

APRIL 2023

THE PULSE

Monthly Insights 



FORGING GLOBAL PARTNERSHIPS TO POWER REGIONAL GROWTH

Vietnam is the leading exporter in the ASEAN region. While its export turnover of USD282-bn in 2020 contributed 82% of the country's GDP, the manufacturing powerhouse has tremendous potential to further boost its exports. The country's SME sector that accounts for one-third of the exports can grow aggressively if its capital constraints are addressed.

We at ASEAN Business Partners (ABP) are working with global financial firms to bring affordable sources of credit and finance to SMEs in Vietnam, while helping enterprises to strengthen risk management and control costs. Our innovative export finance solutions can meaningfully meet the requirements of SMEs in Vietnam, creating favourable conditions for Vietnam's exports to continue to grow.

This edition's special report outlines how export finance for SMEs can play a key role in fulfilling Vietnam's vision of being one of the top five exporting countries in the world by 2030. ABP's stellar efforts in the domain have also been featured by a leading Vietnamese business news portal.

This edition's country snapshot on Thailand captures the country's continuing status as an automotive powerhouse. Successive Thai governments have, through well-defined policy directives attracted the world's leading automotive brands to set up local production and export bases in Thailand. Hozon Auto's Neta is the latest entrant with its first plant in Thailand.

While the report on the collapse of Silicon Valley Bank takes stock of its cascading effect on the Southeast Asian venture capital and startup ecosystems, the report on surging e-commerce in the region traces the growth drivers, distribution channels, hot-selling products and the trends shaping the e-commerce industry in South East Asia.

Trust you will find these insightful edition informative and engaging. Do share your feedback.

Warm regards,

Sumit Dutta

Founder & CEO

ASEAN Business Partners

THAILAND: AUTO MAJOR TURNS EV INVESTMENT MAGNET



Thailand is known as Detroit of the East with good reason. The country's automotive sector has a supply chain of more than 2,200 auto component suppliers catering to more than 20 vehicle manufacturers and a dozen motorcycle manufacturers, including the world's leading Japanese, European, Chinese and American brands. Besides a robust domestic market, Thailand automotive exports cater to over 100 countries, making it the largest player in the ASEAN region. Automobiles and vehicle parts rank among the country's top exports items, with the sector earning a total of USD 37.6-billion in 2022.

With green mobility identified as one of the key drivers in the global quest to achieve climate goals, automotive powerhouse Thailand is leading the Asian charge in ushering in the electric era. Building on its six decades of competency as an automotive hub, the number one car manufacturing nation in Southeast Asia - and the world's tenth largest - is taking rapid strides on the path to carbon neutrality and emerging as the model economy of the EV era. Even as Thailand's traditional automobile industry continues to surge, the country's forward-looking government has introduced incentive packages to attract foreign investments to boost its EV sector.

Last month alone, two EV majors have broken ground to set up their Thailand plants. While Shenzhen-based BYD plans to produce 150,000 passenger vehicles annually by next year, Zhejiang's Neta is collaborating with Horizon Plus to build an annual capacity of another 150,000 vehicles for the local as well as international markets. Another Chinese EV maker, Great Wall Motor (GWM), has a plan to invest \$685 million to turn Thailand into their ASEAN hub for EV business, which is slated for completion in 2024. While Mitsubishi Motors is investing heavily in plug-in hybrid electric vehicles (PHEV) in Thailand, Mercedes has not only commenced production of its first fully-electric Mercedes-EQS but also the vehicle's high-performance lithium-ion batteries. Meanwhile, at least 50 Chinese EV auto parts suppliers have also set up offices in Thailand.

BUILDING AN ECOSYSTEM

Buoyed by the government's supportive policy framework, private stakeholders are joining the campaign to build a robust EV ecosystem for Thailand and export markets, right from OEMs and vehicles to charging infrastructure and disposal mechanisms. Thailand has set a goal to produce 30% of the total vehicle production or about 750,000 EVs by 2030, and by 2040 the number of EVs will increase to 2.5 million. These efforts are building on the Kingdom's traditional strength in imports and exports, as well as a highly skilled and trained labour force, to make Thailand competitive among the global leaders in the EV space.

