Borderless Business: Europe-ASEAN Corridor

Opening doors to diverse opportunities

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Overview of the Europe-ASEAN Corridor: Opening New Doors for European Businesses

Against the backdrop of a sluggish recovery from the pandemic, European companies are actively seeking new growth opportunities overseas, whilst simultaneously aiming to diversify their production footprints in order to build greater operational resilience. As ASEAN emerges as a global economic powerhouse, it offers significant trade and investment opportunities for European companies, not only due to its large and growing consumer market, but also its increasing connectivity with the world via an expanding network of free trade agreements (FTAs).

Sectors such as infrastructure, manufacturing, renewable energy, and e-commerce present strong growth opportunities for European businesses. However, to succeed in ASEAN, they need to focus on a few critical factors. These include diversifying their supply chains in strong manufacturing economies such as Vietnam, Thailand or Malaysia; leveraging local partnerships to facilitate and speed up market access; ramping up digitalisation and cyber resilience efforts; increasing focus on environmental and social initiatives; and establishing the right governance frameworks to mitigate risks inherent in operating in ASEAN's diverse economic and business environment, especially given the uncertainty of current times.

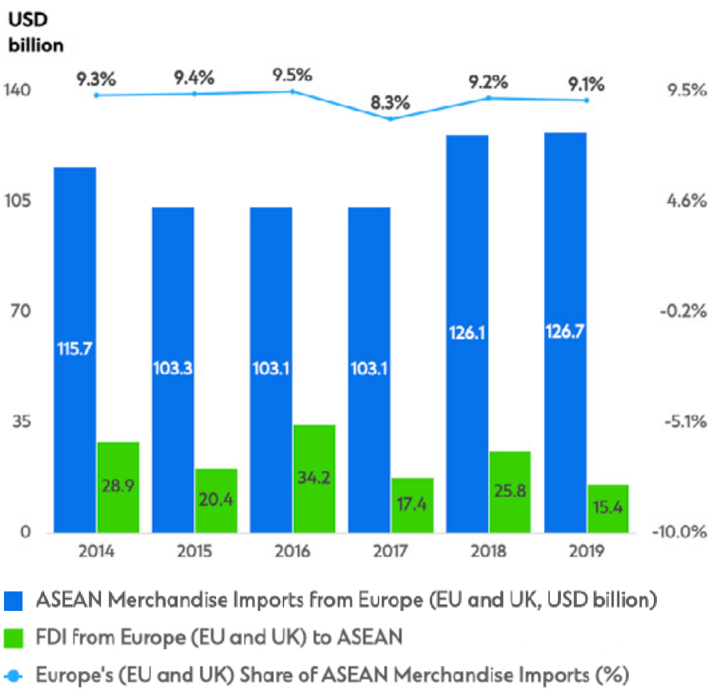
'Borderless Business: Europe-ASEAN corridor', a strategic point-of-view commissioned by Standard Chartered and prepared by PwC, provides a snapshot of the main opportunity sectors as well as the key success factors for European companies to drive sustainable and resilient growth as they venture into ASEAN markets. Our insights also take into account inputs from a survey conducted with senior executives from European companies currently engaged in cross-border activities across the Europe-ASEAN corridor.[a]

Overview of the Europe-ASEAN Corridor: Opening New Doors for European Businesses

Since 2017, Europe has been experiencing more moderate growth rates. The onset of the COVID-19 pandemic has further exacerbated this and is prompting European companies to bring forward their plans for international expansion in search of new growth opportunities in high-growth regions such as ASEAN.

As the fifth largest economy globally, with a population of over 655 million, ASEAN provides significant growth opportunities for companies across the EU[b] and the UK. Within Europe, ASEAN's largest trading partner is Germany, responsible for over a quarter of merchandise exports worth USD28.3 billion in 2020, followed by France and the UK, with exports worth USD17.7 billion and USD14.1 billion, respectively. Within ASEAN, Singapore tops the exports destination list, receiving over a third of European exported goods (USD41.8 billion in 2020). Other major destination markets are Thailand and Malaysia, which account for a 15.7 per cent and 14.2 per cent share, respectively. Vietnam has also become a prominent destination for trade in recent years, with imports from Europe growing at a compound average growth rate (CAGR) of 8.5 per cent between 2015 and 2020.

Figure 1: Imports and FDI from Europe (EU and UK) into ASEAN (US$ billion)



Source: ASEANStats

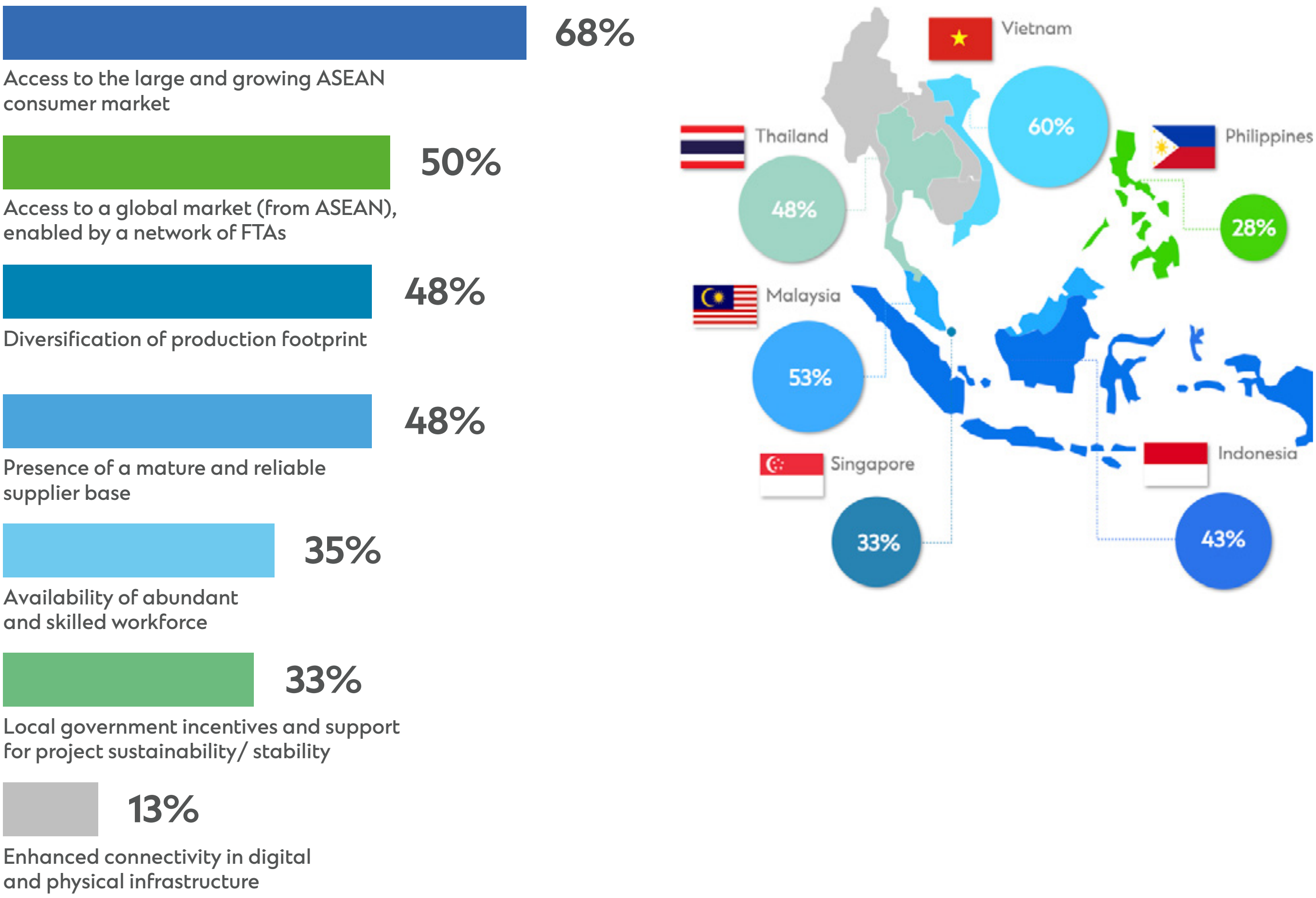
a Survey commissioned by Standard Chartered in April 2021 and completed by senior executives at 40 companies based in Europe and focusing on the Europe-ASEAN corridor

b EU-27 countries

Going forward, we expect European companies to step up investment and trade activities with ASEAN, propelled by increased government focus and support in enabling cross-border expansion. A pulse survey of European companies focusing on ASEAN revealed that 68 per cent of respondents are driven to ASEAN for access to its large and growing consumer market, with 48 per cent planning to increase annual revenues in ASEAN by more than 10 per cent over the next 12 months.

Vietnam, Malaysia and Thailand feature as the most attractive markets in terms of sales or expansion opportunities for majority of respondents. With almost half of the respondents expanding into ASEAN to diversify their production footprint[c] - likely as part of a 'China Plus One' strategy - many are turning towards countries like Vietnam for the geographical proximity and comparable or lower manufacturing costs vis-à-vis China; or Malaysia and Thailand for their strong manufacturing capabilities.

Figure 2: Major economies in ASEAN offering the best expansion opportunities



Note: Survey questions asked: 'What are the key drivers for your focus on ASEAN?' and 'Which of these major economies within ASEAN do you think offers the best expansion (sales / production) opportunities for your company?'

For key drivers – the values indicated above refer to the % of survey respondents who included the driver as one of the top 3 ranked choices

Source: Standard Chartered Survey, 2021

c For key drivers, values refer to the % of survey respondents who included the driver as one of the top 3 ranked choices

Recent trade agreements to boost Europe-ASEAN trade

Key drivers for growth include recent trade agreements between EU or UK and ASEAN, and EU-led initiatives to help European business expand in the region. Recently, ASEAN countries have concentrated efforts on accelerating trade growth with Europe as seen through the various FTAs summarised below:

Agreement	Signed	Ratified/ In Force
EU-Singapore Free Trade Agreement	October 2018	November 2019
EU-Vietnam Free Trade Agreement	June 2019	August 2020
EU-Indonesia Free Trade Agreement	Under negotiation	
EU-Philippines Free Trade Agreement	Under negotiation	
EU-Philippines Partnership Cooperation Agreement (PCA)	2011	March 2018
EU-Thailand Free Trade Agreement	Negotiations on hold since 2014	
UK-Singapore Free Trade Agreement	December 2020	February 2021
UK-Vietnam Free Trade Agreement	December 2020	January 2021

Singapore was the first ASEAN nation to have an FTA with the EU when the EUSFTA[d] was signed in 2018. The EUSFTA aims to remove customs duties, reduce bureaucracy, stimulate green growth – in areas like green infrastructure and renewable energy – and encourage more bilateral investment. Since being enforced in November 2019, goods exported from Singapore to the EU jumped 12 per cent in the first half of 2020, despite COVID-19 disruptions. Similarly, the EUVFTA[e] with Vietnam, in force since August 2020, seeks to increase trade by eliminating ~99 per cent of tariffs and reducing regulatory barriers. At the regional level, the EU and ASEAN agreed to upgrade their relationship to a Strategic Partnership in December 2020, which further indicates greater engagement, with both blocs having agreed to enhance economic and security cooperation, sustainable connectivity and driving sustainability.[2]

Strengthening of UK-ASEAN trade ties following Brexit

Since leaving the Eurozone, the UK has been working to establish formal bilateral trade relations and negotiated agreements with 63 countries, including ASEAN member states. The UK-Singapore Free Trade Agreement (UKSFTA) and the UK-Vietnam Free Trade Agreement (UKVFTA) were designed to allow the UK to enjoy the same benefits it did under the EUSFTA and EUVFTA. With effect from January 2021, the UKSFTA is expected to be an additional platform for driving British exports into Singapore and allowing British companies to leverage the city's growing regional connectivity to solidify their presence in ASEAN. In fact, post-Brexit UK exports of goods to non-EU countries (excluding precious metals) increased by about USD1.8 billion (9.9 per cent) in March 2021.

