stable quality. People often assume that Vietnam provides abundant human resources with low labour cost. In fact, when compare the cost of labour from Vietnam and China, Vietnam is not cheaper. However, while the quality level of Chinese order over time is differentiated and often poorer, Vietnam's order quality keeps the same thanks to the employee retention rate of

"Vinatex has invested in a number of big projects in fiber, textile and dyeing to increase the percentage of local content to 65% by 2020. Also, in 2015, Vinatex has invested in training and educating the high skilled human resources."

said Mr Tran Viet, Head of market development department of Vietnam Textile and Garment Group (Vinatex)

skilled labour. It is the stable quality and reasonable cost that is the key reason why fashion brands move from China to Vietnam.

Other positive factors are:

1. Ability to produced high end products
2. Small minimum order quantity
3. Able to ensure short lead time
4. Political stability
5. CSR and legislations

CHALLENGES

Vietnam's textile and garment industry heavily depends on imported raw material due to lack of domestic supply. Most material comes from China, Korea and Japan. In order for Vietnam to enjoy favourable tax from free trade agreements, it needs to meet requirement of origin, with 65% domestic value added. At this moment, there is a wave of investment from foreign companies investing in textile and dyeing to enjoy favourable policies. Vietnam

realises these constraints and is working to overcome them by encouraging investment in raw materials for apparel.

At the time of writing, foreign companies are vamping up investment in building textile manufacturing and processing factories to enjoy favourable policies offered by Vietnamese policies. In the past 5 years, there have been nearly 500 FDI projects invested in the textile industry, with a total registered capital of more than USD2 billion. Some examples of such projects are Hyosung project of South Korea with an investment of USD660 million in Dong Nai, project Luthai Textile of Hong Kong in Tay Ninh with USD170 million, Taiwan's Polyester synthetic fibre production projection by Far Eastern. Even local conglomerates such as Vinatex, the leading textile company in Vietnam, has also been developing raw materials for spinning mills in the central areas, investing USD240 million in dyeing and weaving fabric for high end products.

REGULATIONS

At this moment, Vietnam is trying hard to raise the local value. Shoes and garment exports are forecasted to have a strong increase in the next 5 years, about 16% thanks to breaking FTA signed in 2015, especially the EVFTA, which will eliminate tax for Vietnam's fashion export to 0% from year 7th since EVFTA took effect. On the other side, EU's export on textile and fabric will be duty free from day 1 under this agreement.

However, EVFTA have a regulation on only products "sufficiently manufactured" in Vietnam are eligible to apply the favourable tax under the term of The Regional Value Content (RVC). The RVC value of garment and textile is 65%. Currently, this value of Vietnam is 51.1% (2015). In addition, Vietnam will benefit from accumulation with Korea in relation to fabrics used for producing garments, and soon with Japan as well. In order to meet the requirements of local content, Vietnam is

developing the supporting sectors for garment and textile. Vinatex is the leading organisation to develop raw materials for spinning mills in central Vietnam. They invest \$240 million USD in dyeing and weaving fabric for high end product in addition to encouraging foreign enterprises to invest in the field of spinning, weaving and dyeing.

TRENDS

Manufacturing hubs are moving from big cities to neighbouring provinces, from the north and the south to the central area to enjoy lower labour cost. There are around 4500 companies working with this sector. Garment firms play an important role, accounting for over 65% of total enterprises. About 30% are within shoes and 5% within textile.

Fashion factories used to be located around the north and the south. 60% of the production is concentrated in the South (Ho Chi Minh City, Long An and Binh Duong), 25% in the North (Hanoi, Bac Ninh, Hung Yen, Hai Phong and Nam Dinh) and 15% in the Central (Hue, Phu Yen and Binh Dinh) during 2010-2014. Most of these companies located in the South thanks to abundant low-cost and more skilled labor thanks to many years of experience in international business.

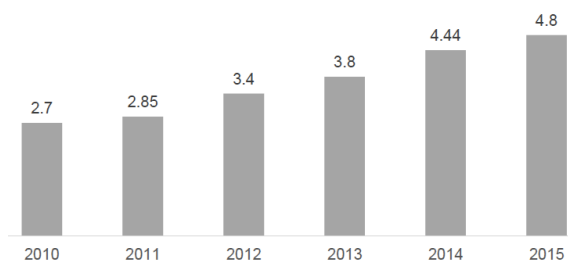
However, there is a trend that production is moving to the central to enjoy cheaper labor cost and more advantageous policies. Also, the government wants to relocate apparel factories to neighbouring localities to cope with the labor shortage here, and the city to serve as a fashion design hub. After 2020, apparel factories will be located in industrial zones and other provinces with sufficient labor supply. Meanwhile, garment companies in the city should be solely responsible for design and export-import operations.

FURNITURE SOURCING

Vietnam is home to more than 2000 furniture manufacturers, where around 15% focus on export. Exports of furniture are increasing from Vietnam with a CAGR of 18.5% during 2010-2015, ranked 6th in the world and 2nd in Asia, after China. In 2015, export value of wooden furniture products was \$4.8 BUSD.

In 2015, Vietnam contributed 8.4% of furniture imported to EU, value 0.6 billion EUR.