On its part, the government is offering attractive incentives to manufacturers to support Thailand's transition to a regional EV production hub. Thailand's Board of Investment (BOI) is offering tax as well as non-tax incentives, including an exemption on corporate income tax for up to eight years, across the EV value chain. This includes electric vehicles, EV charging stations and equipment, parts and components, and batteries. The country is truly on its way to being a hub of EV production for the growing domestic and regional market that its automobile manufacturing sector has long served.

ELECTRIFYING OPPORTUNITIES

Auto manufacturers and investors in Thailand can benefit immensely from the country's free trade agreements (FTAs) with Australia, China, India, and New Zealand, besides the 10 member states of ASEAN. The FTAs provide investors an opportunity to expand their supply chain and gain competitive advantage besides enabling greater market access in the region and expanding business opportunities.

Thailand's Eastern Economic Corridor located in the three eastern provinces of Chonburi, Rayong and Chachoengsao is designed to support 10 target industries, including automobile, to promote emerging technology, innovation and creativity within each sector through targeted government policies and investments. Besides, the government has also cut excise tax rate from 10% to just 2% to encourage EVs. To boost the component industry, the Thai government has recognized 10 components eligible for eight-year CIT holidays. With the Thai government setting ambitious goals for the transition to a net zero economy, its attractive incentives and policies make it an investment magnet for the EV industry.

THAILAND BOARD OF INVESTMENT'S INCENTIVES FOR EV

- Corporate Income Tax exemptions up to 8 years with no cap
- Permission for 100% foreign shareholding
- Permission for foreigners to research on investment opportunity
- Permission to bring in foreign technicians and experts
- Permission to remit funds in foreign currency
- Permission to possess the right of land ownership
- Import duty exemption on machinery and export-bound materials

ASEAN START-UPS UNHURT BY SVB COLLAPSE, BUT FUNDING WINTER MAY GET PROLONGED

Start-ups in the ASEAN region are largely funded by local venture capital firms, and they bank locally too. However, SVB's collapse could affect access to capital over the long term.



The recent collapse of Silicon Valley Bank (SVB), the 16th largest bank in the US and key source of funding for start-ups and venture capital (VC) firms, created panic in the start-up world this March as founders scrambled to access their deposits to make payroll. More uncertainty followed as the subsequent collapse of two more US banks – and of Credit Suisse Bank in Europe – roiled the markets.

To be sure, the US Federal Reserve and Federal Deposit Insurance Corporation quickly jumped to the rescue by guaranteeing SVB's entire deposits. However, while ASEAN start-ups and VC firms were not immediately impacted by these developments, concerns are being raised about the longer term impact of the failure of this systemically important bank for the start-up world.

RISING RATES AND FUNDING WOES

Unlike the 2008 global financial crisis, SVB failed not because of credit but interest rate risk and duration mismatch between its deposit liabilities and bond assets. On the one hand, the value of its long-duration government-backed securities eroded following the sharp increase in interest rates by the Federal Reserve. On the other, its deposit growth turned negative. Start-ups withdrew money to meet their liquidity needs as both VC funding and tech initial public offerings (IPOs) became scarce and costlier with rising rates and falling valuations.

When SVB revealed that it had sold \$21 billion worth of its securities at a loss of \$1.8 billion and needed to raise \$2.25 billion to shore up its balance sheet, it resulted in a bank run. Its highly concentrated and panicked customer base withdrew a staggering \$42 billion in a single day.

The immediate impact was that start-ups across the globe, from the US and Canada to India and China, scrambled to access their funds to make payroll.

ASEAN START-UPS UNAFFECTED - FOR NOW

In the ASEAN region, however, the impact was minimal as most start-ups here have negligible exposure to SVB or its VC customers. That's because they are largely funded by local VC funds - and bank locally, too.

Unlike SVB, ASEAN banks are less at risk of a sudden run on deposits because of a stronger regulatory environment, comfortable asset mix, and diverse customer base.