The UK and Thailand also committed to strengthening bilateral trade ties through a Memorandum of Understanding (MoU) in March 2021 focused on reducing market access barriers and increasing access to financial services markets. Moreover, the UK's intention to apply for Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) membership, alongside its recent status as an ASEAN Dialogue Partner, has the potential to further deepen trade links with ASEAN.[3]

d European Union-Singapore Free Trade Agreement
e European Union-Vietnam Free Trade Agreement

"At Standard Chartered, we believe that including ASEAN as part of international companies' wider business strategy is paramount. As a 10-member economic powerhouse, ASEAN presents unparalleled opportunities for European companies. And that is why we are committed to supporting European businesses' entry into ASEAN's thriving sectors, from infrastructure and renewable energy to e-commerce. As the only international financial institution with a presence in all ASEAN markets, we have the right set of local knowledge and extensive experience to help our European clients better leverage the ASEAN opportunity that will help define their future."

Rino Donosepoetro
Vice Chairman, ASEAN & President Commissioner Indonesia, Standard Chartered

"The ASEAN markets continue to offer huge opportunity for European companies, both for those looking to diversify and expand their investment and trade activities, and those who are well aware of the deep technological expertise and significant consumer base across the markets. Our clients are thinking about how their businesses can go deeper and leverage the strengths of the ASEAN community to broaden their activities, potentially including opportunities in other markets across the region which they may not already be active in. Given our unique footprint at Standard Chartered, we have the expertise to support our clients across all ASEAN markets, to ultimately help them tap into those potential opportunities and strive for continued growth."

Robert Newell
Managing Director, Global Corporates, Europe, Standard Chartered

Initiatives and support to increase European focus on ASEAN

Increasing internationalisation and helping companies expand into emerging markets is crucial for Europe's competitiveness, economic growth and innovation. The European Commission has recognised this as priority and has begun to ensure that enterprises can take full advantage of opportunities presented by growth markets outside the EU. As such, it has designed a series of initiatives (listed below) to drive internationalisation. These efforts have paid off, with European companies having generated ~USD9 billion in additional exports in 2019 thanks to its Market Access Partnership framework, part of the EU's Market Access Strategy[f], for example. Recognising that exports will be crucial for the UK's economic recovery, particularly following Brexit and the pandemic, the British government also plans to continue with its Export Strategy designed to support British businesses looking to export to the global market through a series of initiatives outlined below.[4]

Initiative*	Description
EU Market Access Strategy (MAS)	Part of the MAS, the EU Market Access Partnership (MAP) is aimed at preventing and removing of trade barriers and the EU Market Access Database (MAB) provides European companies with information on markets access conditions
EU Gateway | Business Avenues	Assists European companies to access business opportunities in the region
EU Intellectual Property Rights Help Desk for Southeast Asia	European Union co-funded project that provides European SMEs with free, practical, business advice relating to intellectual property rights in Southeast Asia
Enterprise Europe Network	Provides support for SMEs with international ambitions, helping them innovate and grow internationally
EU-ASEAN Business Council (EUABC) and UK-ASEAN Business Council (UKABC)	Promote the interests of EU and UK businesses operating within ASEAN and advocate for changes in trade and investment policies and regulations. Also provide awareness on the latest opportunities in ASEAN and facilitates trade and investment content delivery for companies looking to expand into regional markets
UK Department for International Trade (DIT)'s Programmes	As part of UK's Export Strategy launched in 2018, DIT runs a series of programmes and initiatives to encourage and support British companies to export to overseas markets. Examples include: • Tradeshow Access Programme (TAP) – support for overseas tradeshows • DIT Export Academy – webinars or events for companies in the Midlands, North, South West, or East of England • Local trade advisers – local, tailored support from an International Trade Adviser on exporting technicalities
UK Export Finance (UKEF)	UKEF is the UK's export credit agency. In the last five years they have provided £14 billion of support for exports and international trade
Britain in Southeast Asia (BiSEA)	BiSEA is a grouping of British Chambers and Business Groups in Southeast Asia, which provides European businesses with a network to establish themselves in the region and facilitate their business interests. BiSEA also provides companies with relevant information, services and guidance

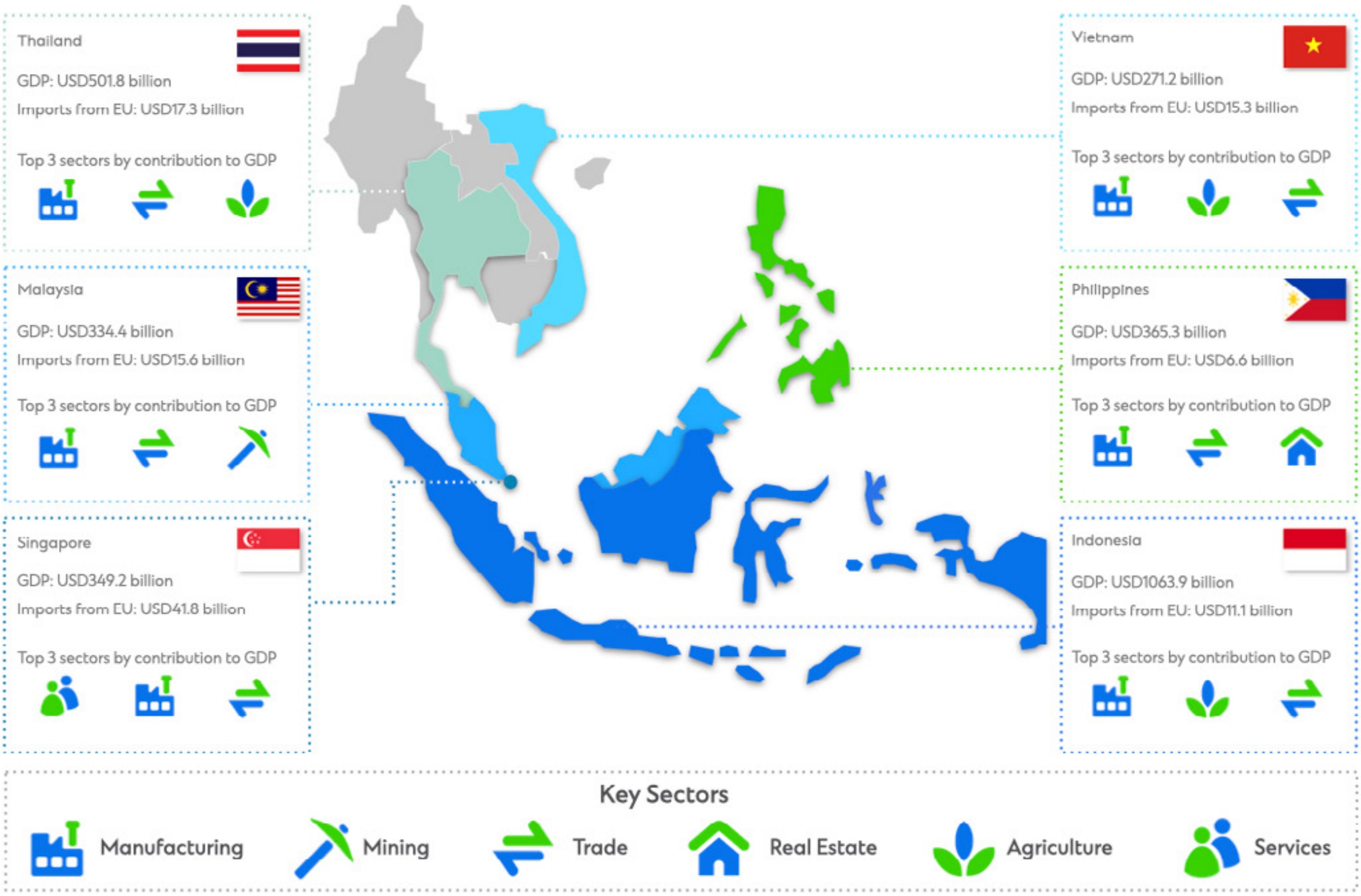
*non-exhaustive

f The European MAS is underpinned by two pillars: Market Access Partnership (MAP), which covers the prevention and removal of trade barriers; and Market Access Database (MADB), which provides information on market access conditions.

Growth Watchlist:
Six Sectors Driving the Future of the Europe-ASEAN Corridor

ASEAN's deepening partnership and connectivity with Europe will provide an additional channel for European players to access significant growth opportunities in the region. Several trends across ASEAN countries, including growing consumption and rising income levels, rapid urbanisation, digitalisation and maturing manufacturing capabilities, are opening up new sectors of opportunities for European companies. Overall, we see six high potential sectors driving future growth through this corridor, highlighted below.

Figure 3: Key sectors in ASEAN-6 (by contribution to national GDP), 2020



Note: Trade includes wholesale and retail trade
Source: ASEANStats

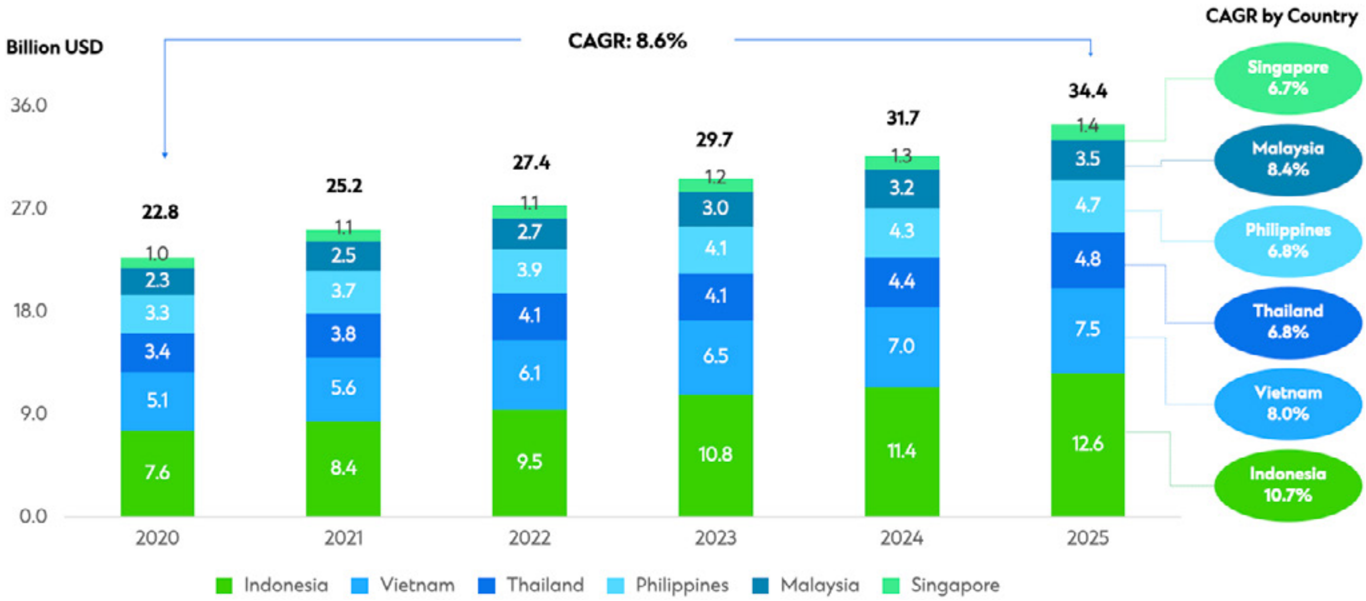
I. ASEAN's aging population and focus on healthcare affordability to fuel growth in the pharmaceuticals sector

ASEAN's pharmaceuticals market recorded sales of USD22.79 billion in 2020 and it is forecasted to grow at a CAGR of 8.6 per cent from 2020 to 2025, faster than Asia's overall growth (5.8 per cent). A large part of this growth will be driven by demand for generics, due to the cost consciousness of most markets in ASEAN. Among these markets, Indonesia, Vietnam and Thailand are the three largest, responsible for USD15.3 billion of sales in 2019 (67.9 per cent of the total ASEAN pharmaceuticals market).