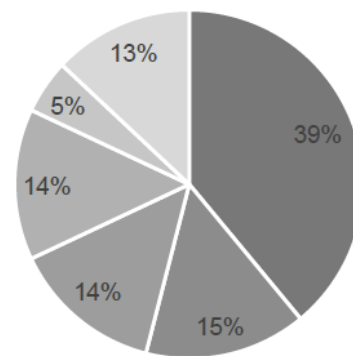
Export Value BUSD



Source: Vietnam General Statistic Office

Key Furniture Exports Markets

■ US ■ China ■ EU ■ Japan ■ South Korea ■ Other



Source: Vietnam General Statistic Office

Countries Export to EU BUSD



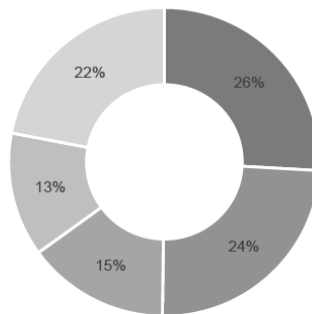
Source: http://madb.europa.eu/madb/statistical_form.htm

Key products are indoor furniture, such as bedroom furniture (25,9%); dining room & kitchen furniture (24,3%) and chairs (14,8%). Outdoor furniture for the EU market has experienced sharp decline in orders due to consumer's now prefer low to mid-priced as opposed to high end products. Therefore, Vietnam furniture factories switching their focus from outdoor furniture to indoor furniture.

Vietnam exported furniture to more than 120 countries, where key customers are from the US, China, EU and Japan. EU is one of the four biggest markets for Vietnam with 14% market share. In EU, England, Germany and France is the most important importers, accounting for 2/3 total export value to EU.

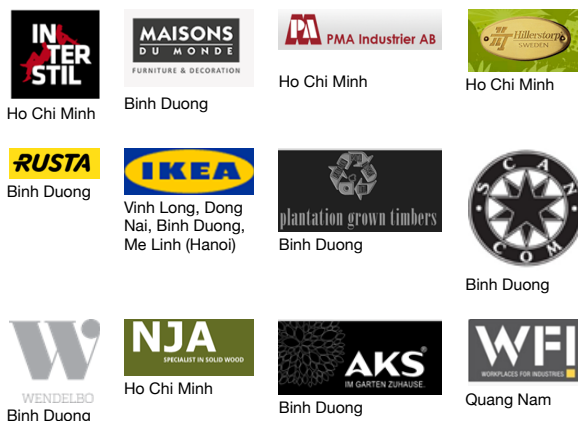
Key Export Products to EU

■ Bedroom furniture ■ Dining room & kitchen furniture
■ Chairs ■ Outdoor furniture ■ Other



Source: report on furniture, Eurocham

EXAMPLE OF BRANDS SOURCING IN VIETNAM & SOURCING LOCATION



KEY MANUFACTURERS

In 2015, Vietnam had more than 3,500 wood processing enterprises. 80% are located in industrial zones on the Central Coast, around the key city Danang and Ho Chi Minh City and nearby provinces such as Binh Duong, Dong Nai and Long An. This is a result of the abundant low-cost but more skilled labor thanks to many years of experience in exporting furniture. The Central Coast of Vietnam, includes Binh Dinh, Da Nang and Quy Nhon are home to hundreds of outdoor

furniture makers. This is a position near Tay Nguyen, the largest natural forest area, that supply raw material for this industry. Meanwhile, manufacturers in the Southern area are focusing on indoor furniture. Ho Chi Minh City has some large-scale factories, which employ thousands of workers in modern production lines, and it is home to about 70% of the 60 largest furniture producers.

The remaining 20% of firms located in the North and focus on Hanoi, together with its neighbours like Ha Tay, Bac Ninh, Nam Dinh, Ninh Binh and Thanh Hoa Province. The Northern clusters are the manufacturing centers for home accents and traditional Vietnamese solid wood furniture with exports primarily to Asian countries. The North accounts for only 10% of the overall production revenue.

KEY STRENGTH

Furniture are produced in Vietnam as a result of skilled labour force with an ability to produce high end furnitures to competitive prices. The lower job-hopping rate than China enable the manufacturers to retain and develop the workforce. Another advantage is that Vietnam has access to legal sustainable wood. The two woods that are legal in Vietnam are rubber wood and cajuput wood. Consistent qualities and flexibility in terms of order quantities, willing to make relatively small production runs are additional competitive factors.

At this moment, the Vietnamese government's policy is focused on developing the furniture industry. At the same time, Chinese Government changes the focus on the development of high-technology industries. This is at the expense of labor intensive industries such as furniture manufacturing. This makes Vietnam a good alternative manufacturing hub.

CHALLENGES

Due to the limited source of wood material supply in the country, as well as the growing demand, 80% of the wood materials for export is imported. In addition to traditional sources of supply such as Laos, Cambodia, Malaysia, Indonesia and Myanmar, Vietnam has started to import from other countries such as New Zealand, Australia, South Africa, Solomon Islands, Sweden, USA and Canada.

When the market is expanding it will be more complicated to source wood raw material in Ho Chi Minh City, Dong Nai, Gia Lai, Dak Lak, Binh Dinh. According to the Ministry of Industry and Trade, the source of wood raw material for export is a serious challenge. 90% of wood the wood is imported from Laos and Cambodia and these sources are being exhausted. From 2005 to now, Malaysia and Indonesia have also closed timber goods export. Additionally, timber prices have increased around 5% - 7%, particularly hardwoods raised from 30% to 40%, making it challenging for a number of companies to be profitable.

Wood origin certificates is also another challenges for Vietnam. Forestry legislation and forest management (FLEGT) is being implemented in all countries. EU also launched "The voluntary partnership agreement" (VTA), which raise the demand for wood certification. While the EU clients increasingly demand certification on products made from wood by an organisation such as the Council of Forest Management (FSC). Vietnam does not have an appropriate certificate system. Therefore, in order to meet the FSC certification requirements, manufacturers must import FSC certified wood with high price, which affect the competitiveness of finished products in term of price.

