

Media title: Time to act for the future of ASEAN - Sustaining Vietnam's position in the region

Author: RDavid Wijeratne, PwC's Growth Markets Leader and Dinh Thi Quynh Van, PwC Vietnam's General Director

Source: Vietnam Investment Review dated 17 Sep 2018

8 ASEAN – Vietnam: Connectivity and Innovation

September 17-23, 2018 • www.vir.com.vn

Time to act for the future of ASEAN



By David Wijeratne
Growth Markets Centre leader,
PwC

Growth in ASEAN

Last year marked the 50th anniversary of the Association of Southeast Asian Nations (ASEAN), a unique achievement considering the regional conflicts and poverty which characterised the region in the first half of the 20th century. The ASEAN's remarkable growth journey to become the world's sixth-largest economy has been powered by its people, with the establishment of a formidable labour force and the subsequent creation of a wealthier middle class which has driven domestic consumption.

Challenges to ASEAN's growth

However, against this backdrop, questions have been raised about the sustainability of the ASEAN growth story. Global economic growth has slowed in recent years and this has impacted all markets across the ASEAN. GDP growth in Singapore (or the developed ASEAN) dropped below the global average to 2.0 per cent in 2016 and in the emerging part of the ASEAN (Indonesia, Malaysia, Philippines, Thailand, and Vietnam), growth fell to 4.9 per cent, after a 6.9-per-cent high in 2010. The Fourth Industrial Revolution also threatens employment and disposable incomes in the short term at least, if its adoption is not managed responsibly by both governments and companies. This challenge will be felt throughout the region and countries such as Thailand are acting on it in earnest. Furthermore, an over-dependence on external trade partners, stagnating productivity growth, an ageing population, and a lack of infrastructure are also significant challenges to the ASEAN's future prosperity.

Time to Act

From a regional perspective, in order to offset the risk emanating from the rising dependence on external partners, intra-ASEAN trade needs to be enhanced by strengthening regional co-operation, especially by reducing non-tariff trade barriers which reached a high of 5,975 in 2015. A reduction in Technical Barriers to Trade measures would need to be prioritised in order to improve the extent of intra-regional co-operation within the ASEAN going forward, especially norms related to the discriminatory treatment of certain products, discrepancies in standards across markets, and the lack of transparency in assessment procedures.

Whilst regional co-operation is important to the ASEAN's continued growth, each individual country has its challenges. In this context, we see five categories of markets emerging across the ASEAN based on their current economic position and pace of demographic transition.

The first category is the ageing high-income markets of Singapore and Brunei Darussalam, where the growing fiscal burden of an ageing population is accompanied by a reduction in working-age population.

ICT adoption and skill development, especially within

small and medium-sized enterprises (SMEs), will be central to improving productivity. Our second category is the ageing middle-income markets of Malaysia and Thailand. Here, enabling structural shifts towards higher value-added activities in production will be key to remaining competitive amidst a rapidly disappearing labour cost advantage.

Vietnam stands on its own as an ageing low-income market, facing higher socio-economic growth pressures associated with population ageing at lower income levels.

Policy interventions, such as addressing talent gaps through inward migration, and long-term reforms targeted at improving labour force participation of women and older age groups, will be key to reducing the impact of ageing across the countries in the three ageing categories. Healthcare infrastructure and skill development will also need to be strengthened, coupled with investments in physical and digital connectivity infrastructure.

Indonesia and the Philippines make up the younger mid-income markets category, and are at an 'early-dividend' stage, as they are projected to record among the largest additions in working-age population in the ASEAN in the coming years. Sustainable long-term growth will depend



PwC Vietnam's general director shared her expert views with the audience at the Vietnam

Business Summit 2018

“

In order to offset the risk emanating from the rising dependence on external partners, intra-ASEAN trade needs to be enhanced by strengthening regional co-operation.

Finding new strategies

The ASEAN Secretariat and individual governments will need the support of the business community to drive the region's growth. Just as

governments will need new reform agendas, companies will also need to adopt more innovative strategies to promote and achieve growth. In our 'The Future of ASEAN' report, we identify new strategies for growth across seven sectors.

There are a number of common themes to these new strategies, such as localised production and the development of regional hubs to serve ASEAN consumers, as well as the low usage of value-added services. Banks can look to bridge these gaps by building capabilities in digital financial services, specifically in digital onboarding driving financial inclusion, introducing QR scanning capabilities to reduce merchant infrastructure gaps, developing automated financial advice applications to expand wealth management towards the emerging middle class, and in developing alternative lending platforms to bridge SME credit gaps.

Automakers looking to establish a bigger foothold in the region can look to increase localisation more holistically – in sourcing, manufacturing,

sales, and research and development. This will offer greater competitiveness, more localised products, and differentiation. Hurdles, such as a lack of scale due to lower demand, can be addressed by entering a region in partnership and through sharing manufacturing platforms.