European countries have acknowledged the growth potential of this sector in ASEAN, with Germany, France, and Belgium being the three largest European exporters of pharmaceutical products to the region. European exports to ASEAN in 2019 were worth USD7.3 billion (51 per cent of total pharmaceutical imports), growing at a CAGR of 8.2 per cent between 2014 and 2019. [5]

As most manufacturing in the region is for finished goods, local manufacturers often depend on Active Pharmaceutical Ingredients (API) imports from these non-ASEAN countries. In fact, Singapore, Vietnam and Thailand are the largest importers of European pharmaceutical products, valued at USD4.9 billion (68 per cent of ASEAN's European pharmaceutical imports). As ASEAN governments continue to push for regulatory policies to boost investment in the sector and provide citizens universal healthcare access, the region is poised to be an attractive market for European players.[6]

Figure 4: Sales of pharmaceutical products in ASEAN-6



Markets covered: Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam

Source: Fitch Solutions

Greater openness to foreign participation in markets like Indonesia, Vietnam and Thailand expected to drive expansion in the pharmaceuticals sector

Indonesia

Indonesia's New Investment List, passed in March 2021, lifted caps on foreign investment in the sector, and now allows 100% foreign ownership in the manufacture and wholesaling of finished and raw pharmaceutical products. Sanofi, GSK and Bayer have a manufacturing presence in Indonesia.

Vietnam

Growing urbanisation and government efforts to expand healthcare access are driving development of the pharmaceutical sector in Vietnam. The sector is seeing increasing activity of foreign firms acquiring local firms to gain market access. In 2020, German pharmaceutical giant Stada announced plans to raise its stake and takeover Vietnam-based Pymepharco.

Thailand

As part of its goal of becoming a regional life sciences centre, Thailand's government has selected healthcare as one of its 10 priority industries, with incentives granted to pharmaceutical investors and a regulatory framework designed to support local R&D. In October 2020, Thai biopharma company Siam Biosciences signed an agreement with AstraZeneca to produce the COVID-19 vaccine for ASEAN.

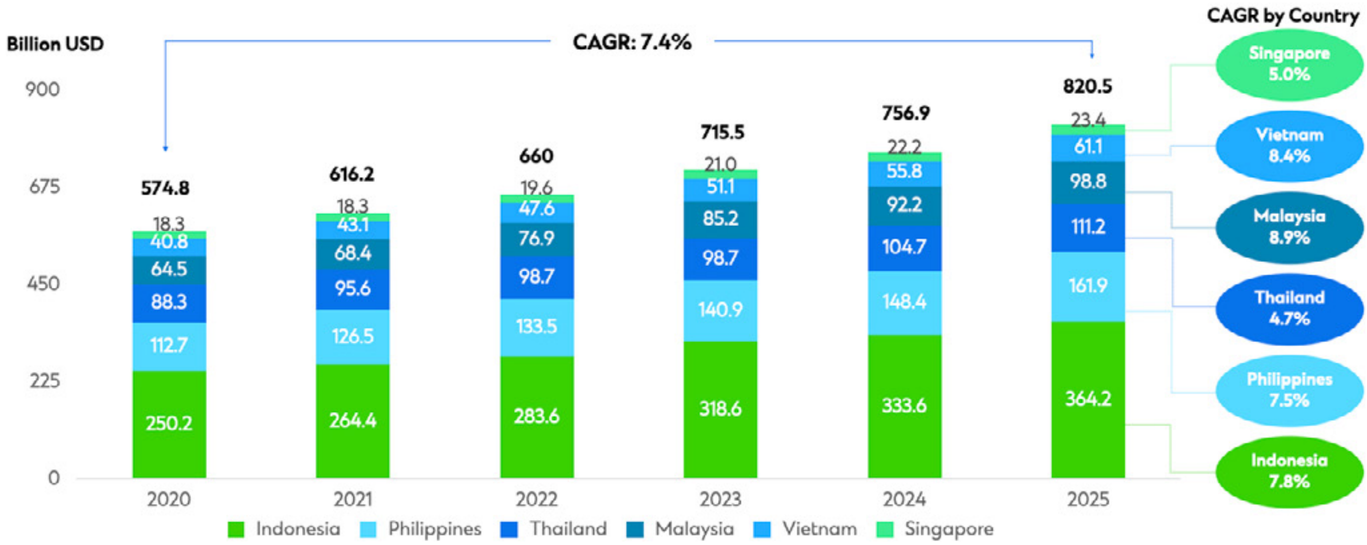
Source: Fitch Reports, SSEK, UNCTAD, ASEAN Investment Report 2019, VN Express, Nikkei Asia

2. Uplift in FMCG demand anticipated in ASEAN on the back of growing incomes and increased consumption

ASEAN's growing middle income class and higher consumption appetite is spurring demand for fast-moving consumer goods (FMCG). Household spending on consumer goods[g] in ASEAN-6 reached USD574.8 billion in 2020 and it is expected to grow at a CAGR of 7.4 per cent to reach USD820.5 billion in sales by 2025. Thanks to the region's growing population, food products hold the largest share (83 per cent) of total consumer goods spending, expected to reach USD713 billion in sales by 2025. In addition to the region's growing potential as a strong consumer market, FMCG companies are also attracted by ASEAN's maturity of skills, investment-friendly policies, and competitive manufacturing costs, and are setting up production bases in the region. With COVID-19 accelerating digital adoption, e-commerce has also emerged as an important channel for sales of FMCG products, especially among the more digitally-savvy.

In addition, as rising incomes lead to increasing demand for branded products, there is significant potential for European FMCG brands to expand their presence in the region. Players such as Unilever and Nestlé, who already have strong market presence, have taken note of this trend and announced further investment in ASEAN, as shown below. [7]

Figure 5: Household spending on consumer products in ASEAN-6



Markets covered: Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam

Note: Segments covered: Food, Alcoholic and Non-Alcoholic drinks, Personal care products

Source: Fitch Solutions

The food and beverages sector is expected to drive growth in major ASEAN economies like Indonesia, Thailand and Philippines

Indonesia

A key area of consideration for foreign players looking to enter the market is Indonesia's 2019 Halal Product law which requires consumer products to be halal certified. The country also aims to be a global hub for halal manufacturing and thus provide manufacturers with further growth opportunities. In 2017, Unilever Indonesia announced an investment of USD500 million to expand its production in the country.

Thailand

To drive the next phase of growth for its established food processing industry, Thailand is positioning its high-tech Eastern Economic Corridor as a Food Innovation Hub for future advances in food technology. In 2020, Nestlé Thailand announced an investment of USD145 million to expand production at three factories and expand its eBusiness.

Philippines

The country is making the business environment friendlier for manufacturers through regulations such as the CREATE act and investment programmes like 'Make It Happen in the Philippines". In 2018, Nestlé Philippines invested USD52 million for a new manufacturing plant in Batangas and announced plans of further investment to prioritise local manufacturing.

Source: ASEAN Briefing, UK-ASEAN Business Council, Asia Pacific Food Industry, Nestlé, Philippine News Agency, Food Navigator Asia

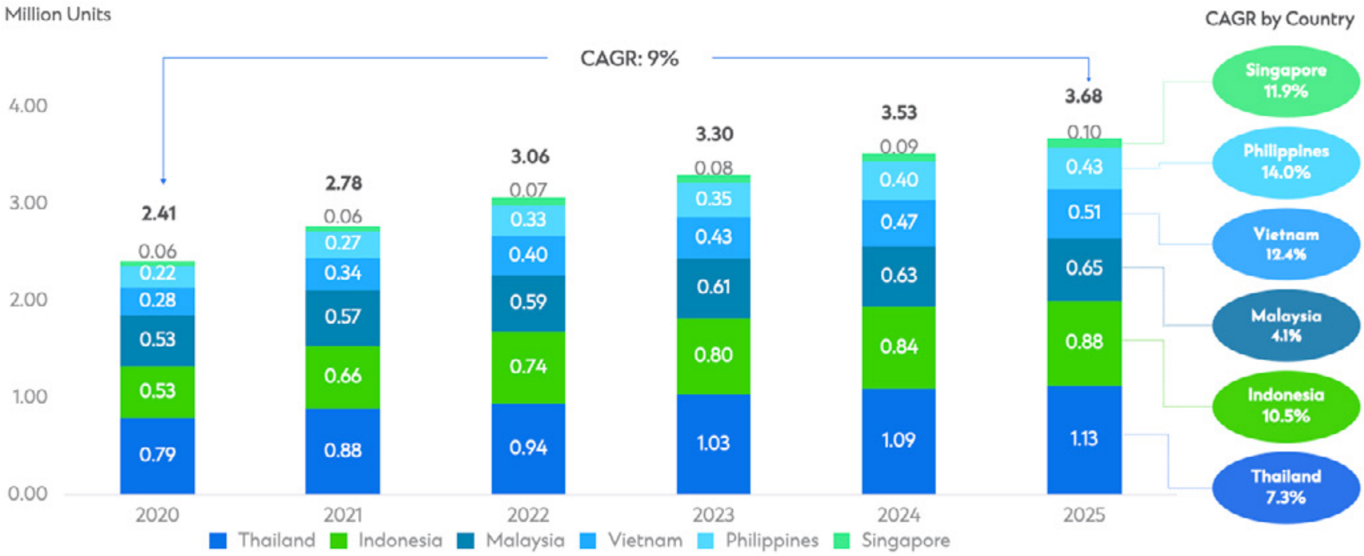
g Including food, drinks and personal care products

3. ASEAN's automotive sector expected to rebound strongly post-COVID, boosted by the region's focus on Electric Vehicles (EVs)

ASEAN's automotive market boasts 2.5 million vehicles (excluding two-wheelers) sold in 2020.

