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Your Partner for Growth in Asia

Asia Emerging Market: FDI Opportunities for Growth

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Servcorp

April 27th, 2018

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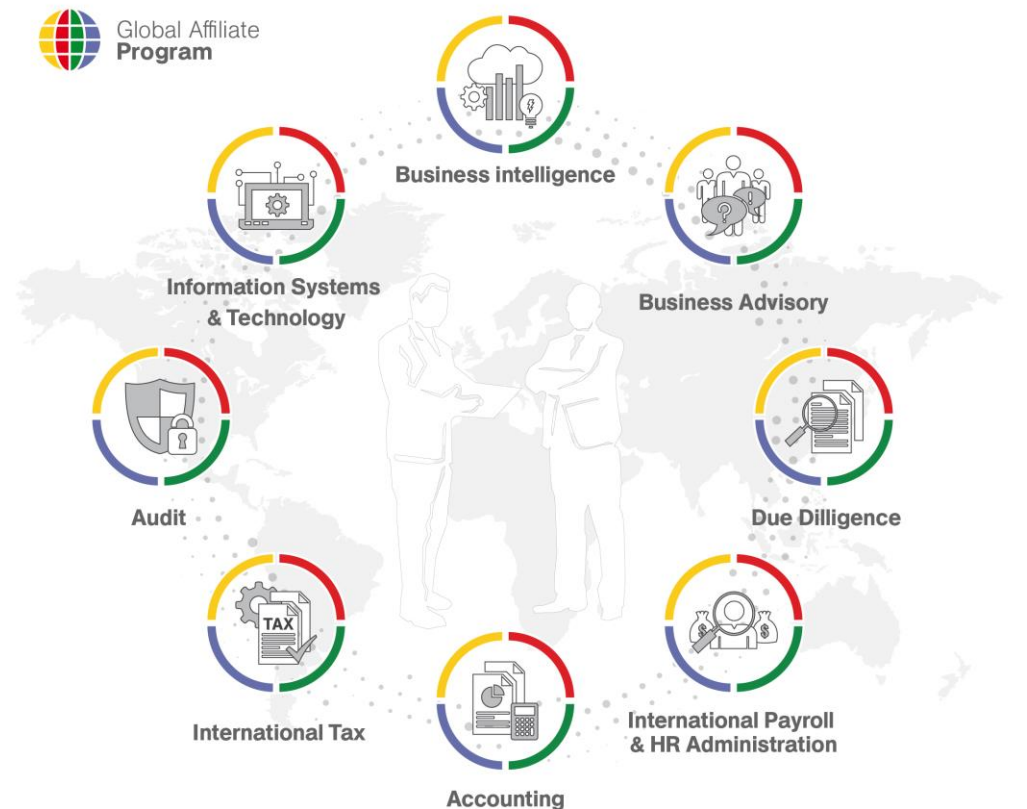
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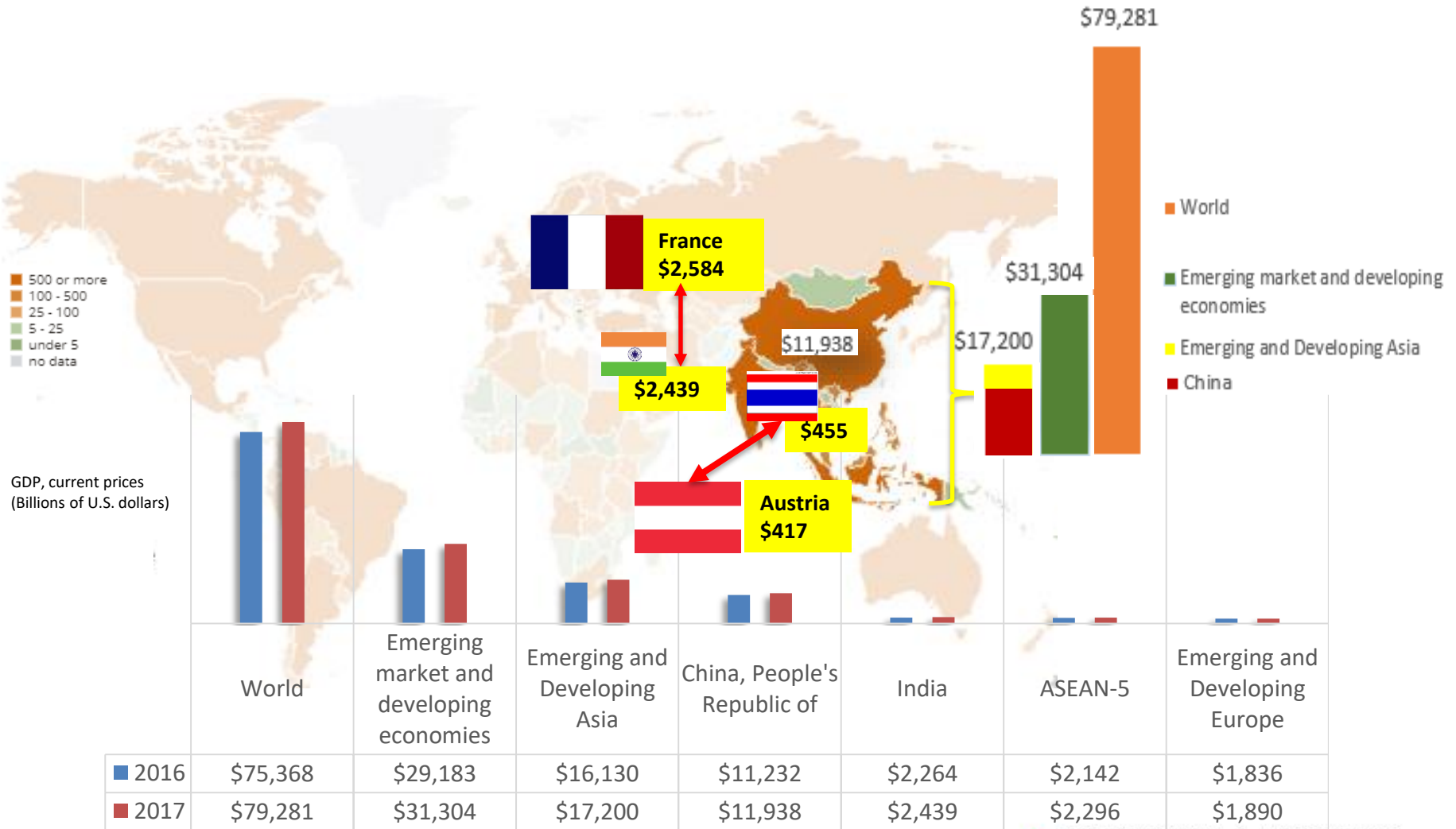
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