SOFTWARE OUTSOURCING

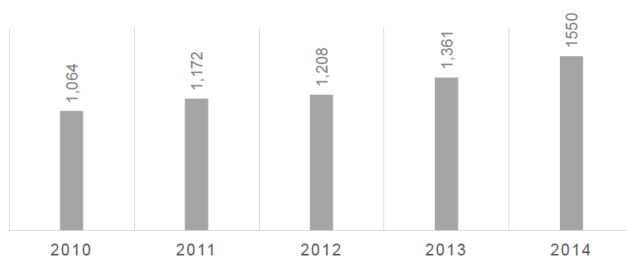
Vietnam is now seen as a top 5 of the leading countries in software outsourcing.

"According to World Bank's 2016 World Development Report, numerous foreign investment funds were eyeing Vietnam as a fertile land for the development of software and digital technology"

said Mr. Truong Gia Binh, Chairman of FPT Corporation, a leading technology company in Vietnam

80% of the revenue is mainly driven by export services. Vietnam is currently the second largest offshore ITO service supplier for Japan. Besides Japan, the biggest export destination are USA and EU. Key export services in 2015 were embedded system/software, mobile application development, cloud computing and testing. During 2001-2014, this sector had 25% growth and is forecasted to increase 12% in 2016-2020. The revenue reached \$1.5 BUSD in 2014, increased 12.7% since 2013.

Software sector revenue BUSD



Source: White book of Ministry of Information and telecommunication, Vietnam

According to global sourcing ranking, Vietnam is listed in top 5 destinations for IT outsourcing, except India, including China, Russia, Poland, Argentina and Vietnam. The Vietnamese IT sourcing market is known as India + 1. Besides, Hochiminh City and Hanoi ranked 18th and 20th respectively among the top 100 most attractive global cities for software outsourcing, according to a 2015 report by Tholons, a leading strategic advisory firm for global outsourcing and research.

"While not the cheapest outsourcing destination, Vietnam is still very competitive when compared to other global locations, especially, as wage rises in India and China. This is what contributed to it surging up the rankings, to take first place in 2015"

said Richard Middleton, Cushman & Wakefield's head of occupier services for Asia Pacific, Middle East and Africa about the advantage of sourcing in Vietnam.

COMPANIES OUTSOURCING IN VIETNAM



- **Factories:** Intel, Samsung, LG, Renesas, Foxconn, Fujitsu, Canon, Panasonic.
- **Outsourcing software development:** HP, CSC, Alcatel-Lucent, Cisco, Avaya, NTT, Toshiba, NEC, Panasonic, Sony, Sharp, Hitachi, Boeing, Deutsche Bank
- **Branches or collaboration:** Bosch, Aricent, Sigma Designs, Texas Instruments & Simax Global Services

KEY MANUFACTURERS

Software firms mostly locate in Hanoi (Cau Giay concentrated IT Park), Hochiminh City (Quang Trung software city-QTSC) and Danang (Da Nang Hi-tech park). QTSC is the largest IT center. QTSC is now home to 120 software companies, half of them are foreign companies with more than 7,700 engineers. In 2015, revenue of QSTC reached \$224.2 million USD.

Cau Giay concentrated IT park comprises 15 software companies, including well-known firms as CMC, FPT, MISA, Hai Hoa and 30 IT-related companies. In Hanoi, software manufacturing hubs is moving Hoa Lac Hi-tech Park (currently FPT Software, Viettel are there). It is planned to be the largest IT center in Hanoi.

About 50 software companies (including 16 foreign companies) in Da Nang software park. Currently, most software companies in Vietnam are small-sized, with exception of three mid-sized enterprises with more than 500 programmers: FPT Software (10,000+ employees), TMA Solutions (1,800+ employees) and Harvey Nash Vietnam (1,600 employees). In 2015, Vietnam had more than 1000 software enterprises, employing around 80,000 staff in 3 parks.

MARKET STRENGTH

Vietnam is now a growing global tech hub with rising domestic demand. The IT business community chose Vietnam as a long term investment destination to place its plants, including Intel, Samsung, LG, Renesas, Foxcon, Fujitsu, Canon, Panasonic. There is a move of large companies shifting from China to Vietnam due to bigger market confidence, when the possibility of their products being counterfeited in Vietnam is lower than in China. Vietnam is considered an attractive destination for IT outsourcing service thanks to its young and highly trainable labour force, competitive cost structure and a stable business environment.

Vietnam has abundant technical manpower for software industry with over 40,000 graduates annually from over 290 universities in the country, Vietnam is in top 10 countries with most engineering graduates, according to research of World Economic Forum in 2015 on 128 countries (Forbes). Moreover, labour force in Vietnam is characterised by eagerness, hard-working, and quick adaptation to technological changes. The ability of adapting to work of Vietnamese engineers is also appreciated compared to competitor country. Worth to mention that lower ratio of job hopping (15%) than India (35%) is another strength. This will help to reduce human resources cost and maintain the stable quality.

Besides, Vietnam known for a reasonable low outsourcing cost market. Despite the increase in recent years but still lower than in Eastern Europe and India. In Vietnam, labour cost in this sector is 20% lower than China.

"The cost of hiring professionals in Vietnam is 90% and 30% less than hiring qualified IT experts in the US and India, respectively".

