

*Opportunities related to the process
of ASEAN integration*



Asia-Invest Forum

HoChiMinh City, October 30th , 2003

Dr. Thierry Apoteker
Managing Director, TAC
Consultant to Asia-Invest

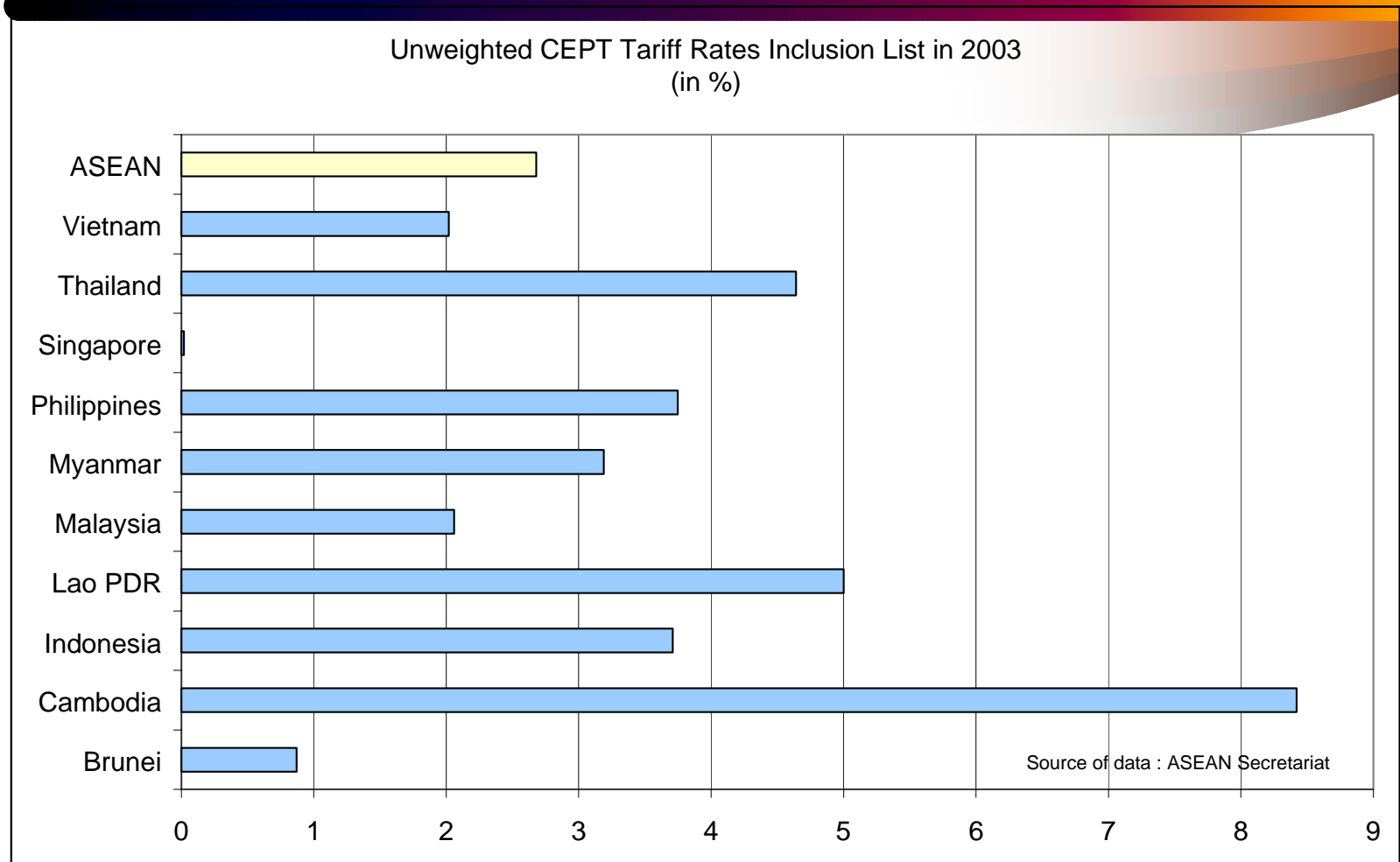
Opportunities related to the process of ASEAN integration

1. ASEAN integration: a reality check
2. EU and its competitors: neither lamenting, nor cheering
3. EU companies' perception on the ground: far better than at head offices' level
4. A glimpse at specific opportunities

1 – ASEAN integration: a reality check

- ❑ Regulatory changes: AFTA and beyond
- ❑ Hard facts: integration is taking place, but was strongly affected by the 1997-98 crisis

1 – ASEAN integration: a reality check



1 – ASEAN integration: a reality check

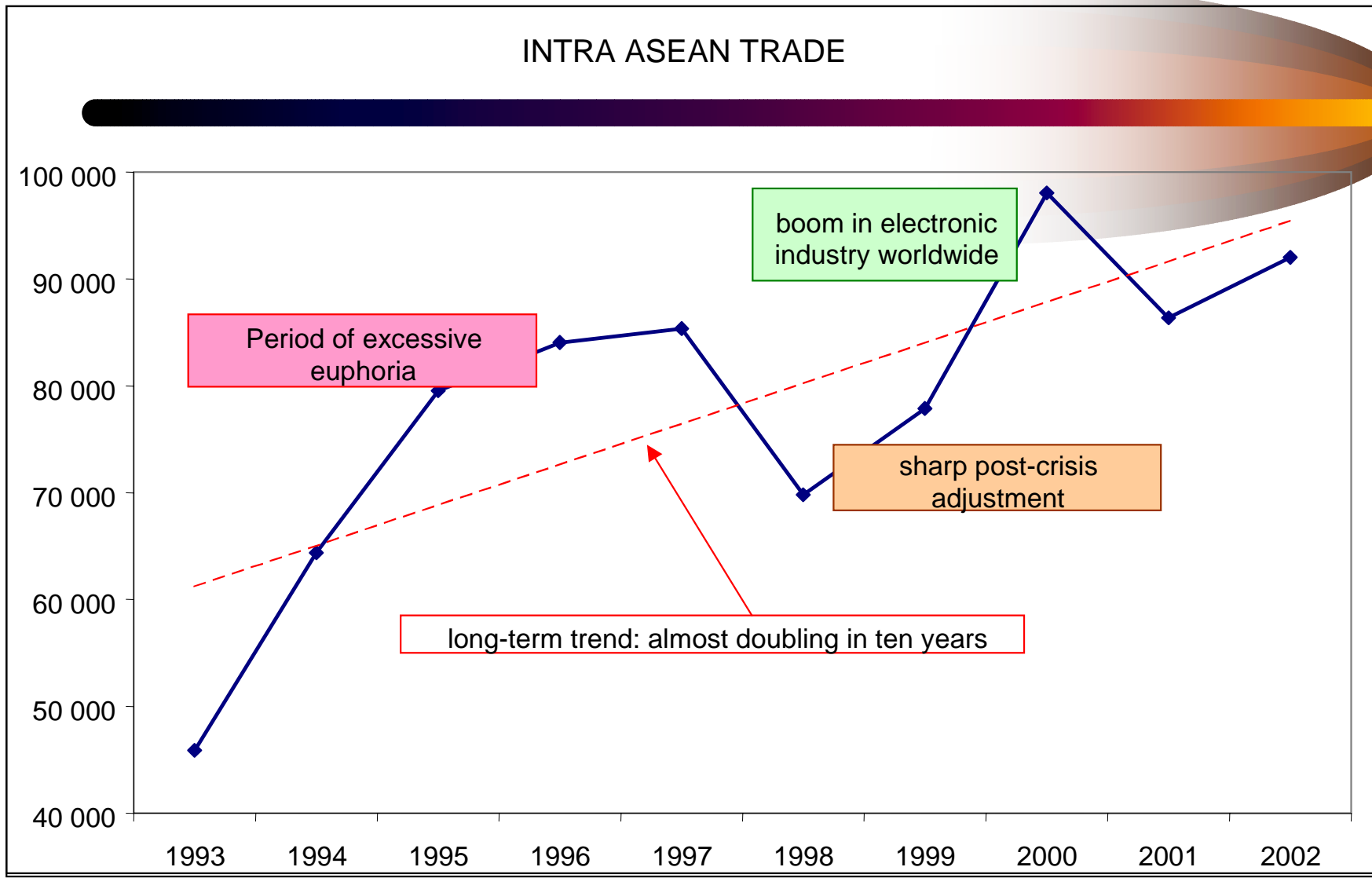
MFN less AFTA tariff rates by broad products in 2001

	Brunei	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
Live animal	Yellow	Orange	Yellow	Orange	Yellow	Yellow	Orange	Yellow	Yellow	Orange
Vegetable Products	Yellow	Yellow	Yellow	Orange	Yellow	Yellow	Yellow	Yellow	Red	Orange
Fats and Oils	Yellow	Yellow	Yellow	Orange	Yellow	Yellow	Yellow	Yellow	Orange	Yellow
Prepared Foodstuffs	Yellow	Red	Yellow	Orange	Yellow	Yellow	Orange	Yellow	Orange	Red
Mineral Products	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Chemicals	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Plastics	Yellow	Yellow	Yellow	Yellow	Orange	Yellow	Yellow	Yellow	Orange	Yellow
Hides and Leathers	Yellow	Orange	Yellow	Orange	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Wood and Wood Articles	Yellow	Orange	Yellow	Orange	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Pulp and Paper	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Textiles and Apparel	Yellow	Orange	Yellow	Yellow	Orange	Yellow	Yellow	Yellow	Orange	Red
Footwear	Yellow	Orange	Yellow	Yellow	Orange	Yellow	Yellow	Yellow	Orange	Red
Cement and Ceramics	Yellow	Yellow	Yellow	Yellow	Orange	Yellow	Yellow	Yellow	Orange	Orange
Gems	Yellow	Red	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Orange
Base Metals and Metal Articles	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Machinery	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Vehicles	Red	Orange	Orange	Yellow	Red	Yellow	Yellow	Yellow	Red	Yellow
Optical Instruments	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Arms	Yellow	Red	Yellow	Red	Yellow	Yellow	Yellow	Yellow	Orange	Yellow
Miscellaneous Manufactured Articles	Yellow	Orange	Yellow	Yellow	Orange	Yellow	Yellow	Yellow	Yellow	Red
Antiques and Works of Art	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow

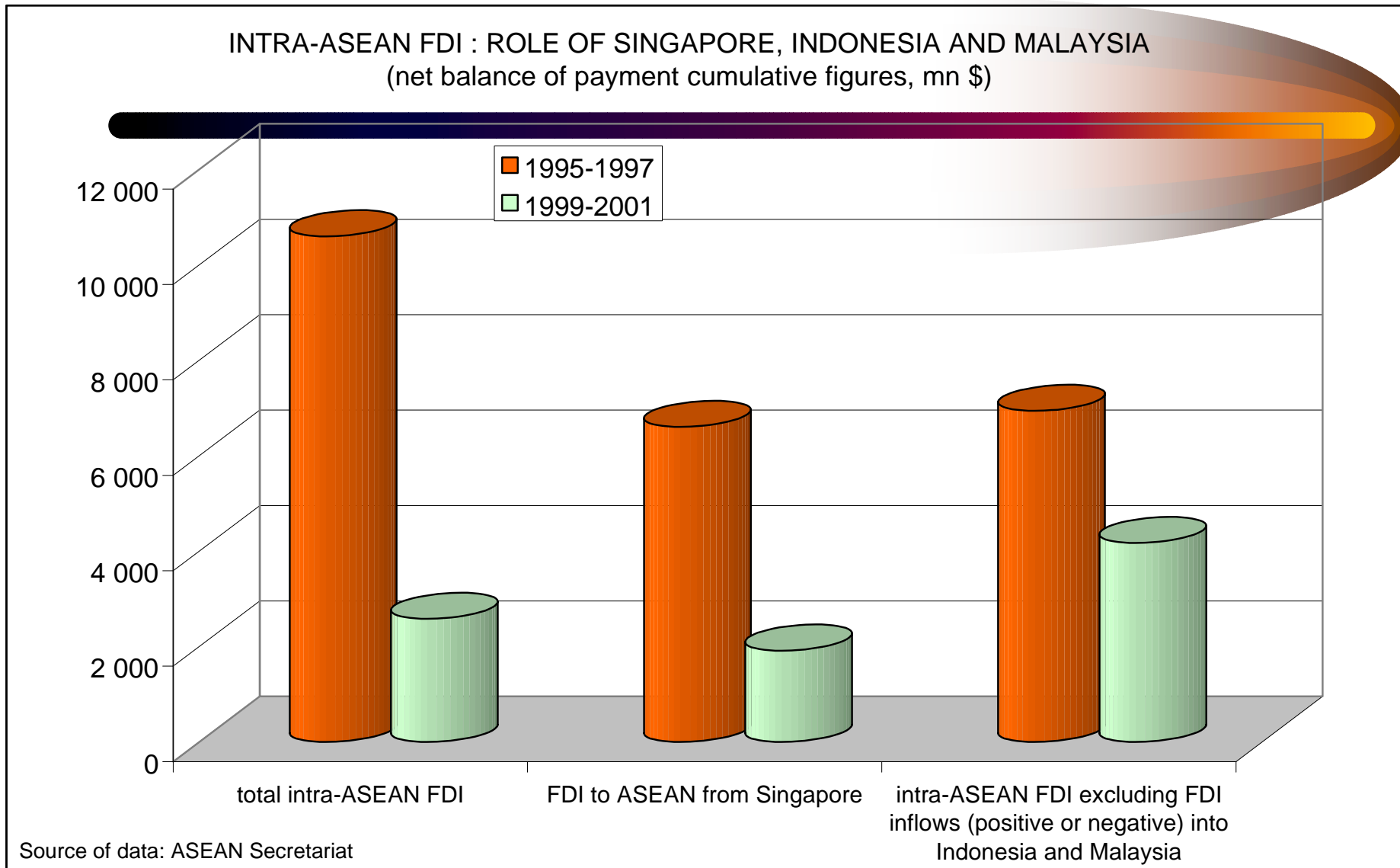
1 – ASEAN integration: a reality check

- ❑ Priority now put on non-tariff barriers to trade
 - ✓ Custom classification and procedures
 - ✓ Technical standards and certification
 - ✓ IPR
- ❑ ASEAN Investment Area
- ❑ Focus on 11 industries as defined in the last ASEAN Summit in Bali

1 – ASEAN integration: a reality check

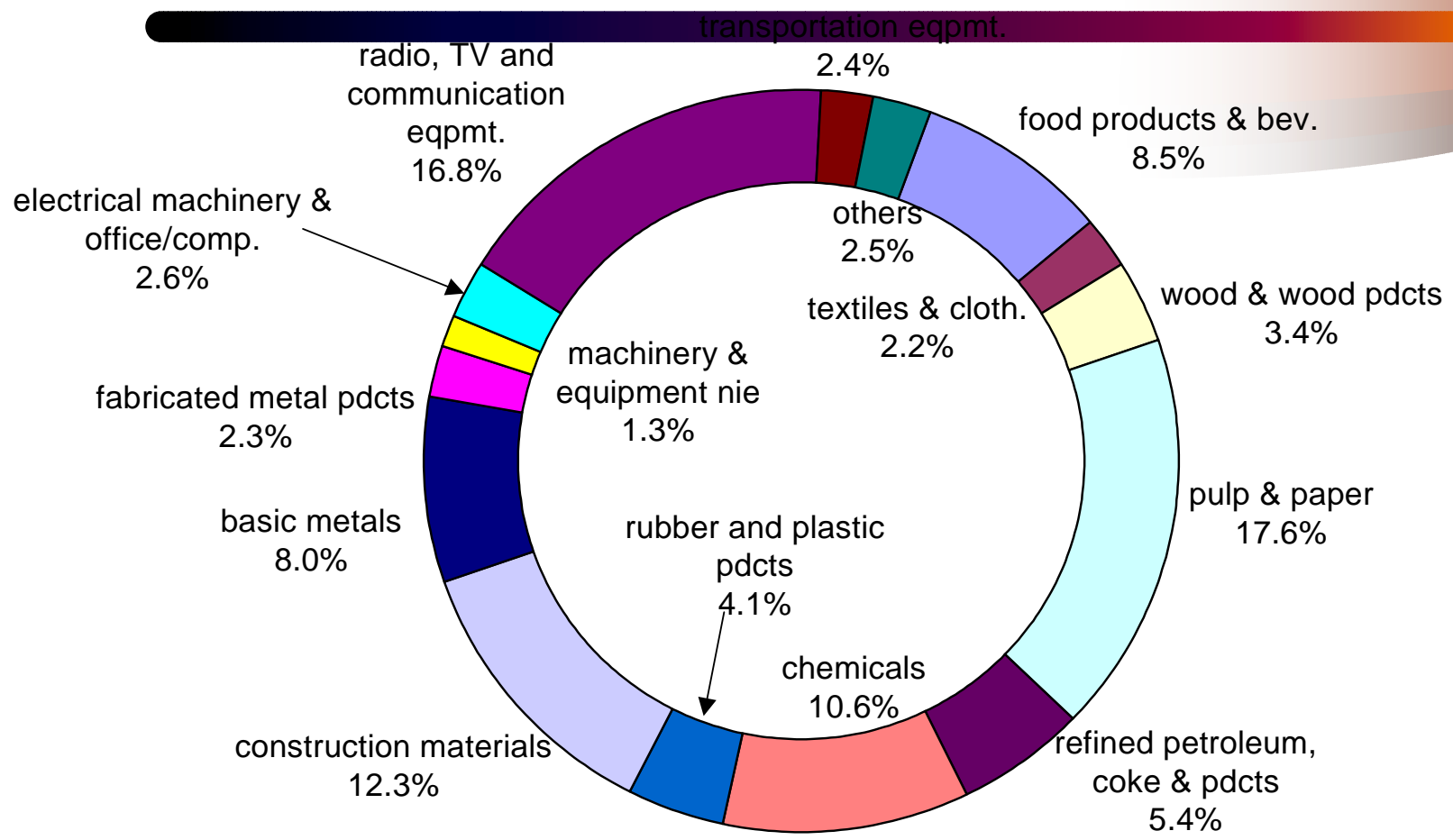


1 – ASEAN integration: a reality check



1 – ASEAN integration: a reality check

INTRA-ASEAN FDI IN MANUFACTURING INDUSTRIES
 (cumulative 1995-2001, approval basis)



Source of data: ASEAN Secretariat

2 – EU and its competitors: neither lamenting, nor cheering

- ❑ EU Competitors for trade market share
- ❑ EU Competitors for FDI

2 – EU and its competitors: neither lamenting, nor cheering

EU market for ASEAN exports (%)