Also, while some Asian VCs like Jungle Ventures and Golden Gate Ventures did bank with SVB, again their exposure was minimal. For instance, according to Golden Gate Ventures, less than 1% of its funds were banked with SVB.

Hence, many VC firms in the ASEAN region don't expect the SVB collapse to hurt fundraising for tech startups in the near term. However, they point out that it could prolong the funding winter over the medium term.

Remember, start-ups globally have faced a tough fund-raising environment over the last year owing to collapsing valuations, a shrinking tech IPO market, and reduced early and late-stage funding.

While a majority of venture funds in countries from Malaysia to Singapore to Thailand comes from local institutions and individuals, capital could become harder to access in the longer term. American investors invested in local VC funds could halt or delay investment flows to emerging markets. This could affect growth-stage fund-raises, secondary sales and acquisitions at a time when start-ups are already facing recessionary fears.

POSITIVE FALLOUT

SVB's value lay in the fact that it provided both access to the US capital markets and also networking opportunities in Silicon Valley. It also understood how start-ups operate and the risks of being a venture-backed company.

ASEAN banks may not be able to provide this reach, but there could be an opportunity for them to offer banking products and services to local start-ups looking for more reliable and better capitalised banking partners. Moreover, countries like Singapore could also emerge as a stronger haven for start-up focused capital and talent.

Another big positive fallout is that the uncertainty caused by the SVB collapse along with the existing tight funding environment is compelling start-ups to trim costs and preserve cash. Since the days of easy money are over, they are learning to cut their burn rate to extend the cash runway, and also focus on profitability.

In addition, start-ups are realising the benefits of good regulation and a stable banking regime - and that they should not put all their eggs in one basket.

LESSONS AND OPPORTUNITIES FROM SVB COLLAPSE

- Opportunity for ASEAN banks to create start-up-specific banking solutions
- Tighter funding environment prompting start-ups to cut costs and preserve cash
- Strong banking regulation is good
- Banks must diversify their customer base, and start-ups, their banking relationships

ENABLING SMES TO BOOST VIETNAM'S EXPORTS



Buoyed by a determined political leadership and its forward-thinking policy framework, Vietnam's enterprises have earned the country the reputation as a leading exporter globally. Today, Vietnam is the top exporter in the ASEAN region. While its export turnover of USD282-bn in 2020 contributed 82% of the country's GDP, the manufacturing powerhouse has tremendous potential to further boost its exports.

The next phase of export growth is tipped to come from the country's SME sector that already accounts for one-third of the exports and can grow aggressively if the constraints the sector faces are suitably addressed. Besides factors like limited availability of trained manpower and technology, one of the key constraints for the country's SME sector is the restricted access to debt and lack of innovative financing solutions. With SMEs constituting 95% of the country's enterprises, empowering them will give tremendous boost to the country's export and economic growth. Asean Business Partners is working closely with global financial agencies to offer innovative financial solutions and enable Vietnam's SME sector.

BANKING FOR BUSINESS

The State Bank of Vietnam (SBV) closely monitors and regulates the availability of foreign debt among domestic borrowers. The Circular 02 by SBV, issued in 2021, clearly sets the stipulations on implementation of foreign currency (FX) transactions vis-à-vis their effect on the FX market of credit institutions authorized to engage in FX activities. SBV's recently released draft circular which would replace Circular No. 12/2014 is designed to also tighten control of offshore loan borrowing which has been rapidly increasing in recent years, with respect to sectors considered to be potential bubbles such as share-backed financings and M&A in the real estate sector. While this regulation aims to insulate the country's business from vagaries of forex debt, it also restricts the availability of finance to key sectors.

STRATEGIC FINANCE TO STIMULATE GROWTH

To foster growth opportunities in Vietnam's SME sector, the need of the hour is to offer direct access to capital to exporters through innovative financial solutions. Export finance can be made available in various forms such as loans, guarantees, insurance and factoring, while strengthening risk management and controlling costs due to currency fluctuations, political instability or solvency of overseas buyers.