As a post-COVID economy recovery boosts consumer sentiment in the region, the sector is expected to continue seeing favourable growth at a projected 9 per cent CAGR from 2020 to 2025, with Thailand, Indonesia, and Malaysia as key contributors (75 per cent of sales).[8]

Figure 6: Sales of passenger and commercial vehicles in ASEAN-6



Markets covered: Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam
Source: Fitch Solutions

Naturally, regional manufacturing activity has seen an upsurge as ASEAN works towards strengthening its position as an automotive production and export hub. EVs features as an attractive segment for European manufacturers and suppliers, given strong anticipated demand and presence of government support and incentives. Moreover, the automotive sector's growth potential extends beyond ASEAN, thanks to the region's connectivity to regional and global trade partners. Alongside serving ASEAN markets, companies based in the region also supply vehicles to countries such as Australia, Japan, and the United States, with USD30.7 billion worth of automotive goods and accessories exported globally from ASEAN in 2019.[9]

EVs a potential focus, with major ASEAN production hubs offering incentives to attract investments

Thailand

Growth drivers for the sectors will be in the form of government incentive schemes to drive demand, and industrial policies (e.g. trimming of excise taxes for local EV manufacturing) to increase Original Equipment Manufacturer (OEM) manufacturing activity. Mercedes Benz invested USD120 million for expanding its Bangkok plant and started producing batteries there in 2019.

Indonesia

Demand for passenger and electric vehicles is expected to be spurred by easing of vehicle loan requirements, suspension of a luxury vehicle tax, and government policies that encourage EV uptake. BASF and Eramet have partnered to assess development of a plant in Weda Bay, Indonesia to supply the EV battery market.

Malaysia

Malaysia is working to drive development of the established automotive industry in emerging areas such as EVs, Next Generation Vehicle (NxGV), and Industry 4.0 through the National Automotive Policy 2020. Support is also being provided for local assembly of hybrid electric vehicles through the Energy Efficient Vehicles Programme. In 2021, Porsche announced a partnership with Shell to set up an EV charging network in Malaysia to address the growing opportunity for electric vehicles.

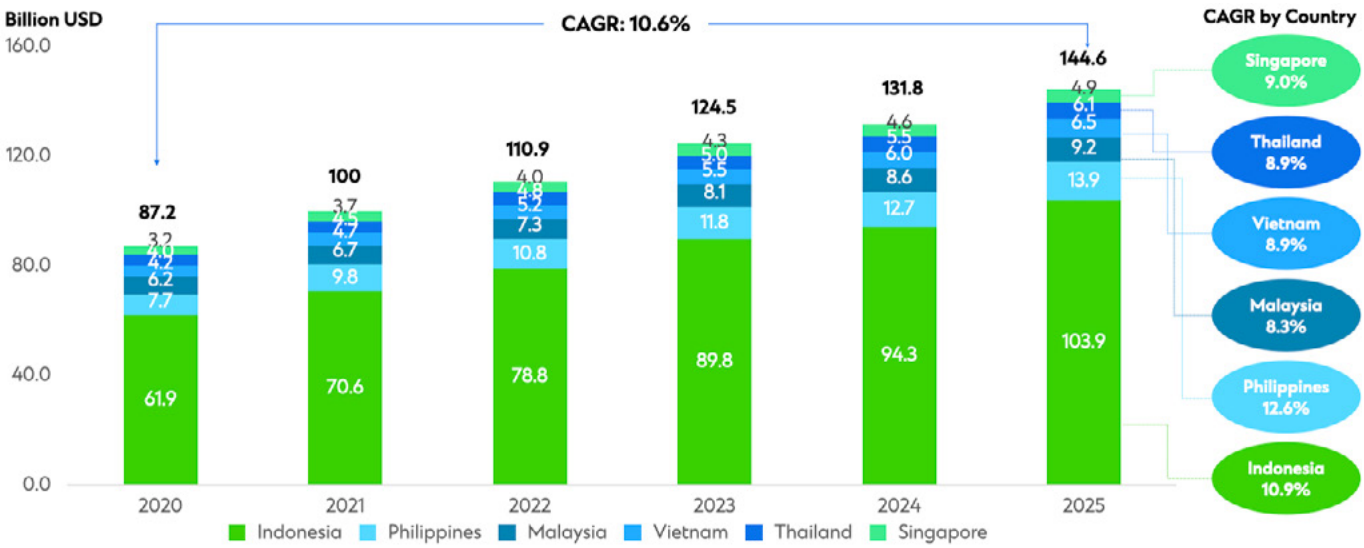
Source: ASEAN Briefing, Daimler, Electrek, BASF, Eramet, Malaysia Ministry of International Trade and Industry, Porsche newsroom

4. Investment in smart cities, transport and logistics infrastructure necessary to bridge ASEAN's infrastructure gap

As the cornerstone of the region's development, infrastructure[h] in ASEAN is tied to population growth, urbanisation, and mobility. Within ASEAN-6, the industry is projected to grow at a CAGR of 10.6 per cent in 2020 to 2025 to reach USD144 billion by 2025. To ensure sustainable infrastructural development that will support population growth and enhance connectivity, ASEAN member countries launched the ASEAN Smart Cities Network (ASCN) in 2018, which identified 26 cities to pilot smart city projects, leveraging on digital tools and external partnerships to achieve sustainable urbanisation. In light of this, transport (road, rail, port and airports) is expected to be a key area of growth with a projected CAGR of 11.1 per cent in 2020 to 2025; and the Master Plan on ASEAN Connectivity 2025, adopted by all ASEAN countries in 2016, will guide future development in the sector. In the near future, ASEAN's development will focus on sustainable infrastructure, digital innovation, seamless logistics, regulatory excellence, and people mobility, embodied in various initiatives such as the ASEAN Smart Logistics Network (ASLN) launched in 2020.

Given that Europe is comparatively more advanced in this segment, ASEAN presents European construction and engineering companies with numerous opportunities, particularly for green and digital forward solutions, as it ramps up its capabilities to meet demand. [10]

Figure 7: Infrastructure industry GVA (gross value added) in ASEAN-6



Markets covered: Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam

Source: Fitch Solutions

Large scale government-led infrastructure programmes and investment to play a critical role in economies like Indonesia, the Philippines and Vietnam

Indonesia

The government announced funding of USD450 billion for infrastructure projects in the country as part of the National Development Agenda (RRJMN) 2020-24 to promote economic transformation. A consortium of Dutch firms is working on the USD40 billion Giant Sea Wall Project in North Jakarta in collaboration with the Indonesian government.

Philippines

Infrastructure development in the country is being pushed through the government's 'Build Build Build' programme with 100+ projects planned. Spain's Acciona construction has been awarded a contract for construction of the Malolos Clark Rail Project.

Vietnam

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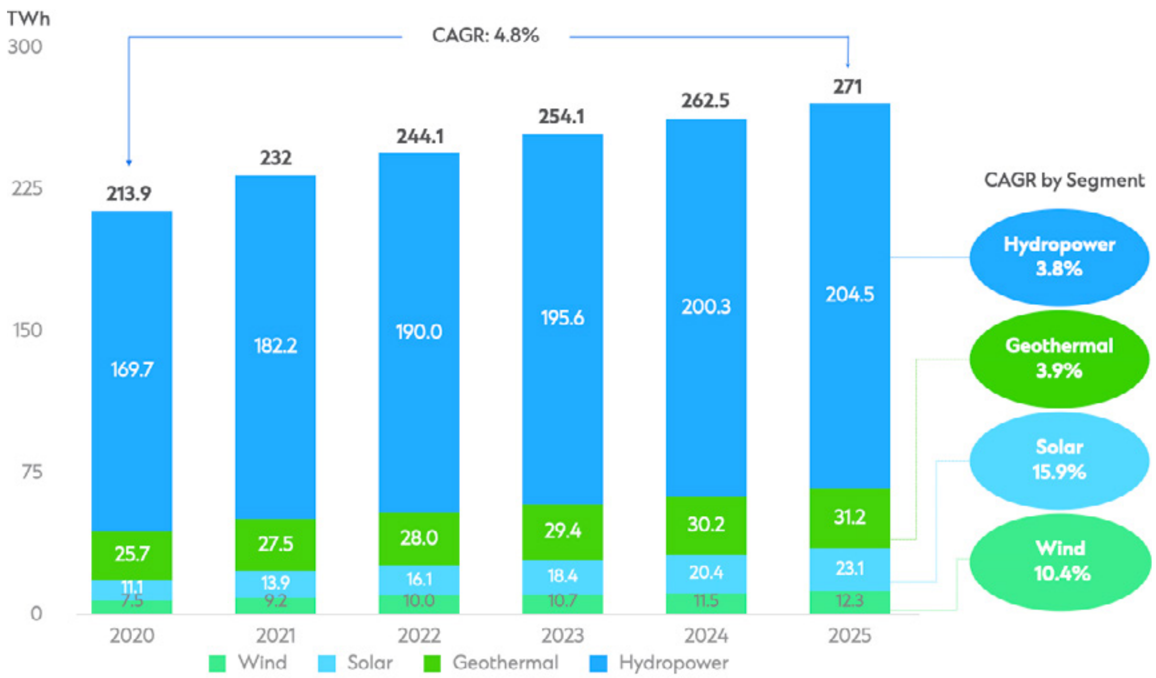
Source: ADB, German-Indonesian Industry of Commerce, Dutch Water Sector, Acciona, Vietnam Briefing, Alstom Press Release

h Includes transportation, energy and utilities

5. Priority growing for renewable or clean energy initiatives across ASEAN to meet rapidly growing consumption needs

Growing at a CAGR of 6 per cent over the past two decades, ASEAN's energy consumption has reached 994 terawatt-hours (TWh) in 2020, one of the fastest growing, globally. This is expected to continue with ASEAN's energy consumption reaching 1287 terawatt-hours by 2025. With the ASEAN Plan of Action and Energy Cooperation 2021-2025 setting the target to have nearly one third of ASEAN's energy from renewable sources by 2025, there is a substantial market for growth. Within this market, solar power generation is the fastest growing segment, with a projected CAGR of 16 per cent (2020-2025), compared to 4.8 per cent for the sector overall. Europe has long since invested in supporting ASEAN's green development, with the EU, European Investment Bank, and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) financing green infrastructure projects and providing technical assistance in the region. As such, renewable energy is bound to continue being an opportune market for European companies expanding in this corridor.[11]

Figure 8: Renewable energy generation in ASEAN



Source: Fitch Solutions

Focus on solar energy across key markets like Thailand, Vietnam and the Philippines

Thailand

Solar energy, pushed by initiatives such as the Energy Ministry's Solar Rooftop Scheme is a key growth segment in Thailand's renewable energy industry. French solar company GreenYellow completed the installation of one of Thailand's largest floating photovoltaics projects in 2020.

Vietnam

Solar and wind energy show the highest growth potential in Vietnam. The offshore wind sector is being emphasised by the government under Vietnam's National Energy Development Strategy. Copenhagen Infrastructure Partners signed an MoU in 2020 for the development of a USD10 billion offshore wind project in Binh Thuan, Vietnam.

