

The future for MNCs in ASEAN

What do CEOs from leading multinationals think about ASEAN'S prospects?

SRA PERSPECTIVES

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ASEAN is a big opportunity. But it is also a fragmented market. Multinationals are localising strategies in response.

In early 2015, I interviewed eight C-level executives at leading foreign multinationals as part of a KPMG sponsored report exploring the outlook for multinationals (MNCs) in ASEAN.

It's easy to get excited by the ASEAN opportunity. The region's \$2,460 billion economy and 600 million consumers capture the world's attention. The prospect of a single market with the arrival of the ASEAN Economic Community (AEC) later this year adds to the excitement.

But headline figures also disguise the region's complexity. It's an opportunity spread across 10 countries; incomes per capita can range from just \$1,600 in Laos to \$56,000 in Singapore; single cities such as Bangkok with its 10 million inhabitants have larger populations than Lao's 6 million.

It's the report's ground-level insights from some of the region's leading operators, including Caterpillar, DHL, Shell, and HP, which help explain the contradiction between those two views.

Localisation is the way forward

Most multinationals have a single China strategy, but how about a single ASEAN strategy? Perhaps not surprisingly, CEOs were more interested in talking about the need to localise their businesses in response to fast growing but increasingly localised markets, especially as local competition grows in intensity.

CEOs spoke most frequently about the need for a firm's expertise to sit at the country level in order to respond rapidly to changes in the local market, especially as opportunities in single countries grow. After all, what works in Indonesia may not be easily replicated in Thailand.

A VAST OPPORTUNITY

ASEAN has a population equal to that of Latin America or Sub-Saharan Africa.

9% OF WORLD'S POPULATION

626 MN ASEAN

622 MN LATIN AMERICA

917 MN SUB-SAHARAN AFRICA

A COMPLEX OPPORTUNITY

There are as many differences between the ASEAN countries as there are similarities

MEDIAN AGE

38.7 SINGAPORE

23.4 PHILIPPINES

29.1 ASEAN AVERAGE

GDP PER CAPITA

\$56,000 SINGAPORE

\$1,300 MYANMAR

\$3,200 ASEAN AVERAGE

Source: IMF & UN Population Projection Division

All this suggests that multinationals are more likely to localise product lines, but retain regional functional lines, such as HR and IT, where there are greater opportunities to share best practice around the region. To this end, Singapore remains the region’s functional headquarters.

The AEC looks good on paper, but...

The idea of a single market equivalent to the size of Brazil where goods, capital, and labour flow freely is commercially compelling. The problem is that it’s tricky to implement. What do CEOs think? While generally positive towards the AEC’s goals, most are realistic about what it means on the ground.

The key point is that the AEC is a consensus-based agreement. In short, governments for the most part only have to implement the agreement to the best of their ability. And while CEOs praise the fall in tariff barriers they simultaneously worry about persistent non-tariff barriers.

Most are also pessimistic on the prospects of free labour movement. In fact, many argue that labour regulations are tightening, not easing, especially for semi-skilled workers. But this creates inefficiencies as companies must establish specialist teams in each country.

Take the example of Vietnam where one CEO noted there are good welders. By contrast, it’s tough to find good welders in Indonesia, although you do find good machinists. But whereas in the EU you might hire a Polish welder to fill a skills shortage in Manchester, that’s much harder to do in ASEAN.

China’s shadow looms large

There’s no doubt China remains the region’s commercial giant; the country’s GDP is expanding at a rate equivalent to adding Indonesia’s annual output every year. But China is also increasingly expensive and global buyers are gradually looking to alternatives, such as suppliers in Cambodia and Vietnam.

But it’s also more than a simple substitution story. One of the CEO’s interviewed for the reported noted how

Most ASEAN countries are still trading with the non-ASEAN world.

Percent share of trade conducted with other ASEAN members



Source: Association of Southeast ASEAN Nations

the firm has sharply reduced the number of its China-based employees even as it adds in the Philippines, but that ASEAN’s tight labour regulations and automation of Chinese factories complicates the decision.

What about the risk from ‘China Inc.’? For now, CEOs suggest Chinese companies are not yet serious competitors; Korean and Japanese firms, by contrast, still dominate. And where there is stronger activity, it tends to be Chinese construction companies building infrastructure in low-income countries.

The region’s new champions

In my conversations, CEOs were also clearly aware that tomorrow’s competitors are most likely to be local. They are most impressed by the speed at which nimble local competitors, especially family-owned businesses, are responding to fast-changing markets.

What’s less clear is whether local competitors will be regional competitors. CEOs argued that a select group of leading local companies are already well advanced, and, in fact, more focused on global opportunities, such as CP Group’s investments in Europe or Indorama’s acquisitions in China.

However, a large number of local companies are still struggling. Indeed, many interviewed for this report noted a lack of awareness among mid-sized companies about opportunities elsewhere in ASEAN. Many stick close to home markets where companies believe they have the strongest competitive advantage.

MNCs and their ASEAN edge

The upshot is that multinationals will enjoy higher barriers to entry in ASEAN relative to China, as they make the most of their ability to operate across national boundaries and still fragmented markets. But that also means learning to operate amidst greater commercial complexity.

ASEAN firms have limited awareness of the AEC.

Share of firms saying they are aware of either the AEC 2015 or ASEAN’s FTA with China

Share of ASEAN firms aware of:



CAMBODIA	74%
LAO	73%
THAILAND	70%
MYANMAR	64%
VIETNAM	24%
INDONESIA	23%
PHILIPPINES	20%
SINGAPORE	14%

Source: Institute for Southeast Asian Studies



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