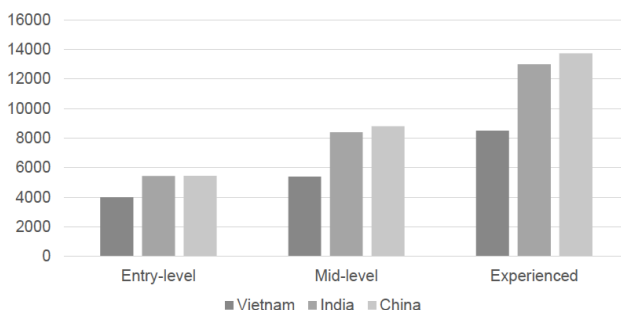
According to Mr. Truong Gia Binh, Chairman of VINASA (The Vietnam Software and IT Services Association)

According to figures released by Adecco, average gross monthly salary in Vietnam was \$569 USD and USD2,049 for Programmer and IT Manager positions, respectively in 2015, which was only around 25 - 35% of the same figure in China. Besides, Vietnam has low attrition and exceptional value for talent

"To boost the development of outsourcing sector in Vietnam, we need to improve IT-training both at universities and business enterprises. The government should introduce policies to promote the country as an outsourcing destination, attracting big names in ITO/BPO from English speaking markets and Japan to hire outsourcing companies in Vietnam."

said chairman of TMA Solutions – top 5 leading Vietnam software outsourcing companies - Nguyen Huu Le.

Average annual salary for IT staff (USD)



- Entry-level: 0-1 year experience
- Mid-Level: two to three years' experience
- Experienced: five to eight years' experience (often project manager)

Sources: Adecco salary report 2015

Political stability and strong government support is another key competitive factor. Vietnam's government is strongly committed to growing its tech industry. Policies to promote the industry include special enterprise zones, tax breaks and grants for technical companies. They also include infrastructure investments like

new software parks and improved ICT connectivity. In June 2000, Vietnam's Prime Minister Phan Van Khai signed a decree to build and develop the country's software industry. Since the signing of the decree, the government has provided a variety of financial incentive packages. The government has kept import duties on IT products low and has introduced a set of tax and other incentives for IT firms. Businesses involved in software production and services, both local and foreign-invested, are exempt from corporate income tax for four years from the date they generate taxable income. Software products will receive a zero VAT (value added tax) rate and be free from export tax. While some IT hubs have unpredictable government policies and occasional social upheaval, Vietnam offers consistency and reliability.

OPPORTUNITIES IN SOFTWARE OUTSOURCING IN VIETNAM

Rising labour cost in other ITO hubs such as China or India may trigger more opportunities for Vietnam. Vietnam's further integration into the global economy (i.e. TPP, EVFTA) will further boost the country's infrastructure, and quality of labour force. TPP will enable Vietnamese software enterprises to expand to other markets, because China and India, which are Vietnam's rivals in the field, do not join the TPP trade pact.

Also, Vietnamese companies are expanding other markets globally (e.g. FPT Software) have helped to enhance the image of Vietnam ITO industry, together with government and professional associations continue supporting Vietnam ITO industry and enterprises.

THERE ARE STILL CHALLENGES TO OVERCOME

Lack of internal cooperation is a hinder to promote the national strength. Local firms are still being afraid of risks when sharing work amongst other domestic ITO enterprises, which resulted in losing projects to other countries. Many ITO enterprises still mainly compete with competitors in terms of price, not quality which may affect customers' perception towards Vietnam's ITO service quality. Besides, global competition is increasing fierce. According to IT research and advisory firm Gartner, some countries in Southeast Asia like Indonesia, Bangladesh and Thailand are also posting rapid growth in software outsourcing.

MARKET TREND

The evolution of these drivers will continuously shape the IT outsourcing markets. The future demand are focusing on application segments such as Mobile gadgets, Automotive, Robotics, Cloud, Security, Surveillance and MI. Another trend is Transformation of Clients and Suppliers working behaviour like Transition of Jobs, Creativity and Innovation, QA and TTM.

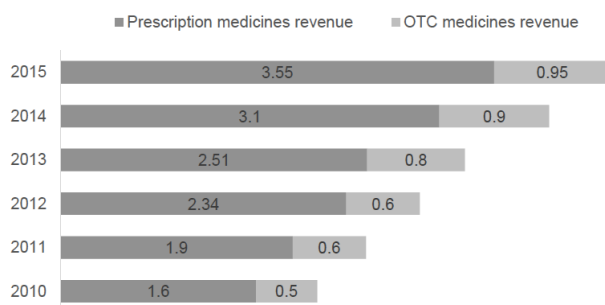
HEALTHCARE - PHARMACEUTICAL & MEDICAL DEVICE

The Vietnamese healthcare market will double 2014 - 2018.

PHARMACEUTICAL

Vietnamese pharmaceutical industry witnesses a significant growth within 5 recent years with the average annual growth rate during 2010-2015 is 16.5%. The revenue in 2015 is \$4.5 billion USD. Forecasted growth in the next 3 years stands at 16% and the revenue is estimated to increase to USD\$7.2 billion by 2020. The main reason for this increase is the rising awareness of Vietnamese healthcare, the national health insurance coverage, the increase in disposable income and the risk of contaminated food. Money spent on pharmaceutical products per capita in Vietnam has doubled to around US\$40 over the past 5 years.

Pharmaceutical revenue BUSD



Source: Drug Administration of Vietnam

However, imported drugs still play an important part, taking up to 60% of total domestic demand. This is a result of Vietnamese consumers' confidence in imported product is larger than the local products. In 2015, import of drugs is \$2,035 MUSD.