Philippines

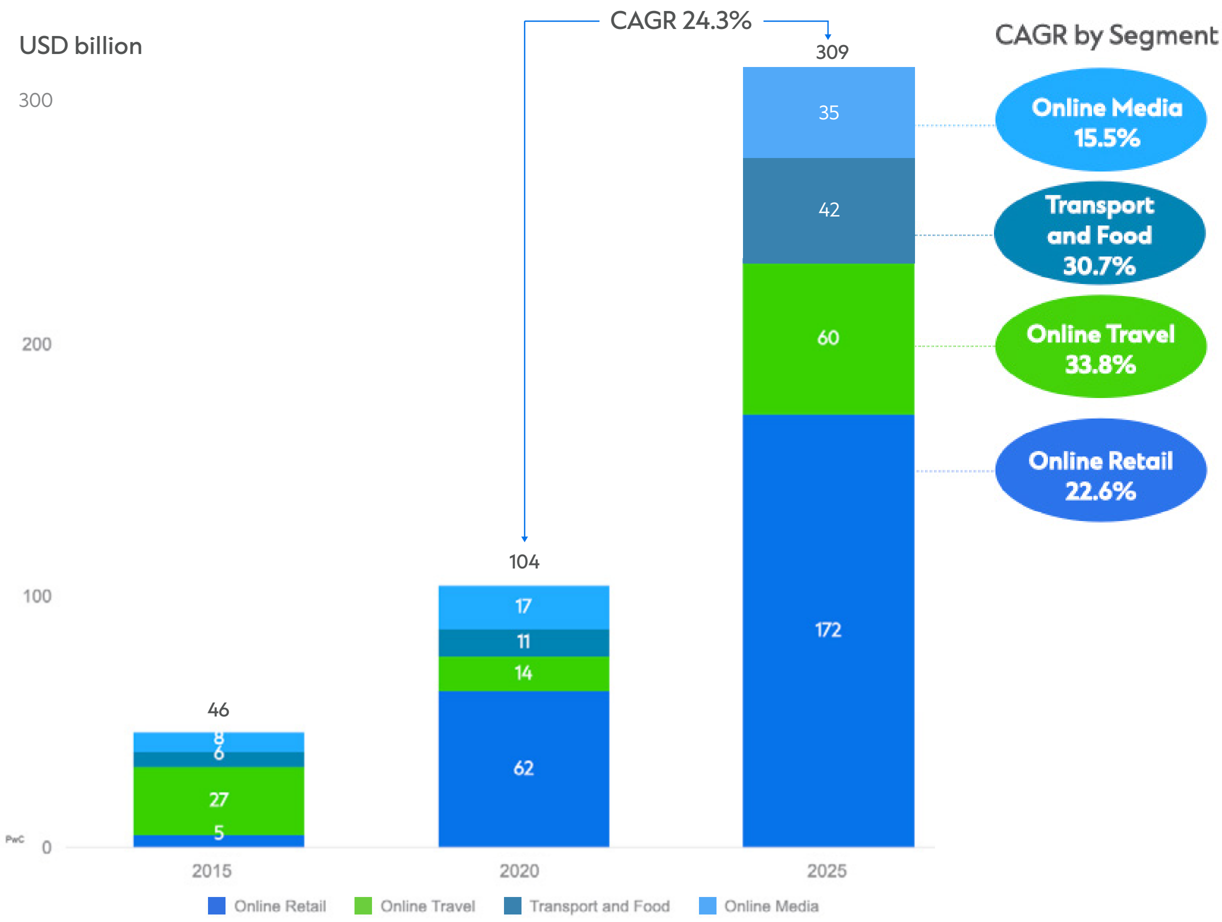
As per latest energy targets, renewable energy is expected to account for 35 per cent of the country's power mix by 2030. Geothermal energy which currently accounts for 70 per cent of renewable generation, will now allow 100 per cent foreign investment. There will also be a stronger focus on solar projects as per the country's Energy Plan 2040 as the country looks to increase capacity. In 2018, Germany-based Schletter Group announced that they would be supplying solar mounting systems to the largest solar park in the Philippines.

Source: PV Magazine, GreenYellow, Copenhagen Infrastructure Partners, Renewable Energy Magazine

6. ASEAN's e-commerce industry poised to be one of the fastest growing sectors, with sustained momentum even in a post-COVID-19 scenario

With 400 million internet users, ASEAN's e-commerce market presents vast potential for growth. Rapid e-commerce expansion in ASEAN has seen dominant players such as Lazada, Shopee and Tokopedia emerge. During the pandemic, demand for e-commerce services[i] gained significant momentum, as reflected in the upsurge of the sector's gross merchandise value (GMV) across the ASEAN-6 markets, which reached USD104 billion in 2020. Moving forward, the industry is forecasted to grow at a CAGR of 24 per cent from 2020 to 2025, reaching a GMV of USD309 billion by 2025. Driving this growth are rising income levels, increased consumer preference for purchasing goods and services online, and improved regional digital and logistics infrastructure. As this trend continues, e-commerce is posed to be an engine of growth for companies in the region, making it an important channel for European companies looking to access the ASEAN market.[12]

Figure 9: e-Commerce GMV in ASEAN-6



Markets covered: Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam
Source: Google & Temasek, e-Conomy SEA, 2020

i Including online retail, online travel, online media, transport and food

Governments supporting start-ups and enabling foreign investment in markets like Indonesia, Thailand, and Vietnam to drive further innovation in the digital space

Indonesia

In order to attract technology-related investment, the government has established friendly FDI policies and now allows 100 per cent foreign ownership of e-commerce businesses in the country. In 2020, Berlin-based Global Founders Capital invested in Indonesian B2B startup Klikdaily.

Thailand

Growth of e-commerce in the country has been driven by the government's National E-commerce Strategy (2017-2022) and initiatives such as the PromptPay e-payment service, making it an attractive destination for investments. During the COVID-19-induced lockdowns, European luxury brands such as Louis Vuitton and Chanel used communication app 'Line' as a channel for selling their products.

Vietnam

The government's National e-commerce Development Plan 2021-2025 focused on boosting e-commerce adoption, envisioning that 55 per cent of the population will shop online by 2025 with average annual consumer spending online rising to USD600 by 2025, up from USD202 in 2018. Estonia-based MetaPlanet (backed by Skype cofounder Jaan Tallinn) invested in Vietnam's fast growing food delivery startup Loship in 2021.

Source: E27, Tech In Asia

Role of financial partners

Digital tools offered by financial partners can help streamline and aggregate payment methods. Financial partners can also offer technology solutions to help reduce the compliance burden and provide a more seamless reporting process for European companies targeting ASEAN.

Case study:

Online payment solution in Vietnam: Top multi-national mail and logistic company

Background

A top multinational mail and logistics company operating in Vietnam, dealing with standard parcel delivery for business clients through cash collections, wanted an online single payment gateway to minimise merchant accounts and better support their clients with mature e-commerce shipping solutions.

It also wanted to standardise reporting processes through a single platform and improve the reconciliation process.

Solutions Offered

Standard Chartered integrated its Straight2Bank platform with the client, supporting the clients' online space with multiple payment methods for payers to choose at check out.

Standard Chartered also provided real time update of transaction completion, intra-day report, while funding is credited to the client's account on agreed terms.

Impact

- Eliminated cash collection and streamlined payment collection through single provider
- Single contract with Standard Chartered, no additional due diligence required and seamless reporting process
- Receipt of real-time notification on transactions
- Company able to view and reconcile vital transaction details via Standard Chartered's e-banking platform

Online fashion retailer YOOX Net-A-Porter partners with Singapore e-commerce platform BlinQ to expand ASEAN market reach

Background

Italian online fashion retailer YOOX Net-A-Porter Group has partnered with BlinQ, a luxury e-commerce platform based in Singapore, to bring YOOX's products to the region.

The collaboration will enable customers to access a catalogue of more than 10,000 products from over 700 luxury brands, on top of the products already on the platform — all while enjoying better customer experience, with lower shipping costs and shorter fulfilment times.

Impact

BlinQ has over 30,000 users joining the platform every month, with luxury brands such as Kenzo, Prada and Off-White included on the platform.

This partnership will provide YOOX with a strong Southeast Asian partner to expand their potential customer base in Southeast Asia.

Source: Retail News Asia

Critical Success Factors: Five Focus Areas for European Companies to Drive Resilient Growth in ASEAN

ASEAN's landscape is characterised by strong geographic, political, social and cultural diversity. As such, European companies targeting ASEAN must focus on five key areas to ensure resilient growth in such a dynamic region – including forging key local partnerships, diversifying their supply chains and driving digitalisation with strong cybersecurity measures to reduce risk exposure, as well as investing in Environmental, Social, and Governance (ESG) initiatives and effective governance frameworks. Figure 10 below shows that European companies are prioritising their focus on new partnerships and joint ventures over other areas.

Figure 10: Key focus areas to drive resilient growth in ASEAN

Note: Survey question asked: 'What are the key initiatives / focus areas for your organisation to drive resilient and rebalanced growth in ASEAN? Please select the relevant options and rank them in order of importance, 1 being the most important.'

Values indicated above refer to the % of survey respondents who included the initiative as one of the top 3 ranked choices

Source: Standard Chartered Survey, 2021

I. Expanding market presence and access through local public and private partnerships

ASEAN's strengths as a large, growing market, and its appealing demographics and production capabilities have attracted European companies, especially those considering diversifying their supply chains as part of a "China Plus One" strategy. The EUABC 2020[j] Business Sentiment Survey reported that EU companies viewed ASEAN as the region with the best economic opportunities for the next five years.[14]

Given supply chain disruptions from COVID-19 souring commercial prospects for some European investors targeting ASEAN, regional economic integration and progress on trade facilitation will be crucial to the region's sustained economic recovery. As one of ASEAN's main investors, the EU has committed to stepping up its economic efforts to speed up ASEAN's post-pandemic recovery, including pursuing its trade agenda with ASEAN countries beyond Singapore and Vietnam, and further advancing UK/EU-ASEAN programmes – a move expected to grant wider and easier access to the region for European businesses.[15]

Explore options for 'coopetition' – i.e. partnering with competitors in specific areas to accelerate market entry

European companies seeking to enter or expand across ASEAN markets can consider 'coopetition', i.e. partnering with international or local competitors in specific areas to facilitate and accelerate their market entry. This could involve collaborating with competitors outside core business areas to achieve synergies – for example, companies can consider sharing "economy logistics" to reduce fixed costs and investments for both parties, an approach explored by companies such as PepsiCo and Nestlé, which capitalised on shared warehouse capabilities and joint logistics, generating 12 to 15 per cent cost savings. Customer service also improved as both companies were able to make more frequent deliveries. Whilst 'coopetition' is still nascent in ASEAN, similar partnership models could be explored in the region, within the context of local anti-trust laws.[13]