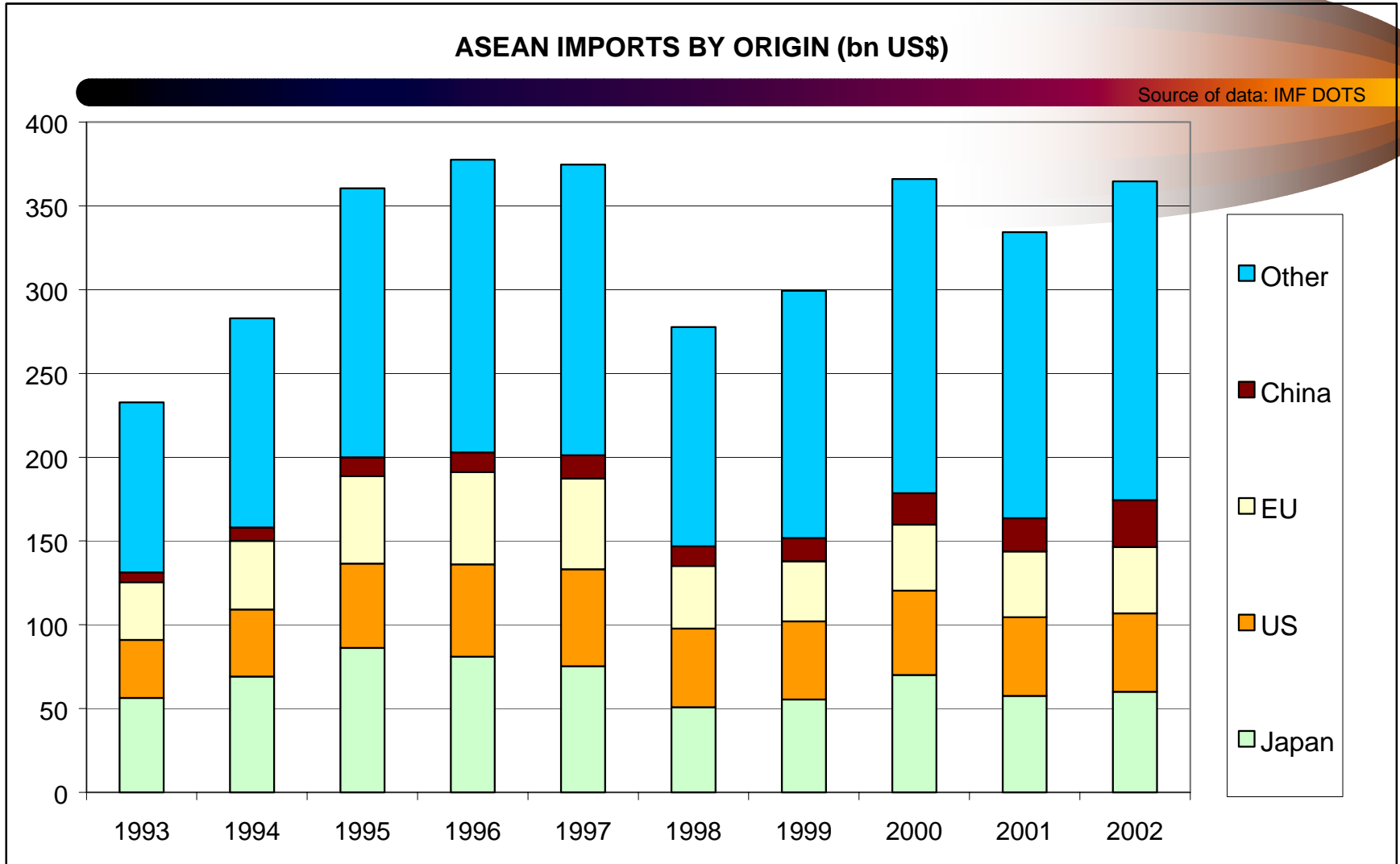
	1993	2002
EU	15.0	13.8
USA	19.7	18.2
Japan	16.0	12.5
China	2.5	5.8
Others	46.8	49.7

2 – EU and its competitors: neither lamenting, nor cheering

EU market share in ASEAN imports (%)

	1993	2002
EU	14.7	10.8
USA	14.9	12.9
Japan	24.2	16.4
China	2.6	7.7
Others	43.5	52.2

2 – EU and its competitors: *neither lamenting, nor cheering*



2 – EU and its competitors: neither lamenting, nor cheering

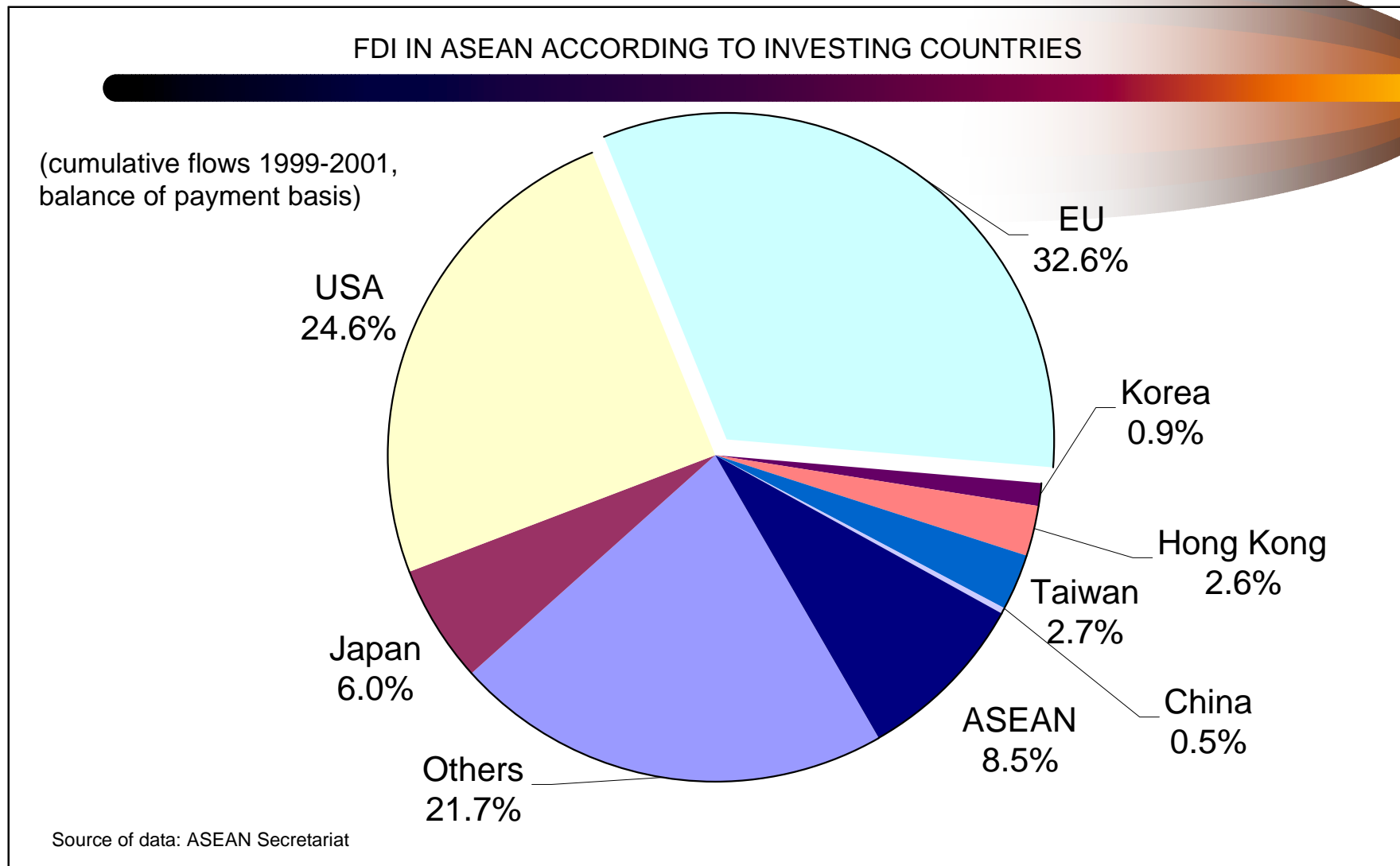
☐ Strong pressure from US exports to ASEAN

- ✓ Metal articles
- ✓ Construction materials
- ✓ Food products
- ✓ Vehicles
- ✓ plastics