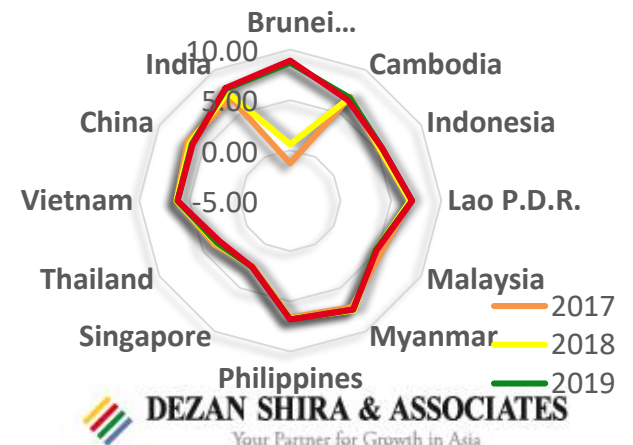
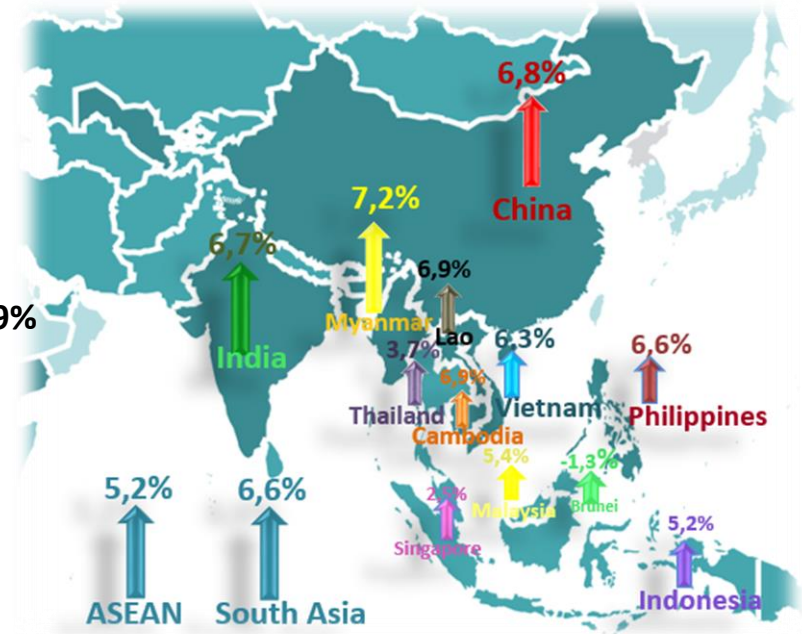
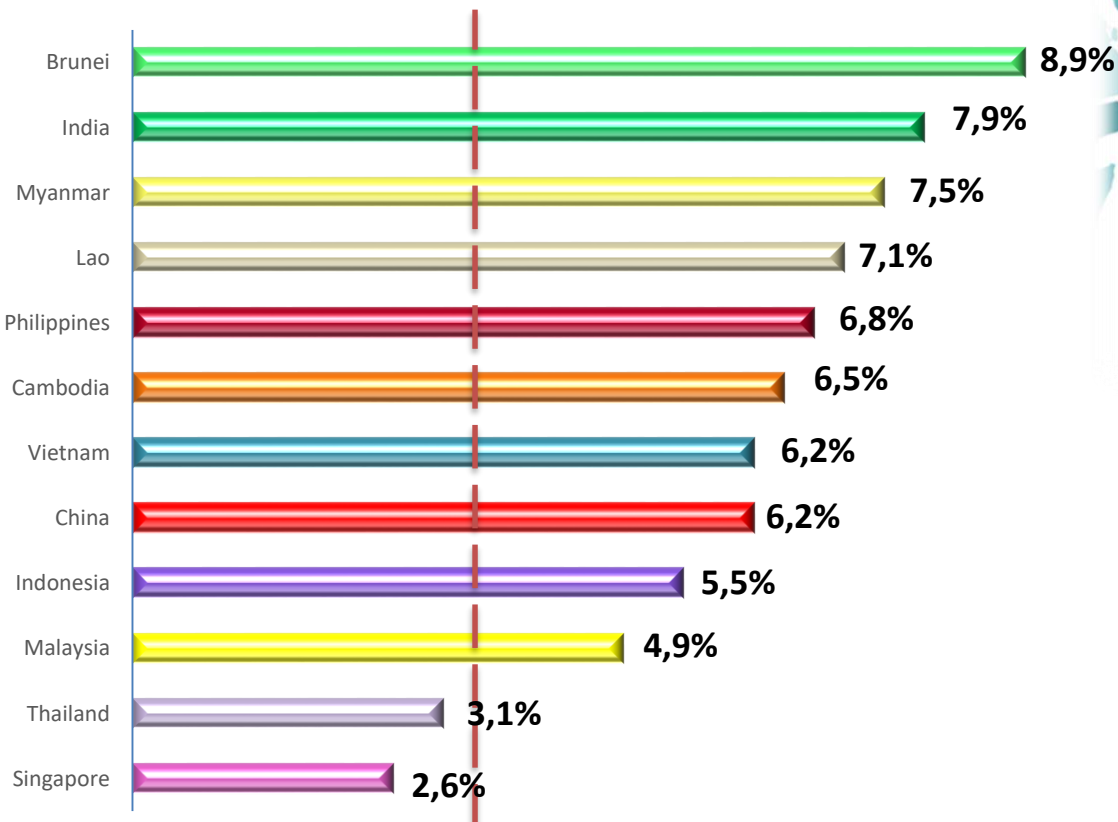
- **Asia Emerging Markets Snapshot**
- **China overview**
- **“China Plus One” strategy**