ASEAN Business Partners (ABP) is leading the charge in working with global financial firms to improve access to credit for SMEs. We are in discussions with multinational institutions to provide a suitable export finance platform to the SME sector and enable its exporters to thrive. Vietnam's leading news website, Doanh Nghiep Vietnam, has featured ABP's role as a frontrunner in SME finance with dominance in multi-disciplinary market penetration.

PROACTIVE GOVERNANCE

Conscious about the SME exporters' need for timely access to capital to drive growth, the Government recognizes the need for foreign funding. Mr. Le Toan Thang, Deputy Director of the National Innovation Startup Support Centre has stressed that Vietnamese SMEs in particular are in dire need of trade and export financing through innovative platforms that have been applied internationally. On its part, the Government is taking focused initiatives to boost the country's exports, signing three important FTAs, including EVFTA (EU-Vietnam FTA), RCEP (The Regional Comprehensive Economic Partnership) and UKVFTA (UK-Vietnam FTA) in as many years. With 15 FTAs having taken effect, Vietnam has an open economy with trade relations with over 230 markets. In the wake of this conducive ecosystem, short-term financing with reasonable interest rates and off-balance sheet accounting can be a boon for exporters. With stability of working capital, rightful involvement from the government and support from private organisations, Vietnam is all set to maintain the upward trend in exports.

REFERENCE LINKS:

- <https://www.apflpartners.com/new-rules-on-foreign-exchange/>
- <https://en.vdb.gov.vn/news11443/expanded-credit-growth-quota-supports-firms-in-recovery>
- <https://vietnamnet.vn/en/vietnam-sees-record-high-exports-in-2020-but-worries-about-trade-accusations-704664.html>

DECODING SOUTHEAST ASIA'S E-COMMERCE BOOM



The e-commerce market in Southeast Asia has rapidly transitioned from physical retail to a multi-disciplinary shopping ecosystem spanning across channels, devices and store concepts. Evolving from the conventional brick-and-mortar format to dynamic avenues, online and offline retail businesses are redefining shopping trends, notably impacting consumer behaviour and purchase choices. Growing sharply in the post-pandemic era, the e-commerce sector in ASEAN region is expected to generate revenues of more than USD125-bn this year, and the industry is projected to grow at an annual rate of ~11% from 2023-27, expanding the market volume to USD ~200-bn in the next five years.

The growing scale and influence of e-commerce in the region is largely attributable to three key factors. While these factors are relevant in other parts of the world too, they are particularly important in the ASEAN context.

FASTER, CHEAPER MOBILE CONNECTIVITY

Reported as the most engaged globally, SEA internet users are leading in mobile-first internet connectivity with 90 percent connecting to the internet through their smartphones. Adding to this remarkable growth is the increasing availability of affordable smartphones and rollout of faster, more reliable mobile telecommunication services across SEA markets. With internet charges in Southeast Asian countries ranging from USD0.38/GB (Thailand) to USD1.70/GB (Brunei), it is no surprise then that smartphones have become the main channel for consumers to shop online, thus fuelling the demand for any-time-purchases.

INCREASING IMPACT OF LEADING PLAYERS

The maturing and swift progress of the region's leading e-commerce giants continues to play a critical role in the rise of digitisation and e-commerce. Southeast Asia's top 3 platforms – Shopee, Lazada and Tokopedia – have recorded an unprecedented 7x growth in sales revenue since 2015 by offering millions of products over a wide range of product categories, best-in-class mobile and web experience, frequent sales promotions, and extensive distribution coverage. Benefitting from their large user and seller base, these platforms are consolidating and analysing consumers' purchase preferences to intuitively forecast future e-commerce trends.

EVOLVING CONSUMER TRAJECTORY

As buyer preference moves from omni-channel approach to a more consolidated one, retailers are fast adapting to this change as well. With trends like "click and collect", newer concepts have emerged, including offering in-store digital experiences to satisfy consumers' needs for more information at the point of purchase. To buy products that are not available in stores specifically in underdeveloped retail trade channels that fall outside of major cities, many consumers are now more dependent on e-commerce channels for the same. Singapore and Thailand lead the way in offering experiential retail marketing, with some of the brands incorporating AR & VR in-store to augment their digital marketing efforts.