There are 478 enterprises with the majority of 100-250 employees. According to our interview with companies, most of them observe a very

good business situation currently. The business outlook is good despite stricter government regulations relating to import and quality. A large number of the companies expect the growth rate around 20% in the next 3 years.

KEY PLAYERS

Vietnam import pharmaceuticals mainly from France, India and Korea. The advantage of the French market is that medicine quality is reliable and seldom counterfeited. Although the price of medicines imported from France is higher than that of domestic products, French medicines are still more competitive compared to other markets. The Indian market and pharmaceuticals are competitive thanks to cheap labor and plentiful raw material sources.

Key manufacturers

Some biggest producers are:

- Sanofi with the market share of 5.8%
- Hau Giang Pharma: 5% market share
- Traphaco: 1.2% market share

Other key producers are as following:

- Imexpharm
- Vimedimex
- Domesco
- SPM Corp.
- Becamex
- Mekophar
- Imexpharm
- OPC
- Thai Duong Star

OPPORTUNITY

Vietnam is expected to enter the top 20 fastest and most stably growing countries in the pharmaceutical sector in the next five years with double-digit annual growth through 2025, according to the Business Monitor International (BMI).

Vietnam had 7,630 effective foreign medicine registrations as of March 14, 2016. Most of medicine and medicinal materials producers are foreign-invested firms. Total domestic pharmaceutical output only accounts for 45 per cent of total demand, leading to a constant supply shortage for both hospitals and OTC market. Currently, the World Health Organization (WHO) has verified only 150 Vietnamese pharmaceutical factories as having Good manufacturing practice (GMP) quality.

In term of consumer market, according to our interviews with market experts, key prescription medicines needed for Vietnam market at this moment are for diseases related to:

- Digestion, especially for children in form of syrup
- Pregnant women and babies, especially antibiotic in form of syrup
- Dermatology
- Oncology
- Cardiovascular and hypertension, and
- Respiratory

Meanwhile, local enterprises depend on imported material inputs (90%). Imported material mostly come from China and India, value \$355.3 MUSD in 2015.

Moreover, there is a trend that local firms produce drugs under license with foreign pharmaceutical partners. Domestic companies are upgrading the production standards to GMP-ASEAN, GMP-WHO and PIC/S, EU-GMP and so on to adapt to the requirements of global market.

According to EuroCham, Vietnam has the potential to become an ASEAN hub for innovative pharmaceuticals production, however it requires a dedicated and holistic approach and must be driven by Government. Key enablers to encourage investment in innovative pharmaceuticals include the right to establish a Foreign Invested Enterprise and improved IP protection.

As a producing hub, potential export markets for Vietnam pharmaceutical manufacturers are Southeast Asia, Africa, and the Middle East. By 2013, Vietnamese companies has exported to countries including Myanmar, Lao, Cambodia, India, Hongkong, Philippines, Malaysia, and more than 20 countries in Africa. African countries need can only be met through imported drugs, according WHO. Primary products needed including medicines for malaria and diarrhea and vaccines are those products that Vietnamese companies can produce.

According to WHO and UNCTAD, there are 4 levels of development of a pharmaceutical industry, as follows:

- **Level 1:** Absolutely dependent on imported drugs.
- **Level 2:** Be able to produce some generic drugs; however the majority is imported
- **Level 3:** Establish domestic pharmaceutical industry; be able to produce generic drugs and export some pharmaceuticals.
- **Level 4:** Be able to produce from raw materials to final product and research for new drug.

According to this scale, then Vietnam's pharmaceutical industry is nearly at level 3.

The local pharmaceutical industry produces mainly medicines and medicine-related substances. The major products in the industry are:

- Medicines
- Functional foods
- Antibiotics and vaccines

The primary activities of the industry are

- Medicines preparation
- Common medicines manufacturing
- Special medicines manufacturing

CHALLENGES

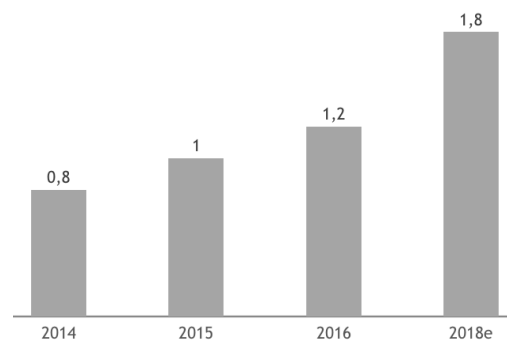
Counterfeit medicines is a problem on the consumer market due to weak monitoring in Vietnam. This directly affects patients and the image of pharmaceutical companies whose medicines are counterfeited. The Drug Administration of Vietnam said that the percentage of substandard medicines was 3.09% in 2014, which increased by 0.2% compared with 2013. The percentage of counterfeited medicines was 0.1%. Especially, the trading of counterfeit medicines primarily focused in the border areas of Laos, Cambodia and China.

When it comes to sourcing, export price of Vietnamese pharmaceuticals is 20-30% higher in India and China. The Vietnamese pharmaceutical export still faces the barriers of prices and export policies. Firstly, according to Price Management Department, the annual average export price of Vietnam is 20%-25% higher than other countries in the region such as India and China. If the domestic prices are reduced equal to the prices of those countries, domestic companies will no longer make profit to stay in business. The high price is caused by the fact that Vietnam pharmaceutical industry has to import materials. The product registration process still faces many difficulties and is time consuming. In order to bring products to new markets, companies must send registration form, application form and product sample for testing. This process takes up to 2 years.