☐ Strong pressure from Japan exports to ASEAN

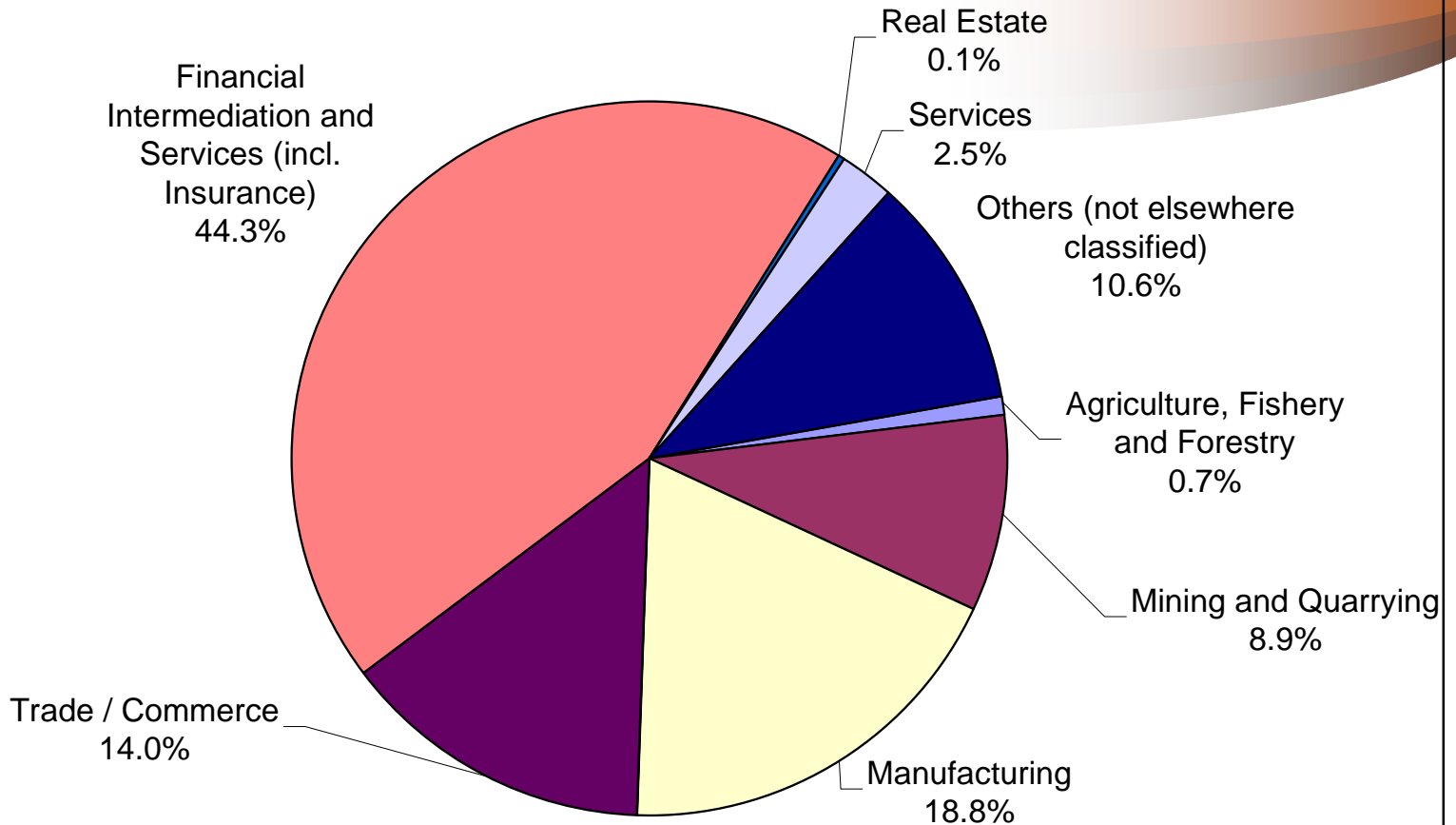
- ✓ Food products
- ✓ Vehicles
- ✓ Precision instruments
- ✓ Textile / yarn

2 – EU and its competitors: *neither lamenting, nor cheering*



2 – EU and its competitors: neither lamenting, nor cheering

EU FDI in ASEAN by broad sectors (cumulative 1999-2001, balance of payment basis)



Source of data: ASEAN Secretariat

2 – Major competitors for EU companies

- ❑ Concentration of EU and US manufacturing investment in a limited number of industries
- ❑ Core EU investments : Electronics industry, downstream oil & gas industry, food processing
- ❑ Asian investors, notably from Japan and East Asia have invested more markedly in the intermediate goods industries

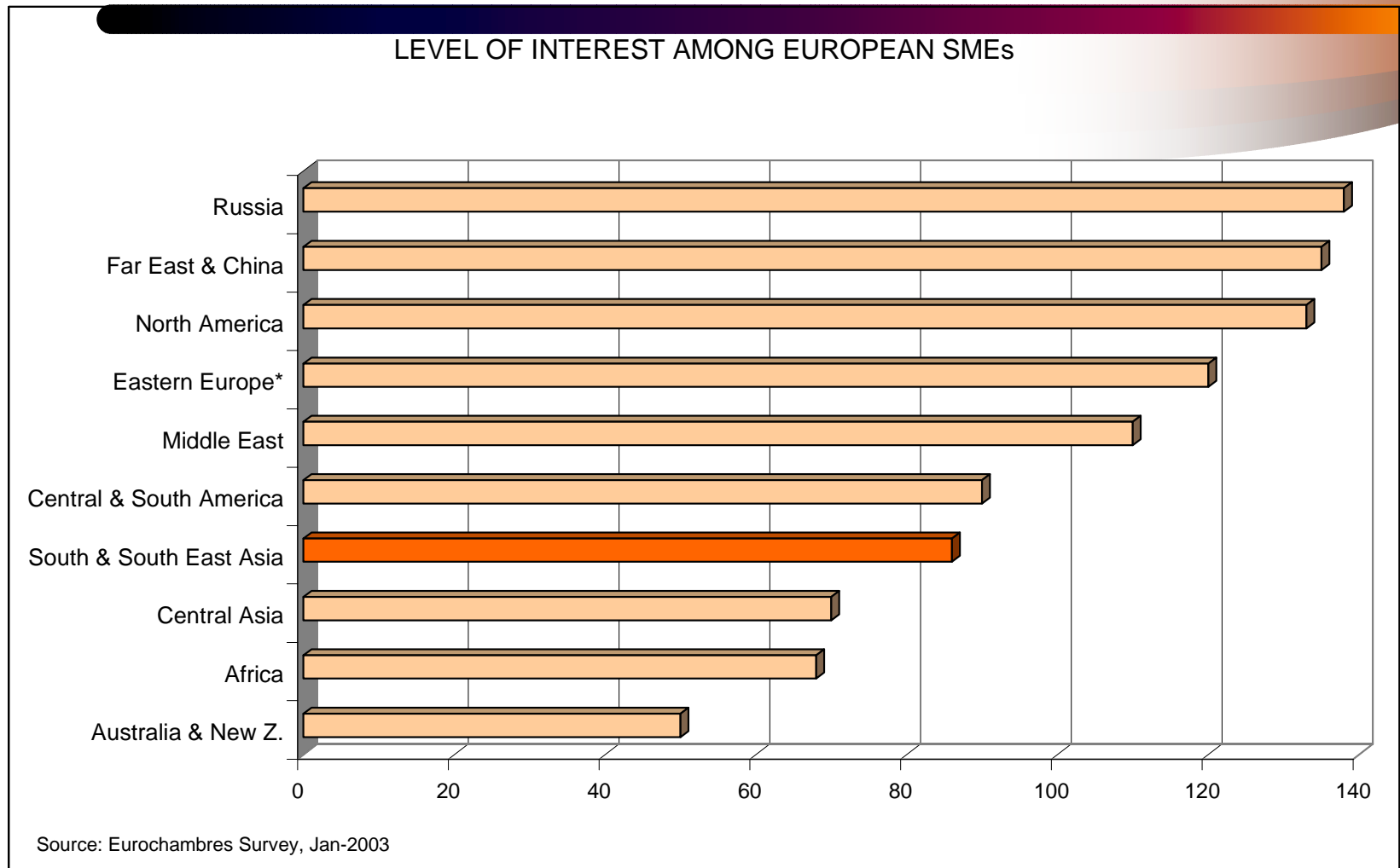
3 – EU companies' perception on the ground: far better than at head offices' level

- ❑ A web-based survey to EU companies operating in ASEAN
- ❑ About 125 answers, with a fairly good sample (countries, sectors)

3 – EU companies' perception on the ground: far better than at head offices' level

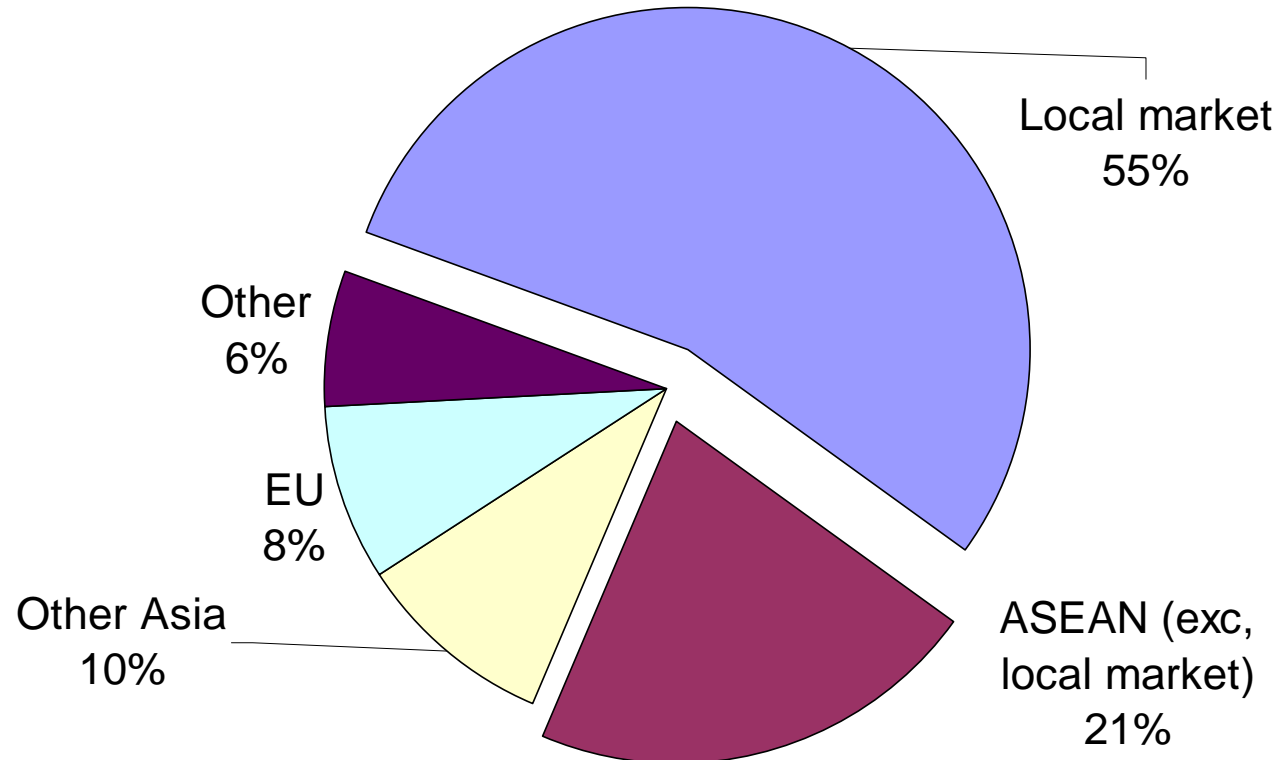
- ASEAN awareness much clearer in MNCs and on the ground
- Clear integration strategies, even though only starting
- Good performances
- Exciting prospects