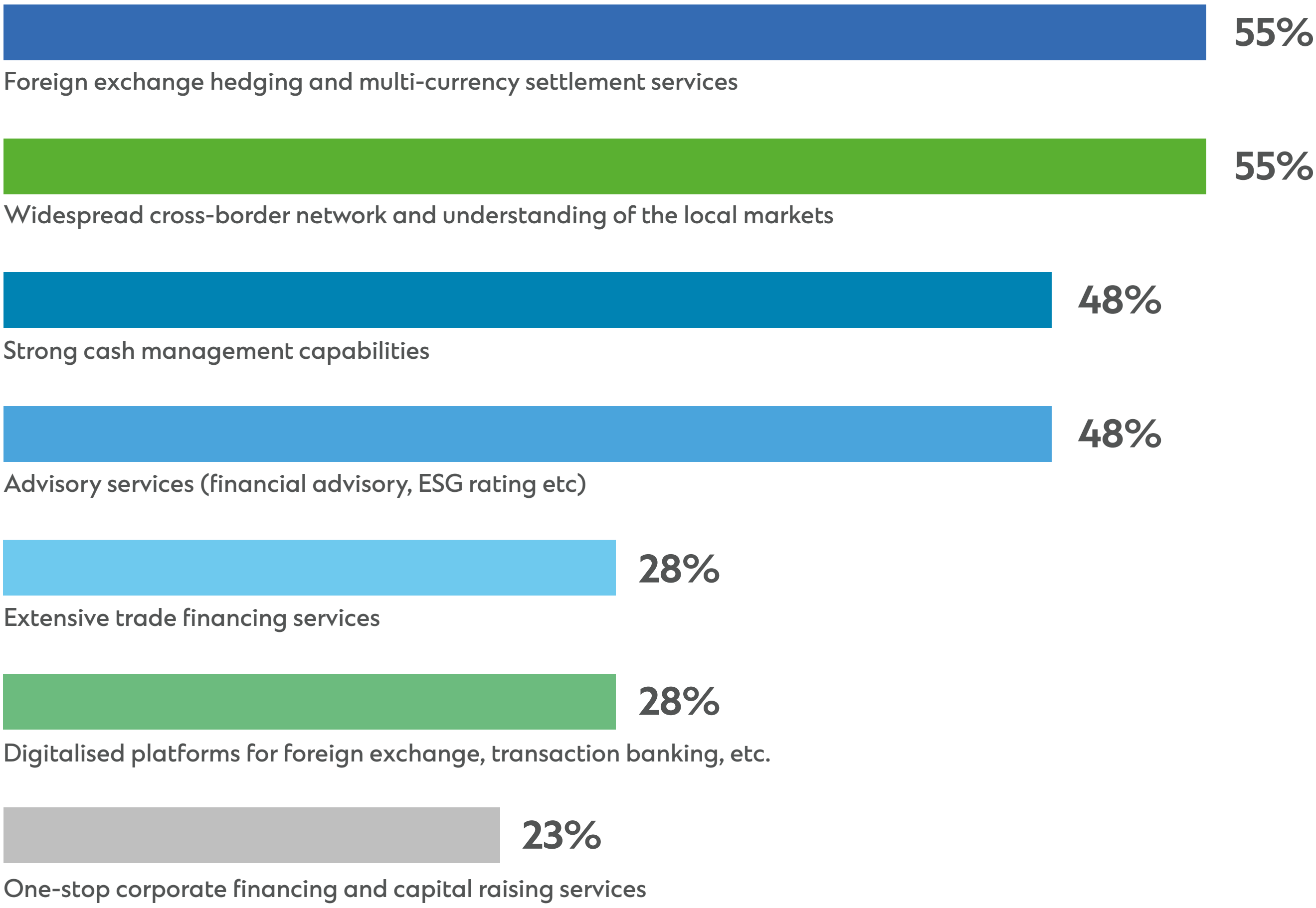
j European Union ASEAN Business Council

A. Engaging local partners to facilitate market entry

ASEAN's diverse and fragmented market, with varying business practices across its member states, often poses a challenge to European companies with no local presence or experience. In fact, our survey indicates that 85 per cent of respondents give high importance to local partnerships to increase market presence in ASEAN.[k]

Forging local partnerships will be vital to expediting their successful market entry. Apart from government support via local Investment Promotion Agencies (IPAs), commercial partners such as banks, professional services firms and industry associations, which have relevant market experience and expertise as well as wide-reaching networks of local contacts, can help companies better understand local market dynamics and business practices, mitigate risks, and overcome market entry barriers. Figure 11 shows how financial services partners are helping European companies engaged in this corridor. Majority of companies look to banks for their multi-currency management capabilities as well as their networks and local expertise. Others also count on cash management and advisory support from their banking partners to help them achieve their ASEAN growth plans.

Figure 11: Key requirements from banking partners to support growth in ASEAN



Note: Survey question asked: 'Where are the key requirements from your banking partner, to support your growth in ASEAN? Please select the relevant options and rank them in order of importance, 1 being the most important.'

Values indicated above refer to the % of survey respondents who included the requirement as one of the top 3 ranked choices

Source: Standard Chartered Survey, 2021

k For priority initiatives, values refer to the % of survey respondents who included the initiative as one of the top 3 ranked choices

Role of financial partners

For foreign companies looking to expand into ASEAN, financial partners can assist with trade financing needs in the region and help clients build stronger, more reliable relationships with local partners, including their distributors.

Case study:

Standard Chartered Trade Finance in Indonesia: Payables financing through VPP for Hypermarket Retail Chain

Background

- A hypermarket retail chain was looking for the option to receive early payment at a more affordable cost
- The company hoped that cheaper borrowing costs paid by suppliers would lead to better costs of goods
- The company also wanted to increase the days of payable outstanding (DPO)

Solutions Offered

Standard Chartered provided the client with a Vendor PrePay (VPP) programme:

- Suppliers can automatically or selectively discount their invoices in advance
- All requests for financing are seamlessly done via Straight2Bank

Impact

- As of Q3 2017, more than 50 suppliers are part of the programme
- Improved clients' relationship with suppliers with advanced payment at lower interest rate
- Strengthened clients' supply chains as VPP programme assures suppliers that invoices will be unconditionally paid by Standard Chartered on due date

B. Leveraging new and planned FTAs to facilitate trade and drive market access

While efforts to forge an EU-ASEAN FTA have not been successful to date despite strong lobbying from European corporates, the EU and UK are proactively securing FTAs with individual ASEAN countries instead. It is particularly important, therefore, for companies targeting ASEAN to also note FTAs currently under negotiation, which could significantly impact their future operations and growth prospects in the region. Furthermore, the EU's growing trade connections with signatories of the Regional Comprehensive Economic Partnership (RCEP), in particular Singapore and Vietnam, will enhance European exporters' access to the ASEAN market.[16]

C. Tapping into local government-led initiatives to overcome barriers to trade in ASEAN

A variety of EU and UK government-led programmes and initiatives have helped remove barriers to overseas trade and will continue to play an important role in facilitating trade and investment opportunities for European companies going forward. European companies should note that in addition to those, they would benefit from liaising with local IPAs for institutional support when expanding to new locations in ASEAN. Some examples include Singapore Economic Development Board, Malaysian Investment Development Authority, the Thai and Philippines' Boards of Investments, Indonesia Investment Promotion Centre, and Vietnam's Foreign Investment Agency. These IPAs can assist European companies in connecting with the right local partners and understanding the local business landscape as they explore opportunities in ASEAN markets.

2. Diversifying production networks and supply chains to build resilience post-COVID-19

Elevated geopolitical tensions and COVID-19-related disruptions are forcing manufacturers, globally, to reassess their supply chains to mitigate risk exposure and increase resilience. Whereas the pandemic was the main catalyst for this shift, the recent Suez Canal 6-day blockage, which prevented an estimated USD9.6 billion worth of trade among Europe, Asia and the Middle East, starkly illustrates how disruptive events are set to become the norm.[17]

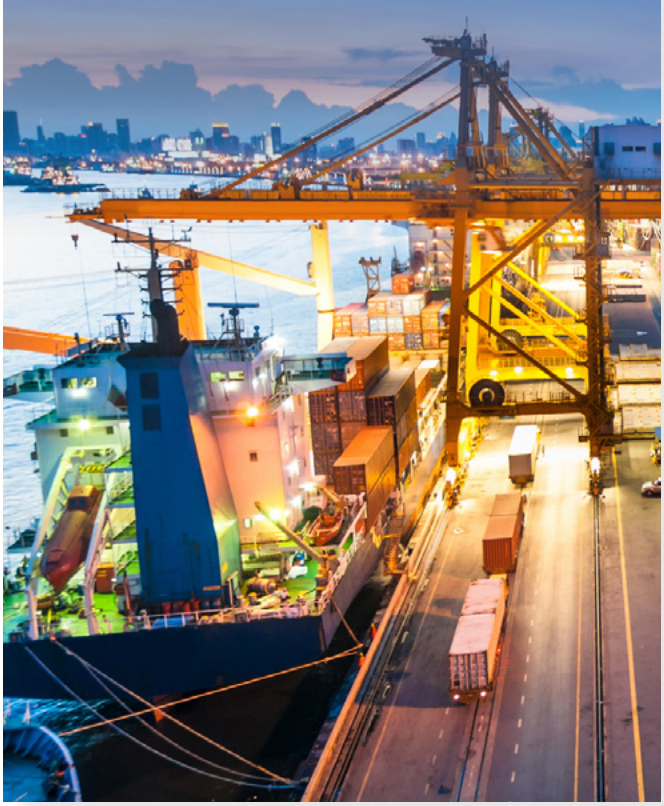
A. Diversifying footprint by adopting a 'China Plus One' strategy

Although China has long been a popular choice for manufacturing bases, rising labour costs and tightening environmental standards, coupled with increased tariffs as a result of geopolitical tensions, are pushing many manufacturers to reduce their supply chain dependency on a single market. For many European companies, manufacturing activities are "in China, for China", meaning a complete withdrawal from China is unlikely. A more plausible post-COVID-19 scenario would be "China plus One" – diversifying supply chains with additional manufacturing sites outside of China. Neighbouring ASEAN therefore stands out as an attractive alternative, given its geographical proximity to China, openness to foreign investment and lower labour costs. In fact, the EUABC 2020 Business Sentiment Survey considered ASEAN a top destination for supply chain relocation and, with Brexit spearheading new FTA negotiations with ASEAN countries, the same is expected of British manufacturers. Our survey results also validate this trend, with 48 per cent of respondents listing "diversification of production footprint" as a major driver (among top 3) for expanding into ASEAN.[18]

Supply chain resilience, not cost, to be the key measure for success going forward

Incorporating supply chain diversification as part of an overall strategy will allow European companies to be more flexible and better anticipate, adapt to and recover from events in an uncertain environment. Going forward, supply chain resilience and customer experience will become more critical measures as compared to cost, which has typically been the prime focus area for most organisations.

Companies should, however, adopt a holistic approach to risk diversification which extends beyond supply and production networks and also encompasses operations, systems, data and people.



B. Developing ASEAN production and supply networks, capitalising on its diverse landscape and capabilities

European companies looking to relocate or expand into ASEAN will benefit from understanding the region's diverse landscape, including each country's industrial capabilities and ecosystems, as well as international trade connectivity.

- **Disparate manufacturing capabilities in ASEAN markets:** ASEAN's industrial landscape varies across member countries given different economic priorities, production capabilities and infrastructure quality. More mature industrial bases such as Thailand and Malaysia are moving up the value chain towards more advanced manufacturing in industries such as automotive and aviation maintenance. In comparison, countries like Vietnam are starting from a less developed industrial base and will continue to focus on labour-intensive production in the near future. Companies should be aware of these disparities and use them to their advantage when aligning their strategic priorities with manufacturing capabilities of target markets.[19]

- **Increasing focus on Vietnam and Singapore:** Our survey results indicate that Vietnam is one of the top countries in ASEAN where companies see the most sales or expansion opportunities. This is not only because of its geographic proximity and lower productions costs relative to China – factors which has prompted automotive players such as BMW, Audi and, more recently, ZF Friedrichshafen to locate production plants in Vietnam's automotive cluster in Northern Vietnam (Haiphong) – but also its connectivity to European markets via the recently signed EUVFTA. Singapore is well-positioned for European companies within advanced or high-tech manufacturing such as GSK, which set up a USD98 million manufacturing facility in 2019, or those looking to establish a base for their ASEAN footprint. Dyson also recently announced plans to hire 250 more engineers and scientists in Singapore between 2020 and 2025 as part of its expansion plans in the region. This trend is expected to be bolstered by the new UKSFTA, in effect since January 2021.