Setting up the scene...



Emerging Asia forecast 2018-2020

World's GDP growth 2017



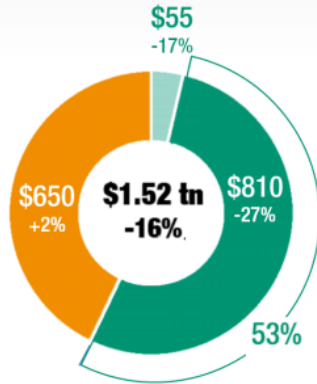
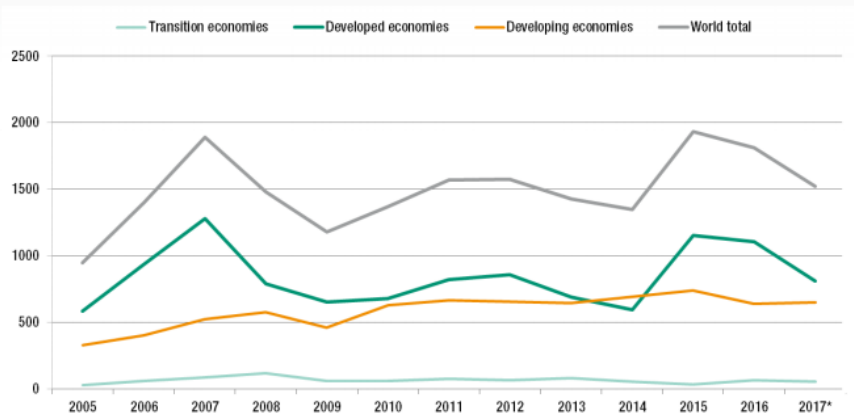
Source IMF

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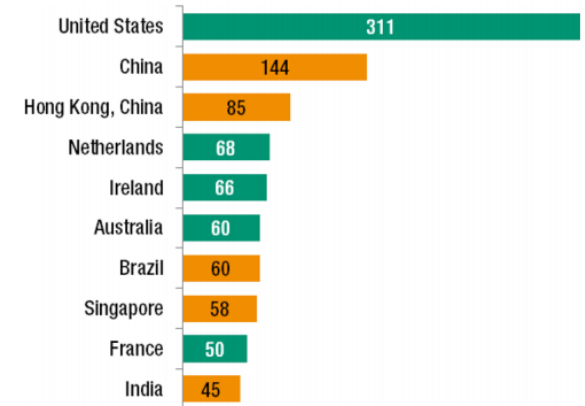
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Global FDI

Figure 1. FDI inflows: global and by group of economies, 2005–2017
(Billions of US dollars)

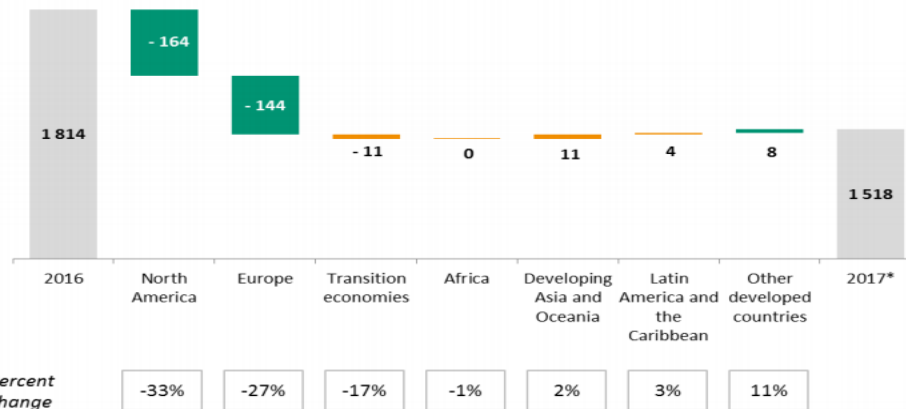


Estimated FDI inflows: top 10 host economies, 2017
(Billions of US dollars)



Source: ©UNCTAD.