3 – EU companies' perception on the ground: far better than at head offices' level



3 – EU companies' perception on the ground: far better than at head offices' level

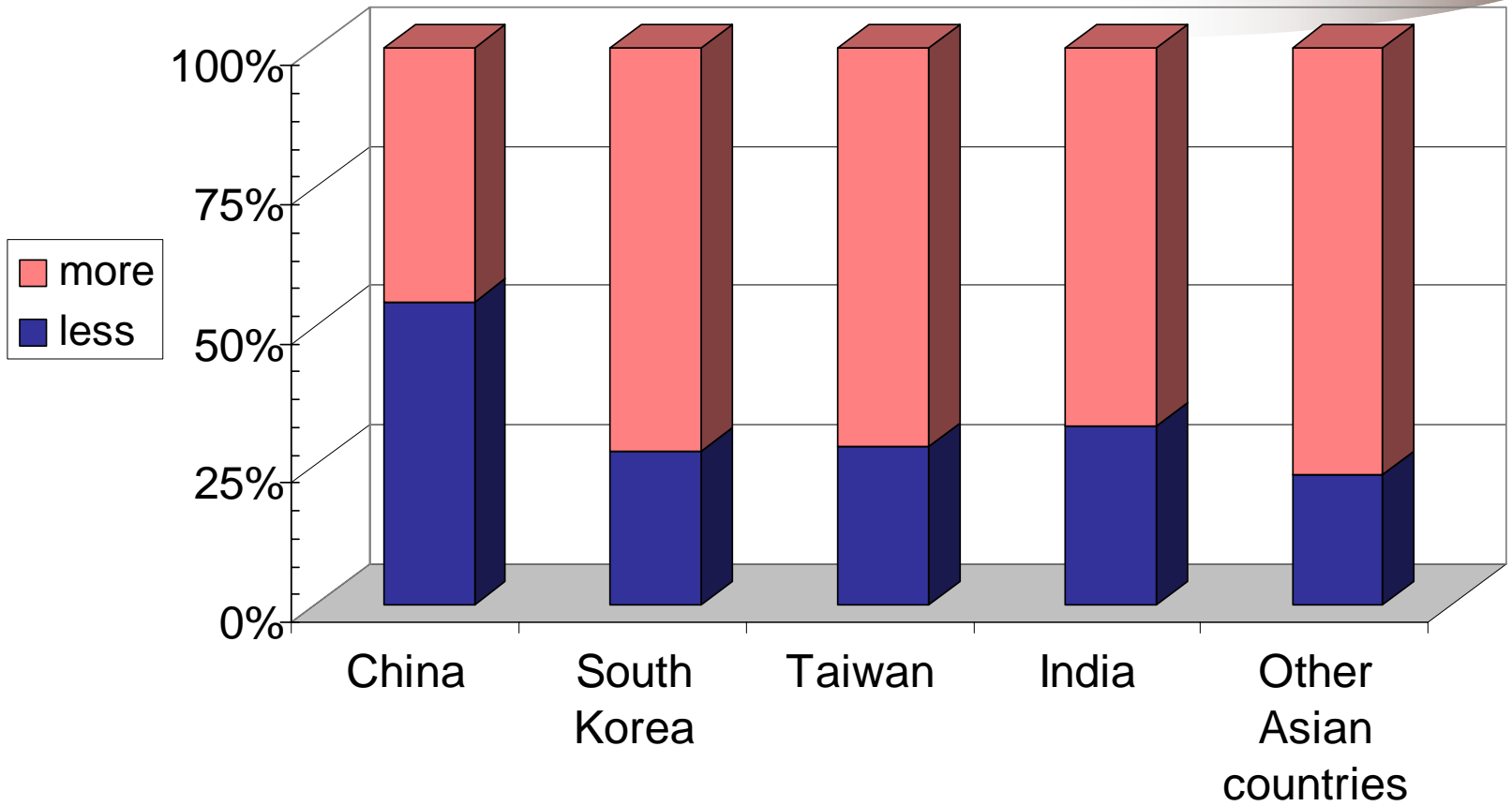
BREAKDOWN OF SALES BY DESTINATION
EU COMPANIES IN ASEAN



Source: TAC/METRA survey - Oct2003

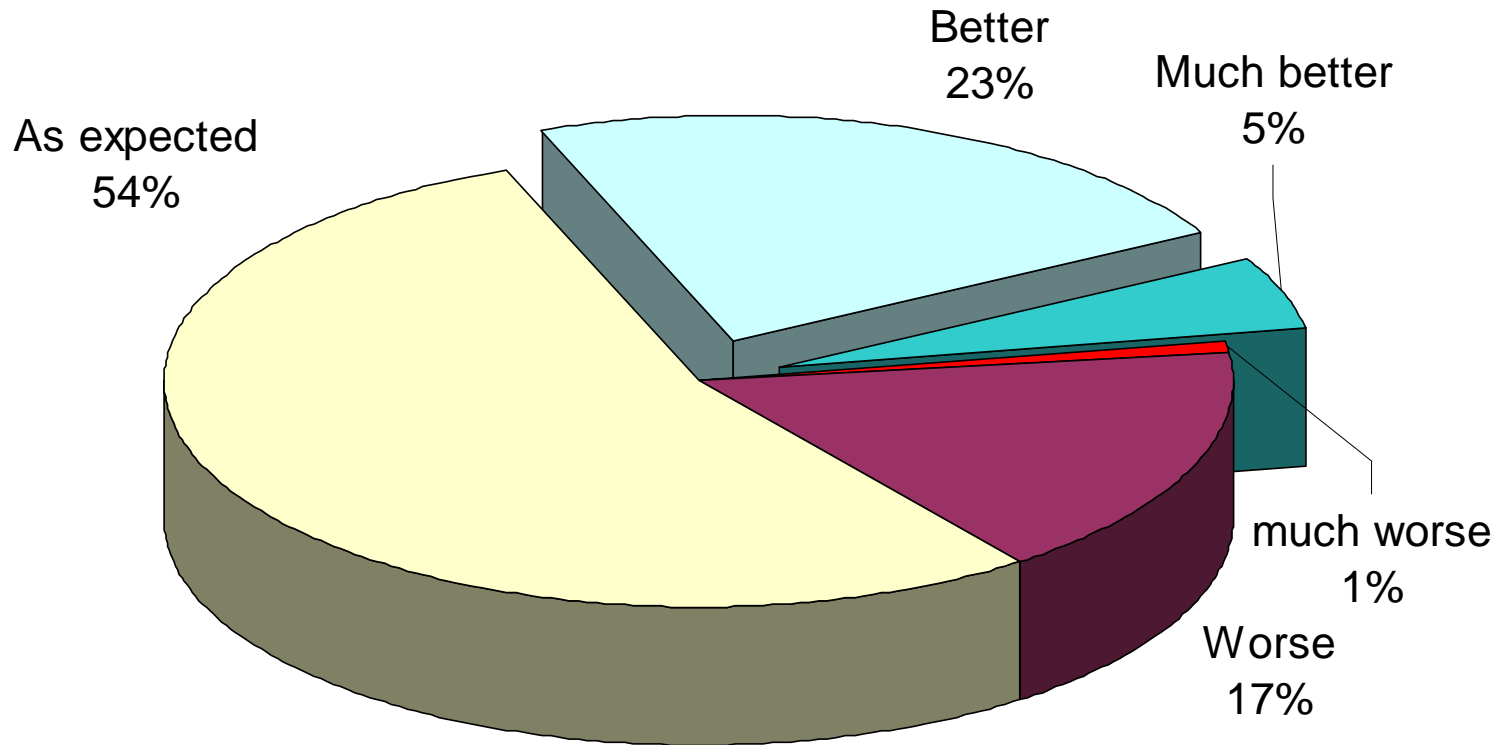
3 – EU companies' perception on the ground: far better than at head offices' level

Is ASEAN getting more or less attractive for investment in your industry than...