Dyson's plans to expand in ASEAN

Background

- Leading British company Dyson plans to hire more engineers and scientists in Singapore, adding to its 1,200 existing staff.
- It comes after the company reduced its global headcount by 900 people in July 2020, due to the impact of the COVID-19 pandemic

Expansion plans in Singapore and the Philippines

- Dyson plans to delve deeper into areas such as robotics, machine learning and artificial intelligence.
- Dyson has already started renovations and plans to open its new global HQ in Singapore at the end of 2021 as well as a global cybersecurity centre.
- Dyson already has facilities in Singapore's Science Park for product development and testing, and an advanced manufacturing facility in Jurong, developed in 2020 that now builds its patented digital motors
- Separately, the company also invested in a software hub in Alabang, Philippines, to accelerate the development of new machines, on top of its manufacturing facility in Calamba.

Impact

- Dyson's move reflects the growing importance of ASEAN as a manufacturing powerhouse and its importance within global value chains – be it for manufacturing capabilities or human talent.

Source : Channel News Asia, Straits Times

C. 'Cash is King' for resilience

For European companies looking to trade with ASEAN, diversification of their supply chains will go a long way in terms of mitigating risks and uncertainties of current times. However, managing and maintaining liquidity will be just as paramount for ensuring resilient operating models going forward. This is especially true when it comes to operating in completely new markets, which will require European companies to front up heavy initial investments. In addition, with ASEAN being such a diverse market, managing liquidity will also entail developing an effective currency management and hedging strategy for companies looking to trade within the region.

Role of financial partners

Supply chain diversification into ASEAN can come with risk when dealing with multiple currencies. Financial partners can help foreign companies looking to expand into ASEAN with customised cash management solutions, to facilitate cross-border payments, collections, information management and liquidity management.

Case study:

Liquidity Management in Singapore: Multi-regional liquidity management structure

Background

- Client wanted to decide on the regional pooling location for a new single entity

Solutions Offered

Standard Chartered provided the following:

- Customised advisory in the form of a detailed cost-benefit analysis
- Automated liquidity management solution through the Straight2Bank Liquidity (S2BL), best-in-class customised liquidity management structure designed for the client, comprising physical concentrated to Singapore by true end-of-day domestic and cross border sweep and single entity multi-currency notional pooling
- Yield optimisation through competitive credit and debit interest rates, extended cut-off time to give client flexibility to use the funds and invest pooled balances
- Extensive reporting of MT940 and MT942 for TMS consolidation

Impact

- Consolidation of nine currencies under the client's global treasury for optimal usage of funds
- Flexible and optimal usage of the consolidated multi-currency positions

3. Enabling digital advancement and organisation-wide cyber resilience

ASEAN's rising prominence within global manufacturing, trade, and supply chains has been driven by its favourable demographics and production capabilities. Nonetheless, future growth can only be sustained by a strong commitment and drive toward digitalisation. This has become more evident during the global pandemic, which stressed the role and importance of digital technologies for industry, businesses and consumers alike. The ASEAN Economic Community (AEC) recognises this, with its Blueprint 2025 highlighting ICT development as "a key driver in ASEAN's economic and social transformation". European companies targeting ASEAN should be cognisant of the importance of digitisation and automation to generate new business opportunities through the development of new production processes, products, and markets. Currently, 43 per cent of European companies surveyed plan to execute digital transformation programmes to drive resilient growth in the region.[I]

A. Developing a holistic digital transformation and connectivity framework

With about 80 per cent of ASEAN's population expected to be online by 2030, European companies that are looking to tap into the e-commerce boom across the region will need to acknowledge the need for enhanced safety, security, reliability, transparency, flexibility, and efficiency of the supporting logistics infrastructure. Companies operating in ASEAN will need to consider digital integration more holistically, building digitally capabilities across targeted parts of their supply chains. This will involve developing a framework for digital connectivity which should involve:[20]

- **Building integrated digital capabilities across supply chains:** This will depend on advanced data analytics which will provide the necessary end-to-end visibility and enable different parts of the supply chain to be linked in real time through digital tracking and communication solutions.[21]

Collaborative digitalisation: MNCs to support digital advancement of ecosystem partners

European MNCs operating or looking to operate in ASEAN, particularly those with interconnected regional supply chains, will inevitably need to work within an ecosystem of local suppliers – often specialised SMEs. In many cases, such MNCs will have more advanced or further developed digital capabilities as compared to local partners. In order to be able to sustain the growth of their ASEAN business, MNCs must look to support these local, smaller, partners on progressing them further into their digitalisation journey. This will be important for ensuring connectivity, visibility and transparency amongst all ecosystem players, essential for enhancing their business resilience.

I For key initiatives, values refer to the % of survey respondents who included the initiative as one of the top 3 ranked choices

German conglomerate Siemens, pharmaceutical company GSK, and French logistics company GEODIS digitise operations in ASEAN

Siemens established the first-of-its-kind Advance Manufacturing Transformation Centre (AMTC) in Singapore's Jurong Innovation District (JID), as part of a local advanced manufacturing ecosystem masterplan, to support the digitalisation and transformation of manufacturing facilities in ASEAN.

The AMTC will house Siemens' first Additive Manufacturing Experience Centre (AMEC) outside Germany, where companies can experience an end-to-end additive manufacturing production line with Siemens' technology partners.

In 2019, GSK opened a fully automated continuous production facility in Singapore and an expanded manufacturing plant in Jurong. The new facility improves conventional batch production methods and enables continuous manufacturing of medicines, which allows for active pharmaceutical ingredients for clinical trials to be produced more quickly and precisely.

GEODIS, a French logistics company, implemented its own E-solution system called IRIS, which provides transparency and visibility along all milestones from when the product leaves the manufacturing plant to final delivery point, and with its new Transport Management System (TMS), these milestones are fully automated from the first mile to the last mile, with a digital sign-off on the delivery agent's handheld device.

Source : Company websites, Bloomberg, UK-ASEAN Business Council "Investing in ASEAN 2021 | 2022"

- **Developing a framework for digital connectivity to facilitate distribution within the region:** European companies – especially those selling consumer products (e.g. fashion products, gourmet food, and cosmetics) – will need to enhance data capabilities to enable cross-border transactions. This will involve preparing logistics to facilitate the free flow of goods and services across borders, establish financial connectivity to facilitate cash flows and payments, and ensure the overall links between cyberspace and the physical parts of the e-commerce network remain seamless. As digital development across ASEAN is not uniform and debatably not as advanced as in Europe, companies targeting ASEAN should therefore familiarise themselves with the degree of internet penetration, affordability of internet access, quality of digital infrastructure available across ASEAN countries, as well as government initiatives to develop these.

B. Adopting an "assumed breach" approach to enhancing cybersecurity resilience

The success of digitisation in ASEAN hinges on the effective implementation of cybersecurity measures. In comparison to the EU and UK, ASEAN countries still face significant challenges related to digital trust, particularly when it comes to ensuring data protection and digital identities in online transactions.[22]

Our survey results indicate that only 8 per cent of European companies currently have plans to strengthen cyber security as a priority (within top 3) initiative. Such companies must recognise the importance of digital trust to the free flow of data and will need to develop their cyber resilience capabilities in order to operate smoothly and successfully within the region. Having said that, rather than focusing on cybersecurity to avoid breaches completely, companies should assume a breach will occur and focus on developing the capabilities to respond quickly and effectively recover from any data infringements. As a starting point, European companies operating in ASEAN can look to the EU's 2018 General Data Protection Regulation (GDPR) for guidance on strengthening their cybersecurity, as GDPR norms apply to European companies operating abroad as well.

4. Focus on net-zero commitments through sustainable supply chains and ESG-led initiatives

With the region's propensity for natural disasters, ASEAN has experienced first-hand the detrimental effects of climate change on resources, supply chains and society at large. Governments have wholeheartedly recognised the importance of sustainability and social impact. As part of the wider ESG agenda, ASEAN governments have been working to enhance climate change action and sustainable solutions in the region, such as building solar energy powered infrastructure and managing plastic waste. At the same time, they are also working to improve local governance frameworks and regulations to encourage responsible investments. Within the ASEAN Comprehensive Framework, adopted at the 37th ASEAN Summit in November 2020, there is a clear focus on ESG, with an emphasis on developing resilience and sustainability across the region. Corporates have also shared similar sentiments on prioritising ESG principles. Our survey shows that 40 per cent of respondents are focused on 'driving ESG initiatives' as a key growth strategy in ASEAN.[m] With ESG criteria shaping the global corporate agenda, ASEAN presents several opportunities for investors: green infrastructure will reinforce environmental developments; alternative financing will support social impact; and enhanced governance and collaboration will enable a coordinated recovery from the drastic economic consequences of the pandemic.[23]

Working with ASEAN counterparts to strengthen local capabilities for sustainability

Net zero has become the guiding principle for action on climate change in recent years and Europe has been at the forefront of the ESG agenda. Among European countries, the UK was the first major economy to commit to net zero emissions. In comparison, ASEAN's ESG landscape is less mature. European companies looking to expand into ASEAN must understand that the opportunities and challenges pertaining to sustainability in the region will differ from Europe. As achieving carbon neutrality is a global endeavour, companies should aim to work with their ASEAN counterparts to build the capabilities and infrastructure for incorporating sustainability into local business operations or KPIs. Leading examples of this include companies such as Bosch and BASF, which are driving ESG ideas such as carbon neutrality and circular economy in Southeast Asia by building photovoltaic systems to tap on the region's access to solar energy or developing new technologies to help ASEAN partners better manage plastic waste.

m For priority initiatives, values refer to the % of survey respondents who included the initiative as one of the top 3 ranked choices

A. Incorporating EU/UK sustainability standards into ASEAN business practices

In line with the EU's ambition to be climate neutral by 2050, the European Parliament is pushing for mandatory due diligence requirements to hold EU companies accountable for their business practices. If successful, EU companies will need to address and remedy any aspects of their value chain that might potentially infringe on human rights, the environment or good governance. They will also need to note the terms of the EU Green Deal – which aims to boost the efficient use of resources by moving to a clean, circular economy and to restore biodiversity whilst reducing pollution – and align their practices accordingly.

Currently, British companies still need to consider ESG-related EU standards. As the UK prepares to host the UN's COP26 climate summit later this year, it has pledged to reduce carbon emissions by 78 per cent by 2035. The UK government also intends to start a "green industrial revolution" to stimulate recovery from COVID-19. Therefore, European companies looking to expand into ASEAN must conduct appropriate due diligence to ensure that shortlisted ASEAN locations do not promote contradictory laws or practices.[24]

Standard Chartered joins fight against climate change

- **'Carbon Dated': MNCs targeting emissions generated in supply chains in transition to net zero**
  Standard Chartered's latest research report highlights the risks and opportunities for suppliers in emerging and fast-growing markets as large corporates transition to net zero. MNCs surveyed say that supply chain emissions account for an average of 73 per cent of their total emissions and expect to exclude 35 per cent of their current suppliers as they transition away from carbon. Further details can be found here.
- **Climate Impact X: a global carbon exchange and marketplace**
  Standard Chartered, DBS Bank (DBS), Singapore Exchange (SGX), and Temasek announced in May 2021 their plan to develop a carbon exchange marketplace, Climate Impact X (CIX), to provide companies with high-quality carbon credits designed to address hard-to-abate emissions. CIX will use satellite monitoring, machine learning and blockchain technology to enhance transparency, integrity and quality of carbon credits. Further details can be found here.