MEDICAL DEVICE

In line with the expansion of the healthcare sector, Vietnam's medical devices market has observed a stable growth since 2014. Medical device segment represented \$1 BUSD in 2015, and is forecasted to be \$1.2 BUSD and \$1.8 billion USD in 2016 and 2018 respectively.

Medical Equipment Market Value BUSD 2014-2018e

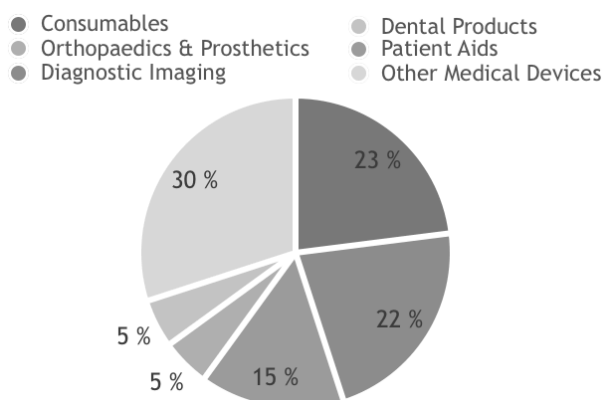


Source: BMI

In fact, the steady influx of investments and more liberal Government policies have triggered shifts and progress of the entire healthcare system. Other drivers for the healthcare market are strong GDP growth, rising income and demand for better healthcare services. Hence, Vietnam's medical equipment market, despite being relatively small in the global context, is considered one of the fastest growing in Asia with the average sales growth rate forecasted at 18-20% during 2016-2020.

The medical device segments are very import-driven. Approximately 95% of medical devices are imported, mainly from Japan, South Korea, USA and Germany. The sub-sector that the market is focusing on are the equipment of consumables, diagnostic imaging, patient aids and orthopaedics and prosthetics.

Medical Equipment Market Value BUSD 2014-2018e



Source: BMI

Investment in high-end equipment will primarily be in the major hospitals in Ho Chi Minh City, Hanoi, Hue, Da Nang and Can Tho. Ho Chi Minh City is estimated to invest about \$ 900 MUSD in the next 3 years to upgrade medical equipment for hospitals.

Vietnam will spend on average 7% of its GDP on healthcare between 2015-2019. This is more than its peers: Malaysia (4.1%), Thailand (3.9%) and Indonesia (3.1%). The governmental universal health insurance scheme further fuels the growth. In 2014, 71% of the population were covered by health insurance. This number is expected to be 75% in 2015 and 80% in 2020.

REGULATIONS ON MEDICAL DEVICE MANAGEMENT

The newest regulation of this sector is the decree 36/2016/ND-CP on medical equipment management. It aims to rid hospitals of bad suppliers and to ensure consistent prices of medical equipment in the market, avoiding price hikes for the benefit of suppliers or hospitals. Statistics from the Vietnam Medical Equipment Association show that there are about 10,500 types of medical equipment in

the market, 90 per cent of which is imported from countries like Japan and China, with some are substandard equipment. To avoid the use of these equipment, provincial health departments must publish the winning bids for the supply of medical equipment to public hospitals which uses state budget. Moreover, companies importing medical equipment must assume responsibility for its quality, preventing the smuggling of substandard equipment or medical equipment without clear origin. In addition, devices implanted into the human body must be tested in clinical trials on human beings before being used.

Besides the decree number 36, circular 30/2015/TT-BYT regulating medical device import procedure. According to this, the issuance of the import license for the medical device is 15 working days. However, in practice, it often takes about 2-3 months. The import license shall be valid for 1 year only.

BUSINESS OPPORTUNITIES

In the public sector, the Ministry of Health has set a goal to considerably reduce the central hospitals' overload in Hanoi and Ho Chi Minh City. 1 BUSD will be spent during 2014 - 2016 for 5 additional modern facilities country-wide (4,500 beds). Of the above, the construction will be kicked off for 2 hospitals in Ho Chi Minh City this year.

Between 2016 - 2020, Hanoi will build 15 hospitals (5,000 beds) with a budget of \$430 MUSD. Viet Duc and Bach Mai, two of the biggest public hospitals were newly constructed and the second facility near Hanoi started in 2014 and will be complete in the end of 2017.

The private hospitals represent only 12% of the healthcare system nationwide, but are projected to grow rapidly. Vinmec Hospital (part of Vingroup) is now building ten new facilities, some of them will be opened soon. French Hospital, the first with international standards,

is upgrading and will be in operation in 2-3 years. 250-bed Trung Tin General Hospital construction plans to be completed within this year in Hanoi.

Additionally, a number of modern general hospitals and clinics are also opening more branches such as Hong Ngoc Hospital and Thu Cuc General Hospital. American International Hospital (AIH), the country's first American-standard hospital with 150 beds began construction on 8 April, 2016. Also, spa and clinics are booming together with the higher demand of aesthetic surgery.

ESTABLISHING A COMPANY IN VIETNAM

There are many ways to enter the Vietnamese market. As we know, entering the market means one investor find the way to operate and collect the benefit from a certain area. In order to enter the Vietnamese market, foreigners may conduct some major formation, included: export goods, licensing, franchising, turnkey project, venture and directed investment.

TRADING

If a business wishes to engage in import and export activities as well as domestic distribution (i.e., retail, wholesale,...) in Vietnam, the most common method chosen is establishing a trading company.