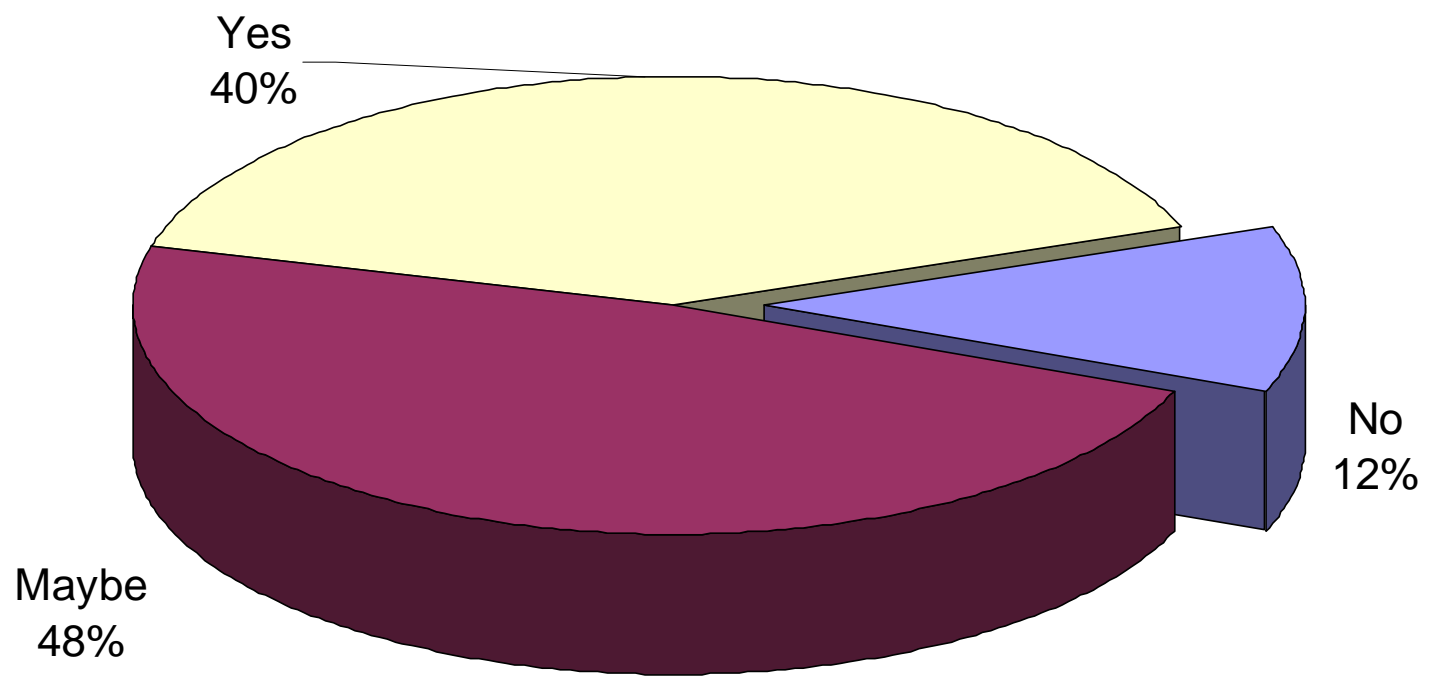
3 – EU companies' perception on the ground: far better than at head offices' level

How would you measure your company performance compared to expectations ?



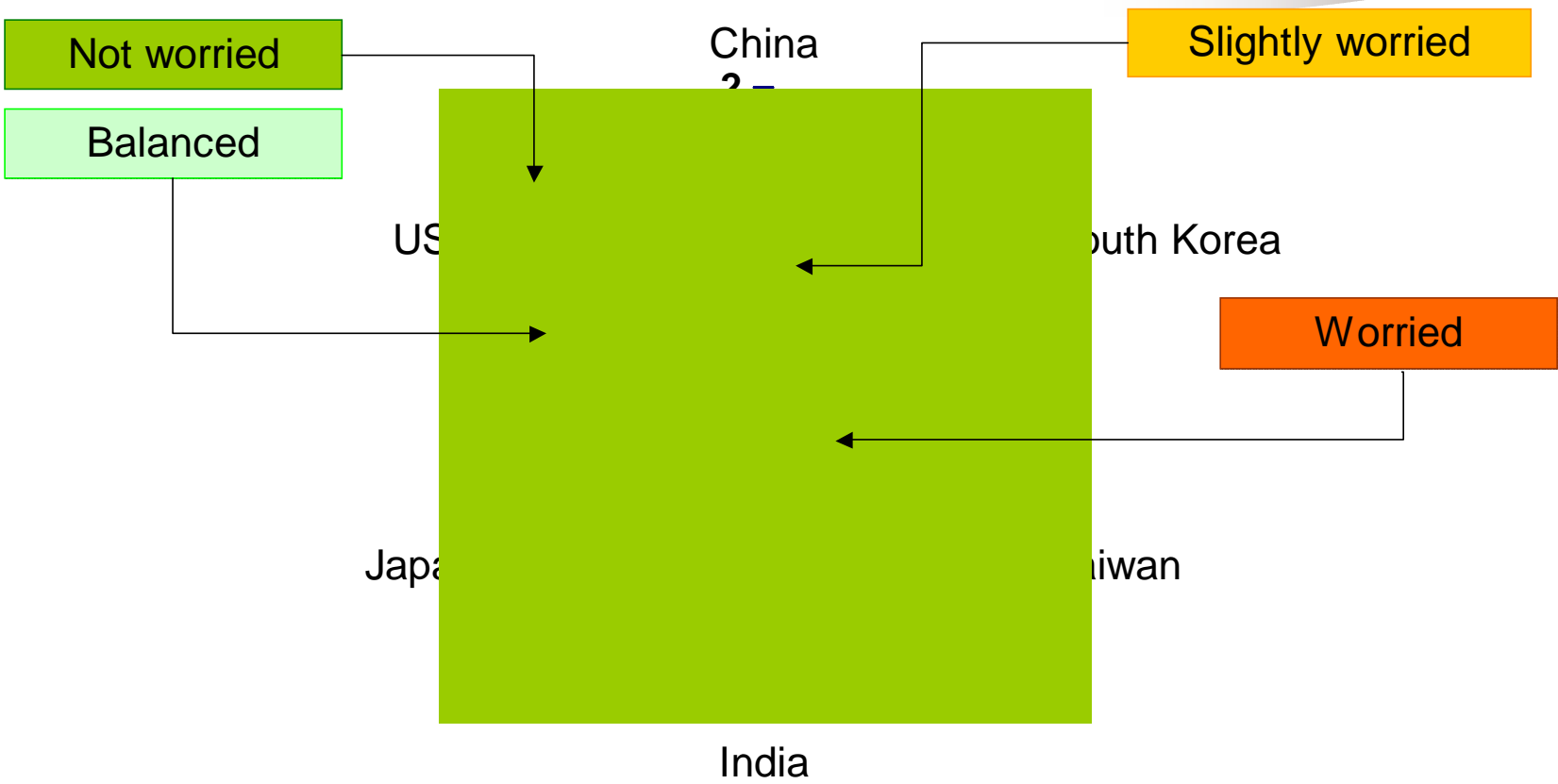
3 – EU companies' perception on the ground: far better than at head offices' level

Will ASEAN integration lead to more collaboration between ASEAN based companies, for your sector ?



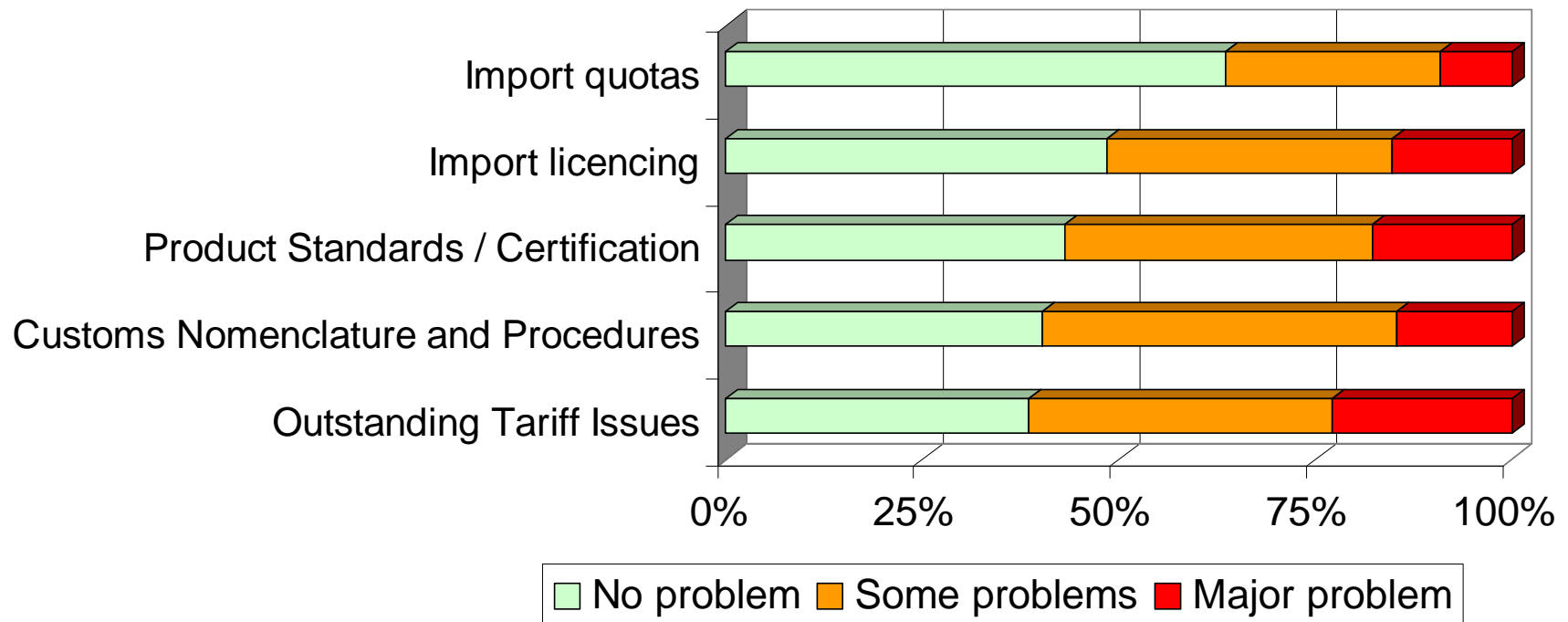
3 – EU companies' perception on the ground: far better than at head offices' level