Bosch expands its ESG goals to worldwide sites, including Southeast Asia

Bosch, having achieved its carbon neutrality goal in 2020, is now expanding its sustainability efforts to its upstream and downstream activities along the value chain, including its manufacturing sites in Southeast Asia.

Leveraging on the region's proximity to the equator and high exposure to solar radiations, Bosch installed photovoltaic systems on the rooftop of their plants in Malaysia and Thailand and plans to do the same in Vietnam.

In Singapore, Bosch used IoT and sensor-driven solutions to make its campuses 'smarter'. The company's building in Singapore is not only eco-friendly with energy consumption 30 per cent lower than comparable industrial buildings, but it is also interactive and user-friendly.

Source: UK-ASEAN Business Council "Investing in ASEAN 2021 | 2022"

German chemical company BASF is helping to address waste in ASEAN

BASF is driving the transformation towards a circular economy by developing solutions that make the most of the limited resources and minimise waste. The most relevant sustainability topics in ASEAN countries currently are waste management and carbon footprint reduction.

BASF's ChemCycling™ project is a protected trademark. The company is working with its partners to further develop a technology that turns mixed plastic waste into pyrolysis oil as alternative feedstock in its integrated chemical production system.

In 2019, BASF launched three active ingredients for cosmetic products derived from the peel, leaves and seeds of rambutan grown in Vietnam. Besides avoiding waste and minimising land use, the Rambutan programme also offers above-average incomes for growers, ensures gender equality, and guarantees safer and healthier working conditions.

Source: UK-ASEAN Business Council "Investing in ASEAN 2021 | 2022", Company website

B. Working with local partners to enhance impact of sustainability efforts

As ESG initiatives take centre stage in both Europe and ASEAN, collaboration will be key to driving sustainability efforts. At the policy level, the EU not only financially supports the ASEAN Smart Green Cities Initiative, but also works with individual ASEAN member states on eco-friendly policies, such as Thailand's Bio-Circular-Green Economic Model and Singapore's Green Plan 2030. Recently, the EU and Asian Development Bank committed to partnering with ASEAN to boost financing for green infrastructure, under the ASEAN Catalytic Green Finance Facility (ACGF), which is part of the broader ASEAN Infrastructure Fund. European companies in this sector could consider tapping into such support funds. At the corporate level, European companies can capitalise on the high-level cooperation between the EU or UK and ASEAN on climate change and the circular economy to develop partnerships with local public and private stakeholders. As ASEAN consumers grow more ethically conscious, companies that manage to establish a strong ESG brand image are more likely to gain competitive advantage in ASEAN markets. To this end, companies will need to ensure that sustainable practices are adopted across their supply chains, specifically in relation to their network of local suppliers (particularly challenging for smaller, lower-tier suppliers). Close collaboration between manufacturers and suppliers will be key to enhancing ESG-related efforts, which can involve providing incentives for adhering to specific ESG KPIs, offering training or sharing best practices with suppliers for upskilling purposes.[25]

Nestlé's commitment to achieving sustainability

Background

Nestlé released its 2020 Creating Shared Value and Sustainability Report. The company's commitment in the report aligns with and supports the UN Sustainable Development Goals (SDGs).

They focus on promoting healthier lives for adults and children, improving livelihoods in the communities where Nestlé is present, and protecting and restoring the environment.

Looking ahead

Nestlé announced new commitments for the future, such as making 100 per cent of its packaging recyclable or reusable by 2025. It also plans to achieve net zero greenhouse gas emissions across the whole of its operations by 2050.

In December 2020, the company published a detailed net zero roadmap with tangible, time-bound targets to reduce emissions, within and beyond its operations. Achieving this will require Nestlé to work with partners all across their value chain – including helping their farmers and suppliers implement regenerative agricultural practices. Nestlé is also switching to renewable energy in factories and offices and looking for new innovative packaging solutions for its products.

In addition, in its Compensation Report 2020, Nestlé announced that for 2021, ESG-related KPIs will be included in the Short-Term Bonus framework of the company's Executive Board.

"This is what Creating Shared Value (CSV) has always been about, focusing energy and resources where we can make the greatest positive impact on people and the planet."

A message from Nestle Chairman U. Mark Schneider and CEO Paul Bulcke, Shared Value and Sustainability Report 2020

Source: Nestlé Press releases and Annual Report

5. Enhancing governance and risk management practices to succeed in ASEAN

European businesses should be aware that as a region, ASEAN does not have a set of established corporate governance or reporting standards despite efforts toward integration and improving regulatory standards and quality. In fact, governance levels vary significantly between markets. On one end of the spectrum, Singapore has established itself as a regional hub for multinational corporations through its strategic qualities and strong governance performance; on the other end, markets such as Myanmar, ridden with political instability, might pose regulatory concerns. It can be said that the EU and UK have relatively more developed governance frameworks and standards as compared to ASEAN, especially those pertaining to bribery and corruption. Businesses are aligned to strict governing policies, such as the UK Anti-Bribery Act, which applies even beyond domestic borders.

However, governance is not confined to regulatory compliance. A holistic governance approach would involve, inter alia, establishing a shared purpose among stakeholders, reporting standards to ensure transparency and accountability, and perhaps even social initiatives to deepen corporate participation in achieving ESG goals. Therefore, companies looking to expand into ASEAN should not only prepare for institutional disparities but look to strengthen their governance and risk management frameworks beyond minimum standards of regulatory compliance.

A. Rethinking governance frameworks and driving transparency to build trust in a post-COVID-19 world

COVID-19 has reinforced the need to rebuild trust among different stakeholders including governments, corporates and societies. Ever-changing economic and social realities are urging companies to factor in more inclusive and purposeful growth in their operating models and governance standards. It is imperative that these new models and standards encompass the needs and interests of all stakeholders, while managing the business impact on society and the environment with adequate transparency. European companies already abiding by such principles in their home markets will need to instil this thinking in their new ASEAN locations, where governance standards are still evolving.

The 'G' in ESG: Look beyond 'hard' governance metrics to build trust with stakeholders, including government and society

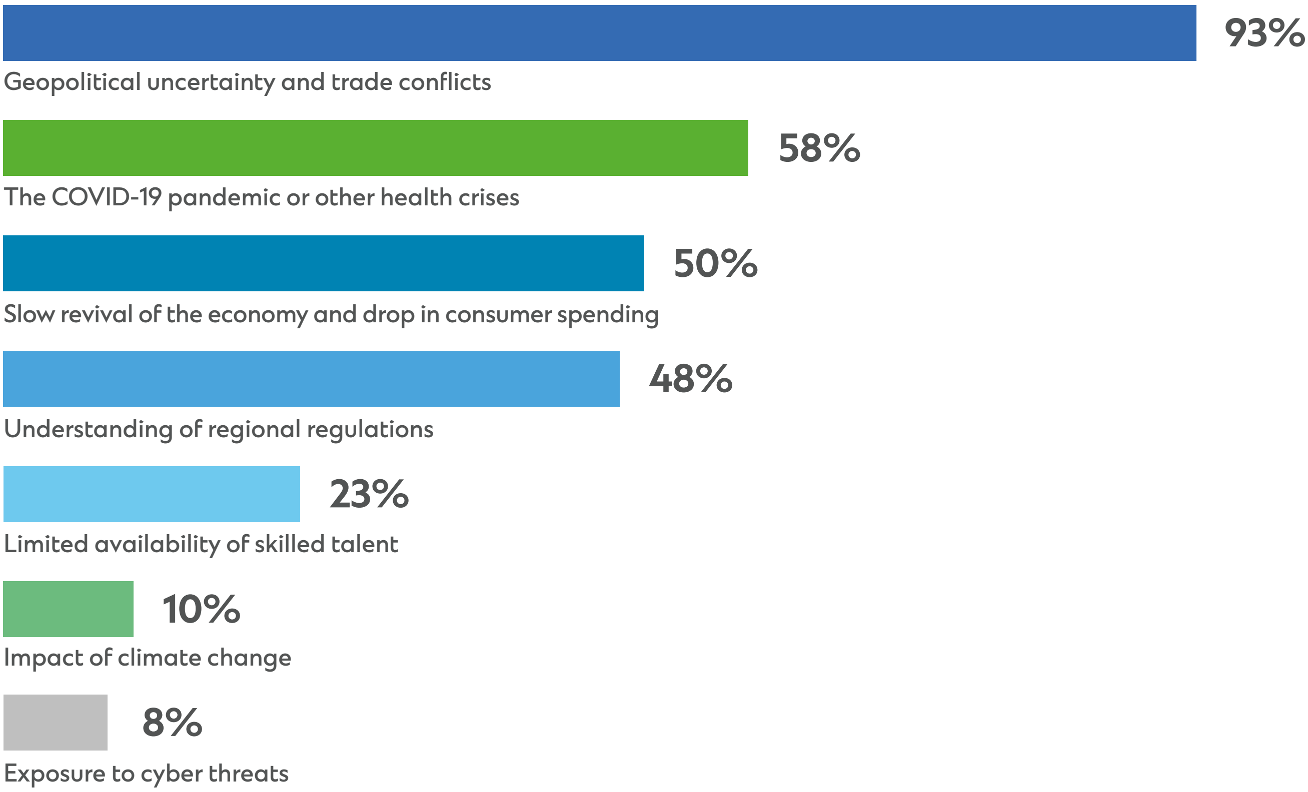
As companies increasingly focus on purposeful growth and driving 'profits with purpose', they must look beyond 'hard', quantifiable metrics to measure governance standards and focus on 'softer' aspects – such as building trust among suppliers or employees and involving stakeholders in the ESG agenda. For example, Shell voluntarily publishes reporting standards and ESG ratings on its website, including a series of sustainability reports. As part of the company's goal to achieve net zero carbon emissions by 2050, it has also involved its shareholders in the company's Energy Transition Strategy. It has also implemented a control framework that applies across all its businesses, to ensure that high standards are met on health and safety, the environment, climate change, biodiversity, and the company's relationships with local communities. Some of these standards include supporting local businesses, which is underpinned by the company's core values to care for and respect the people they work with.

B. Customising risk management frameworks for operations in ASEAN

Inevitably, political and cultural differences can be a potential risk for European companies entering ASEAN, especially those engaging in formal partnerships with local firms or government bodies. Our survey illustrates the types of risks respondents associate with operating in ASEAN (shown in Figure 12).

Adopting new governance principles will be essential – for example, aligning employees' or management's bonuses with ESG targets, as will developing more robust internal risk management frameworks to operate successfully in an unpredictable environment. Stronger risk management systems will allow companies to enhance their internal planning expertise, mitigate the impact of worst-case scenarios and improve their response capabilities going forward. For companies focused on driving digitalisation in particular, risk management frameworks must also incorporate effective cybersecurity and data protection mechanisms.

Figure 12: Key business risks in ASEAN



Note: Survey question asked: 'What are the key risks for your business in ASEAN? Please select the relevant options and rank them in order of significance, 1 being the highest risk factor.'

Values indicated above refer to the % of survey respondents who included the risk as one of the top 3 ranked choices

Source: Standard Chartered Survey, 2021

Conclusion

Companies are looking to rebalance their production portfolios to address fundamental shifts in global trade and navigate recent supply chain-related disruptions. Sustainability has been at the forefront of these global developments, pushing companies to adopt more ESG-focused business practices and governance frameworks. Entering a diverse region, with markets significantly dissimilar to their home markets both politically and culturally, European companies must develop strong, robust risk management frameworks and governance principles to ensure resilient and purposeful growth in ASEAN.

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