Generally, a trading company is inexpensive to establish and can be of great assistance to foreign investors by combining both sourcing and quality control activities with purchasing and export facilities, thus providing more control and quicker response times compared to sourcing purely while based overseas.

Trading companies are also the ideal choice for foreign companies that need to source in Vietnam in order to resell in Vietnam. Without a Vietnamese trading company, the alternative would be to buy from overseas, and have the goods shipped out of Vietnam before then reselling back into Vietnam via local distributors (which would mean additional logistical costs, customs duties, and VAT).

Trading in Vietnam include two formations for the foreign investors

- **Import and export:** Under commitments made by Vietnam as part of its accession to the WTO, Vietnam gave foreign-invested enterprises the general right to import products and sell them to licensed distributors from the date of accession. Certain products, however, remain prohibited or restricted for trading by foreign-owned enterprises, while others are

subject to a scheduled phasing-in. While such trading is permitted, it remains a 'conditional' investment sector. Therefore, the processes, require documentation for and consideration of an application for an investment certificate to undertake these activities and it may take time. That said, the process to apply for and obtain an investment certificate for a wholly owned foreign company engaging in trading is now fairly well defined and several foreign companies have set up subsidiaries in Vietnam to engage in trading activities.

- **Distribution:** 'Distribution' refers to the sale of products (imported and/or sourced locally) to organisations (i.e wholesale) and to end-users (i.e retail). Retail distribution was opened to wholly owned foreign enterprises from 1 January 2009, and certain products remain subject to a schedule for later market opening. Given this relatively recent change, investors may expect some delays in licensing and establishing enterprises in this sector. Moreover, a wholly owned foreign enterprise that is permitted to engage in retail may only open more than one retail outlet subject to an 'economic needs' test. As such, foreign retailers may consider franchising their retailing operations to a Vietnamese party. However, some business lines may be restricted to foreign investors because they are not in the scale of Vietnam's WTO commitment and the State may priority the inward enterprises over the foreigners by their legal policies.

To set up a trading company (distribution company) without a retailing outlet or a trading company with its first retailing outlet, the investor must prepare an application dossier to apply for an Investment Certificate and submit to the licensing authority at the provincial level. The application dossiers after that will be submitted by the provincial licensing authority to the Ministry of Industry and Trade (MOIT) for approval. Once receiving the approval by MOIT, the provincial licensing authority will grant the Investment Certificate to the investors. In case the licensed foreign trading company want to have a second retailing outlet or more, they will be required to complete the procedure for setting up a retail establishment.

LICENSING

Licensing is that licensor approve licensee to use in exactly term a visible or invisible resource and it must be registered for protection (in order to avoid copying). These items are called the subject of industrial ownership or intellectual property, including: invention, utility solution, industrial design, brand, business secret, new plant varieties, software and copyright. Transfer process of these subject called technology transfer (except transfer brand, trade name and service name).

The legislation for technology transfer is including The Civil Code passed by the National Assembly on 14 June 2005 is now the principal legal basis for technology transfer activities in Vietnam. Guiding the Civil Code, on the technology transfer, are now Law on Transfer of Technology passed by the National Assembly on 29 November 2006, and its implementing Decree No.133/2008/ND-CP issued by the Government, on 31 December 2008, as amended and supplemented by Decree No. 103/2011/ND-CP dated 15 November 2011 ("Decree 133").

The scope of technology transfer is quite broad. Technology to be the transfer must not fall within the lists of technologies of which

transfer is restricted or prohibited as stipulated in Appendices 2 and 3 of Decree 133. Technology objects which shall be eligible for transfer shall be a part or the whole of the following technologies:

- **(i)** Technical know-how;
- **(ii)** Technical information about technology shall be permitted to be transferred in the form of the technological plans, technological processes, technical solutions, formulae, technical specifications, drawings, technical maps, computer programs and information files;
- **(iii)** Solutions for production optimisation and for renovation of technology; and
- **(iv)** Franchising.

Technology objects shall permitted to be transferred whether attached or unattached to industrial property objects.

FRANCHISING

Franchising is a special circumstance of Licensing. Vietnam has emerged as a key potential market for international franchises and global brands. Rapid economic growth, a rise in disposable income, large population, and rising domestic consumption, among other things, have all contributed to making Vietnam an increasingly attractive place for franchising to thrive..

The laws relating to franchising in Vietnam have been officially in force under the Law on Commerce which took effect as of 01 January 2006. Subsequently, Decree 35/2006/ND-CP dated 31 March 2006 as amended by Decree 120/2011/ND-CP dated 16 December 2011 and Circular No. 09/2006/TT-BTM were issued to complete the legal framework for franchising activities. The above-described legal framework applies to foreign franchisors who grant franchises to franchisees in Vietnam.

Pursuant to these laws, both franchisors and franchisees must satisfy certain conditions to be eligible for granting or receiving a franchise

in Vietnam. The key eligibility requirements are as follows:

- **(i)** The business system intended for franchise has been in operation for at least one year. Where a Vietnamese trader is the primary franchisee of a foreign franchisor, such Vietnamese trader must conduct business by mode of franchising for at least one year in Vietnam before sub-franchising;
- **(ii)** The goods/services subject to the franchise must not be those in which business is prohibited, restricted, and subject to further conditions; and
- **(iii)** A trader shall be permitted to receive commercial rights when having the registration of business lines subject to commercial rights.

Furthermore, any franchise agreement must be in writing. The Ministry of Industry and Trade, which is the primary regulatory authority regarding franchise activities, must approve franchising from overseas into Vietnam.