How worried about your future company's prospects with the opening-up of ASEAN to... (*)



3 – EU companies' perception on the ground: far better than at head offices' level

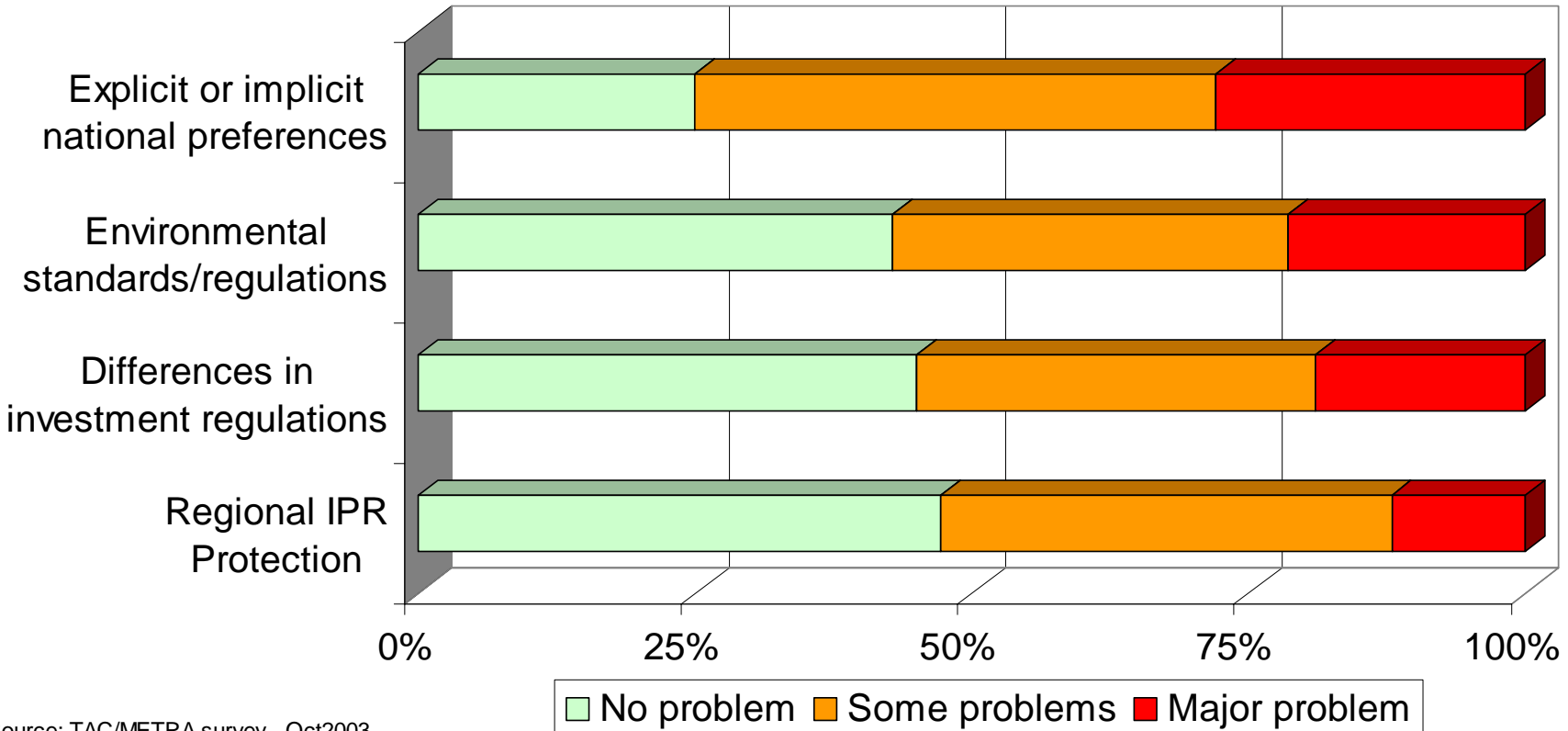
What obstacles are you facing when targeting the ASEAN regional market ?



Source: TAC/METRA survey - Oct2003

3 – EU companies' perception on the ground: far better than at head offices' level

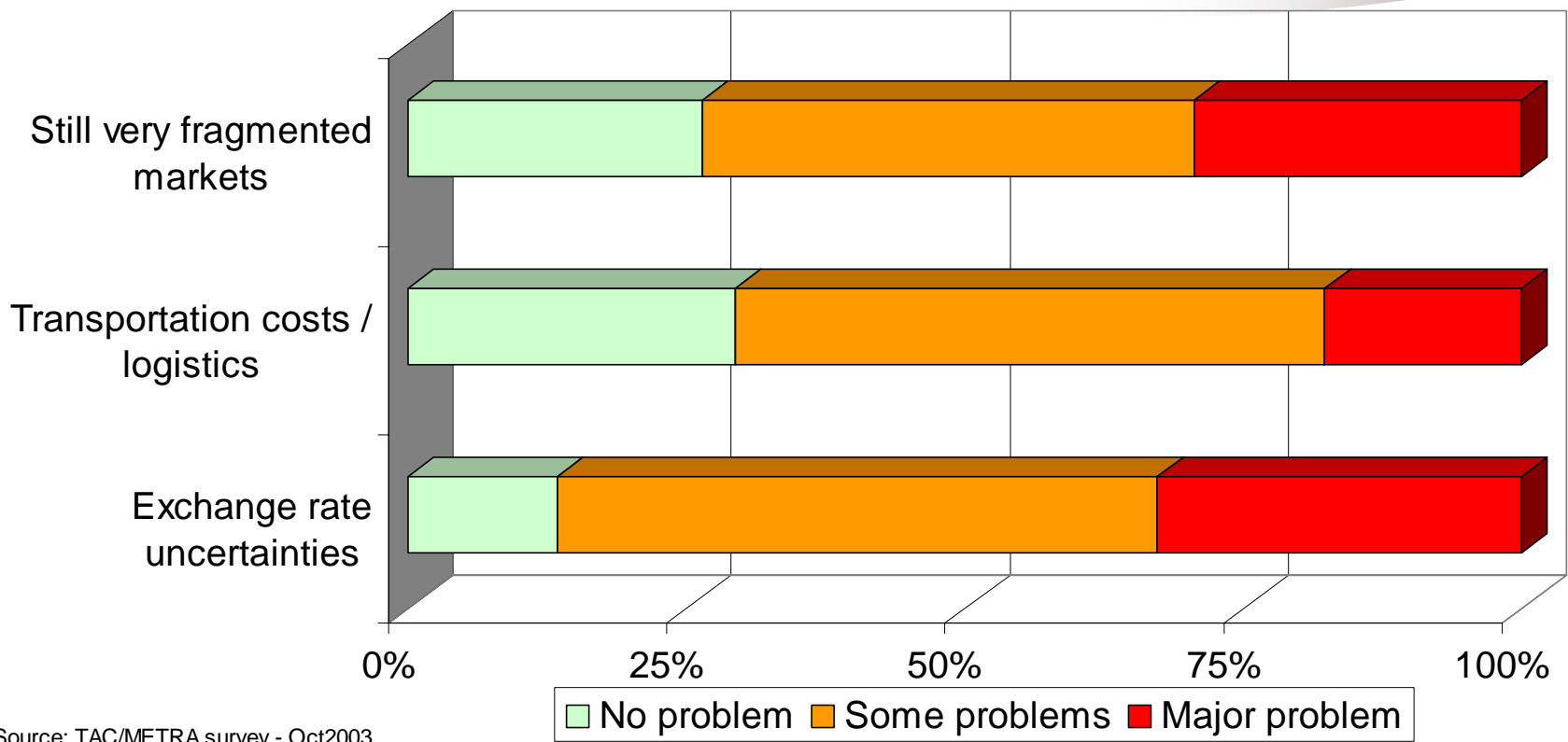
What obstacles are you facing when targeting the ASEAN regional market ?