In financial services, key challenges include limited financial access, a largely cash-based society, and the low usage of value-added services. Banks can look to bridge these gaps by building capabilities in digital financial services, specifically in digital onboarding driving financial inclusion, introducing QR scanning capabilities to reduce merchant infrastructure gaps, developing automated financial advice applications to expand wealth management towards the emerging middle class, and in developing alternative lending platforms to bridge SME credit gaps.

Consumer goods companies have a significant opportunity to grow across the ASEAN by leveraging digital capabilities to connect directly with consumers to inform and influence purchasing habits, to employ greater efficiencies across their supply chains, and to collaborate with e-commerce and e-payment players. This involves a holistic review of their operating model, not just from a marketing and sales channel perspective.

Medical device companies have an important role in the ASEAN to improve the access, affordability, and quality of healthcare within the region. Instead of using a "hand-me-down" approach, companies should look to build customised

and affordable devices for the market. They should get closer to the customer to understand patient needs, have a more local presence, and encourage local innovation. In this regard, medical device companies should look to work with both the public and private sector to provide care through alternative models in lower-cost settings, such as home care, and further embrace technology, such as mobility, Big Data, and artificial intelligence, in their current product portfolio.

The refining sector remains underdeveloped in most markets in the ASEAN, and limited production capacity and utilisation challenges are pushing the need for additional investments in major economic centres, secure shipping demand and terminal availability with dedicated berths or prioritised ports of call, and streamline land-side efficiency. Analytics are also anticipated to be a critical factor in future refinery operations.

ASEAN telecommunications companies must pick the growth opportunities where they have a competitive edge and focus their strategy on these. In the consumer segment, telecom companies can monetise the flood of data running through their networks by developing advertising platforms, whereas in the enterprise segment, they have the opportunity to address the gap in the IT-as-a-Service market and build Internet of Things capabilities, which can support an ecosystem of cross-sector businesses to enhance their connectivity to the 630 million consumers across the ASEAN.

And finally, with regards to transportation, airlines and ocean liners operate in vastly different industries, but both

As a speaker at the Vietnam Business Summit 2018, PwC Vietnam's general director **Dinh Thi Quynh Van** said that in order to grow sustainably and improve their position in the region, businesses in Vietnam need to actively strengthen their capabilities across three areas: technology, talent, and governance.

At the Vietnam Business Summit, held within the framework of the World Economic Forum on ASEAN 2018, Vietnam was widely hailed as a bright star for growth in the region. What do you think about this assessment? Where does Vietnam stand when compared to other ASEAN members?

Vietnamese businesses are only engaging in the final stages of manufacturing such as assembly or exporting agricultural products either raw or with low processing. Low value added is still the biggest challenge for many businesses.

High-value stages such as

design or

manufacturing

of

core components, spare parts, and materials are still largely located outside Vietnam. Vietnamese enterprises are not yet ready to get involved in these processes due to a lack of skills and management capacity, low technology levels, and limited access to finances. This will pose a high risk, since Vietnam's competitive edge lies in its comparatively low production costs. As this advantage diminishes, foreign investment will likely flow out of Vietnam.

In addition, statistics show that Vietnam has yet to make best use of regional value chains. 90 per cent of Vietnam's total export value in 2016 was earned from trade with non-ASEAN countries, while only 10 per cent was thanks to intra-ASEAN trade. Such dependence on global value chains makes Vietnam more susceptible to risks from trade wars.

What strategies should Vietnamese businesses implement to overcome these barriers?

Many Vietnamese companies have made efforts to participate more strongly in the regional value chains by actively partnering with foreign businesses, researching demands in new markets, and seeking out new opportunities.

However, in my opinion, the key task is to strengthen the in-

novate and actively capture chances to step into higher value-added functions.

As businesses grow in scale and complexity and forge stronger connections with foreign partners, they will need to pay more attention to governance. Corporate governance is based on the separation of management and ownership of the business. It refers to the structures and processes for the direction and control of the company, not just within the company, but also externally. Good governance will help businesses gain transparency, better prevent and respond to risks, and build trust with stakeholders, thereby improving their ability to access capital.

What is the role of the government in this process?

The government plays an essential role in laying out directions and policies, improving the business environment, and making investments in areas that the private sector lacks the necessary resources to invest in. In addition, the government should push for more public-private partnerships, especially in education and training, in order to develop digital skills for the workforce.

In terms of international cooperation, besides implementing free trade agreements with non-ASEAN partners, the government should continue promoting intra-ASEAN trade and investment. That way, Vietnam will be able to make greater use of the supply chains and business ecosystem of this dynamic region. The proactiveness of corporates, coupled with support from the government, will provide steady ground for businesses to raise their internal strength and access new growth opportunities in the region and the world at large.

9 ASEAN – Vietnam: Connectivity and Innovation

September 17-23, 2018 • www.vir.com.vn

Sustaining Vietnam's position in the region



Dinh Thi Quynh Van

Vietnam Perspective

September 17-23, 2018

www.vir.com.vn

www.vir.com.vn