EMERGING TRENDS & EVOLVING LANDSCAPE

A mosaic of numerous economies at different stages of development, SEA's e-commerce penetration rate is variable across countries. The largest economy of the region and the biggest driver of growth, Indonesia is touted as the market leader alongside Singapore, at approximately 30 percent. The Philippines, Thailand and Vietnam are a close second at 15 percent. An interesting emerging trend has been the diversification of distribution channels in SEA. While traditional e-commerce stores such as Shopee are still holding top position, social network platforms are all set to be the next big thing. Vietnam has begun to explore different social e-commerce platforms (online stores) that leverage users' social network. In 2022, TikTok launched TikTok Shop in Vietnam to accelerate sales through live streams, becoming one of the top five e-commerce platforms of choice for Vietnamese customers.

Expectations are growing rapidly as customers discover more convenience on all levels – be it product customization, mobile-optimised search, quick checkout processes, or hassle-free delivery. Poised for continued growth in the coming years, the e-commerce market in ASEAN region is offering enormous growth opportunities by way of digital adoption, rising consumer demand and favourable regulatory environment.

REFERENCES:

- <https://www.statista.com/outlook/dmo/ecommerce/southeast-asia>
- <https://www.mckinsey.com/industries/travel-logistics-and-infrastructure/our-insights/e-commerce-is-entering-a-new-phase-in-southeast-asia-are-logistics-players-prepared>
- <https://www.dksh.com/global-en/insights/three-key-trends-driving-ecommerce-growth-in-southeast-asia>
- <https://www.webretailer.com/marketplaces-worldwide/online-marketplaces-southeast-asia/#:~:text=Shopee%20is%20the%20largest%20online,343%20million%20visits%20per%20month.>
- <https://www.statista.com/statistics/1366813/sea-top-product-categories-bought-online/>

ABOUT US



ASEAN Business Partners is an independent, market entry and market growth specialists that helps internationally oriented companies manage and grow their operations in ASEAN sustainably and profitably. We are well-networked, independent of governments, and dedicated purely to serving our clients. Our management and country experts are unrivaled in their ASEAN network, experience, and expertise, with proven credentials.

We are a team of top-class professionals with expertise in different industries. Our executives have worked as CEOs, CFOs and in other senior positions in top multi-national companies and represent the best talent available globally. Our founder, Sumit Dutta, is an ex-HSBC CEO who has worked in Indonesia, Vietnam, Hong Kong, India, and the US. A majority of our team and country experts are former senior-level executives from multinational corporations.

We are passionate about the ASEAN region, one of the highest growth markets in the world, and believe it will be the market of choice for all forward-looking international companies. We seek to create value for our clients and their customers in ASEAN, and so contribute to the prosperity of ASEAN nations and their people.

Please take a moment to review our website. If there is any way we can assist you, please reach out to us.

Newsletter Editor: Vibhusha Sharma



Sumit Dutta

Founder and Chief Executive Officer



Raj Ghosh

Head of Client Relations for USA and Canada



Tony Turner

Head of Client Relations for UK and EU





Kavita Panda

Chief Operating Officer

 contact@bizasean.com

 www.bizasean.com

 [@Aseanbusinesspartners](https://www.linkedin.com/company/aseanbusinesspartners)

 (+65) 9176-4136

DISCLAIMER

The report is prepared using information of a general nature and is not intended to address the circumstances of any particular individual or entity. The report has been prepared from various public sources and the information received from these sources is believed to be reliable. The information available in the report is selective and subject to updation, revision and amendment. While the information provided therein is believed to be accurate and reliable, ASEAN Business Partners does not make any representations or warranties, expressed or implied, as to the accuracy or completeness of such information and data available in the public domain. While due care has been taken while preparing the newsletter, ASEAN Business Partners does not accept any liability whatsoever, for any direct or consequential loss.