Source: TAC/METRA survey - Oct2003

3 – EU companies' perception on the ground: far better than at head offices' level

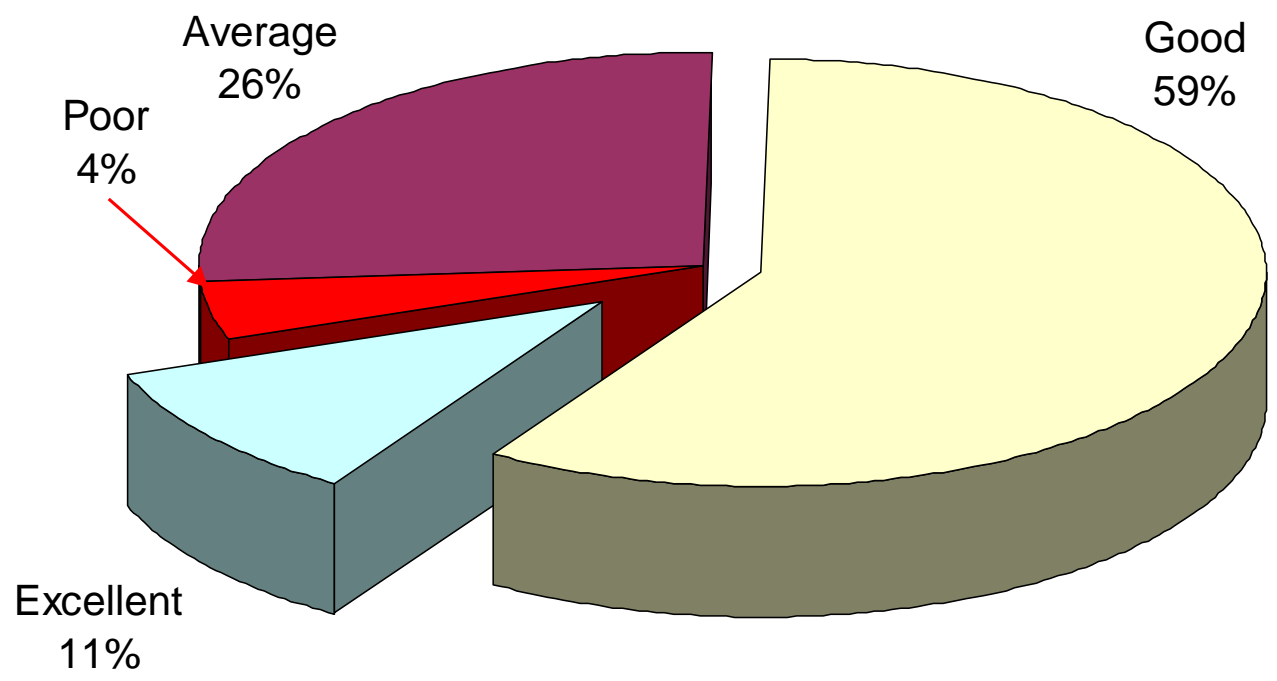
What obstacles are you facing when targeting the ASEAN regional market ?



Source: TAC/METRA survey - Oct2003

3 – EU companies' perception on the ground: far better than at head offices' level

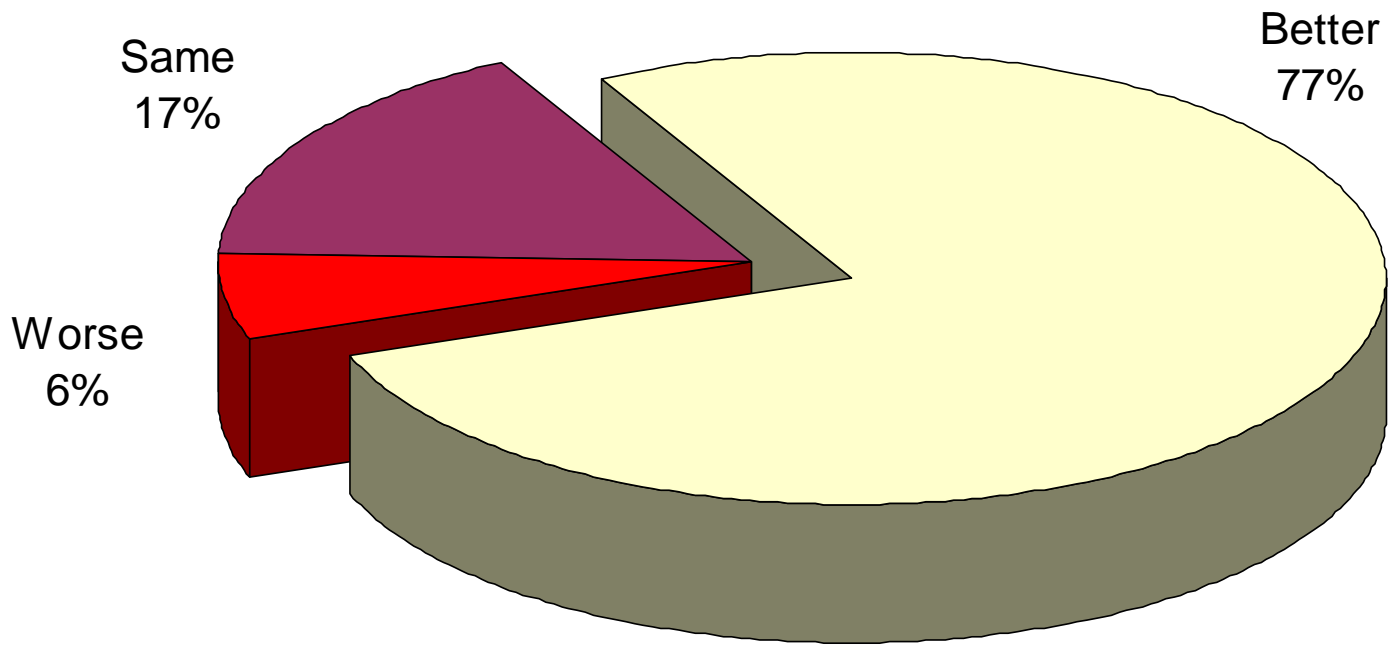
How would you rate the development prospect of your industry in ASEAN in the next 5 years ?



Source: TAC/METRA survey - Oct2003

3 – EU companies' perception on the ground: far better than at head offices' level

How do you expect your performance to be in the next 3 years compared to the past 3 years ?



4 – A glimpse at specific opportunities

- No “top-down” approach can serve as a substitute for “on-the-field” examination
- A set of qualitative & quantitative criteria to help highlighting broad “attractive sectors”
- Glimpses at specific niche attraction

4 – A glimpse at specific opportunities

- ❑ Opportunities abound, and acquisition prices / incentives are attractive
- ❑ For smaller companies, direct contact and support by local organisations is an absolute prerequisite
- ❑ Choice of operation is crucially dependent on each project specificity, but technological content and consumer orientation are two important keys

4 – A glimpse at specific opportunities

□ ASEAN integration in terms of companies' strategies

- ✓ Network of sourcing units to benefit from local advantages and competitive trade regime
- ✓ Production for higher end of local consumer market with economies of scale and local marketing
- ✓ Providing high quality inputs to locally-operating MNCs or large 'trans-regional' groups

4 – A glimpse at specific opportunities

□ Qualitative inputs for industry selection:

- ✓ Interest to EU Industry
- ✓ Interest to ASEAN Industry
- ✓ Spread of EU Interest (Number of Countries)
- ✓ Spread of Company Interest / SME Involvement
- ✓ Sector benefiting from ASEAN Integration
- ✓ Sector Opportunities Consistent with EU Approaches
- ✓ Perceived Relative Competitive Advantage of ASEAN
- ✓ Level of Technology Required
- ✓ Technological and Comparative Advantage for EU vs. Other Countries

4 – A glimpse at specific opportunities

□ Quantitative inputs for industry selection

- ✓ Market Size and Potential Growth
- ✓ Export characteristics with EU/other Countries (size, growth, spread of countries)
- ✓ FDI/approvals in the Sector
- ✓ Differences between MFN and AFTA tariff rates
- ✓ Degree of Openness of the Sector

4 – A glimpse at specific opportunities

□ Six broad sectors identified:

- ⇒ Electrical/electronics
- ⇒ Agro-industry
- ⇒ Automotive components
- ⇒ Mechanical engineering (machinery)
- ⇒ Tourism/leisure
- ⇒ IT/software

4 – A glimpse at specific opportunities

□ The ‘target group’:

- ✓ Medium to large companies with a substantial and growing export activity towards ASEAN
- ✓ Looking at the potential benefits of the regional integration (spread of sales accross countries in the region, high non-ASEAN protection)

4 – A glimpse at specific opportunities

□ The sub-sector selection method:

- ✓ Based on 6-digit classification of EU-ASEAN trade
- ✓ EU exports to ASEAN, above a minimum threshold (1mn \$), with high growth over the past 4 years (above 80%)
- ✓ Maximum share of the 3 largest ASEAN importers below 85%
- ✓ Maximum difference between MFN and AFTA tariff rates

4 – A glimpse at specific opportunities

□ Examples for the food processing industry:

(total market by European products exported from EU: 440 m, \$)

- ✓ Alcoholic liqueurs nes
- ✓ Crustaceans nes, prepared or preserved
- ✓ Peaches, otherwise prepared or preserved
- ✓ Malt extract & limited cocoa pastry products nes
- ✓ Beer made from malt
- ✓ Vodka, Whiskies
- ✓ Food preparations nes
- ✓ Communion wafers, rice paper, bakers wares nes
- ✓ Sugar nes, caramel and artificial honey
- ✓ Chocolate/cocoa food preparations nes

4 – A glimpse at specific opportunities

□ Examples for the automotive components industry:

(total market by European products exported from EU: 760 m, \$)

- ✓ Spark ignition engine of 1500-3000 cc
- ✓ Parts and accessories of bodies nes for motor vehicles
- ✓ Motorcycle parts except saddles
- ✓ Transmissions for motor vehicles
- ✓ Mufflers and exhaust pipes for motor vehicles
- ✓ Steering wheels, columns & boxes for motor vehicles
- ✓ Wheels including parts/accessories for motor vehicles
- ✓ Radiators for motor vehicles

Opportunities related to the process of ASEAN integration

Thank you for your patience

Debate and questions most welcome

TAC contact details & information:
www.tac-financial.com