With this legal framework firmly in place, the popularity of franchising in Vietnam is likely to increase. Franchising is also well-suited to entrepreneurs, of which Vietnam has many. Moreover, franchising can be implemented in a wide variety of sectors, from food and beverage to services such as logistics and more. As such, franchising is an excellent investment vehicle for both foreign investors and local business people.

TURNKEY PROJECT

In Vietnam, turnkey contract is mainly under the EPC contract form. Engineering, procurement and construction (EPC) contracts are the most common form of contract used to undertake construction works by the private sector on large-scale and complex infrastructure projects. Under an EPC contract a contractor is obliged to deliver a complete facility to a developer who need only turn a key to start operating the facility, hence EPC contracts are sometimes

called turnkey construction contracts. In addition to delivering a complete facility, the contractor must deliver that facility for a guaranteed price by a guaranteed date and it must perform to the specified level. Failure to comply with any requirements will usually result in the contractor incurring monetary liabilities. Under the decree 37/2015/NĐ – CP details the construction contracts, the right and duty of the bidders for EPC contract are stipulated, as the fundamental content to make an agreement in order to carry out and operation the infrastructure projects in Vietnam.

INDIRECT INVESTMENT

On 12 March 2014 the State Bank of Vietnam enacted Circular No. 05/2014/TT-NHNN guiding the opening and use of indirect investment accounts to implement transactions relating to indirect investment activities in Vietnam. Circular No. 05/2014/TT-NHNN only governs the indirect investment activities of foreign investors who are non-residents. Resident foreign investors may conduct their indirect investment activities in accordance with current regulations on securities and other relevant law.

According to Circular No. 05/2014/TT-NHNN, forms of foreign indirect investment in Vietnam comprise:

- Capital contribution to, and purchase and sale of, shareholding and capital contribution portions in Vietnamese enterprises without directly participating in management and executive operation. Such Vietnamese enterprises may be on the transaction registration market and the listed securities market or be unlisted [or] not registered for trading on the Vietnamese securities market;
- Purchase and sale of bonds and other types of securities on the Vietnamese securities market;
- Purchase and sale of other valuable papers denominated in VND issued by a resident

being an organisation licensed to issue [such valuable papers] within the territory of Vietnam;

- Entrustment of investment in VND via a fund management company, securities company, credit institution and foreign bank branch or other institution licensed to conduct professional activity of investment entrustment;
- Capital contribution or transfer of capital contribution by a foreign investor (not directly participating in management) via a securities investment fund or fund management company; and
- Other forms of indirect investment stipulated by law
- All indirect investment activities of foreign investors in Vietnam must be conducted in VND. In case of remitting capital, profit and other lawful income overseas gained from indirect investment activities, foreign investors are entitled to use VND in their Account to purchase foreign currency to remit overseas.

DIRECT INVESTMENT

Direct investment is defined as the investor invests capital and participates in the management of the investment (eg the establishment of a corporate enterprise) to carry out the investment project and collect the profit. A foreign investor can directly engage in the Vietnamese market in several ways. Foreign investors must determine whether they wish to invest alone or with other foreigners, or partner with one or more Vietnamese investors. In accordance with Law on Investment 2014, there are forms of direct investment permitted:

1. Investment in establishment of a business organisation;
2. Making investment by contributing capital, buying shares, or buying capital contributions of business organisations;
3. Investment under PPP (public – private corporation) contracts; and

4. Investment under BCC (business corporation contract) contracts

When investing in Vietnam, the foreign investors must pay attention to the provisions about business lines for investments. There are certain sectors in which investment is prohibited, for both foreign and domestic investors, including:

- Trade in the narcotic substances specified in Appendix I hereof;
- Trade in the chemicals and minerals specified in Appendix I of this Law;
- Trade in specimens of wild flora and fauna specified in Appendix 1 of Convention on International Trade in Endangered Species of Wild Fauna and Flora; specimens of rare and/or endangered species of wild fauna and flora in Group I;
- Prostitution;
- Human trafficking; trade in human tissues and body parts;
- Business pertaining to human cloning.

In addition, there are a number of sectors in which foreign investment is 'conditional'. These include:

- Broadcasting and television and production, publishing and distribution of cultural products;
- Transport and ports/airports;
- Real estate business;
- Import, export and distribution;
- Mining;
- Aquaculture;
- Education and training;
- Post and telecommunications;
- Tobacco; and
- Hospitals and clinics.

REPRESENTATIVE OFFICES AND BRANCHES OF THE FOREIGN INVESTORS IN VIETNAM

Under the Commercial Law, foreign traders can open their representative offices and branches in Vietnam and also establish foreign investment-funded enterprises in Vietnam. Then the Ministry of Planning and Investment is responsible for managing the issuance of licenses to allow foreign traders to invest in Vietnam. The Ministry of Industry and Trade is responsible for the issuance of licenses of establishing representative offices and branches of foreign traders in Vietnam.

- Representative offices of foreign traders are not authorised to perform direct profitable business in Vietnam but carry out trade promotion activities within the constraints of the Law only.
- Branches of foreign traders in Vietnam are allowed to (i) perform goods' trading business and other commercial activities in accordance with their establishment licenses under the laws of Vietnam, and (ii) open accounts in Vietnam and transfer their profits abroad.

Decree 07/2016/ND-CP details Commercial Law about regulations on the establishment, operation, rights and obligations of representative offices and branches of foreign traders in Vietnam under the law on Commerce. Representative offices and branches of foreign-invested enterprises established in Vietnam shall not be governed by this Decree.

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