Regional contribution to changes in global FDI flows, 2016–2017
(Billions of US dollars)

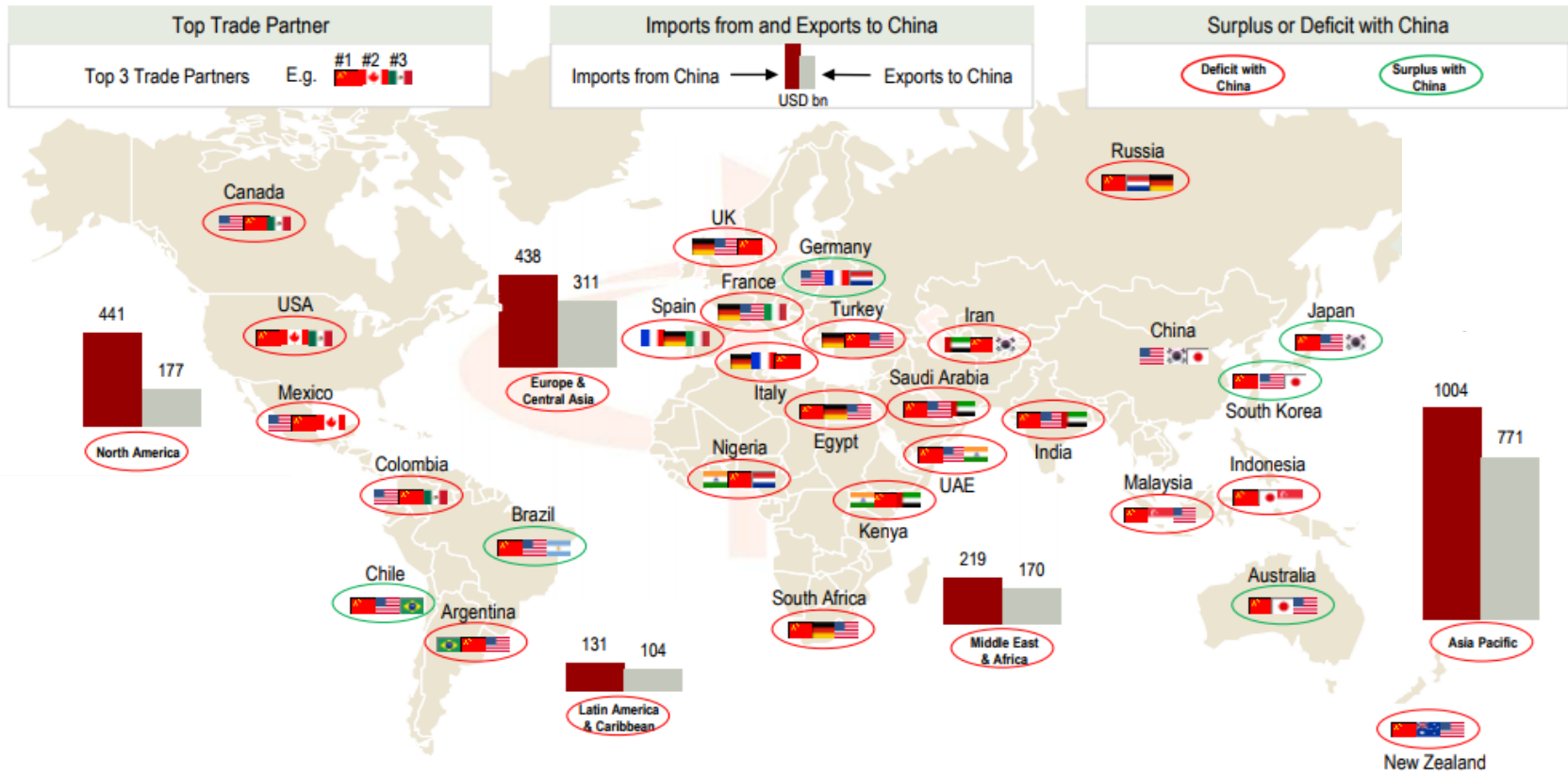


Finding New Opportunities...





China is a major trading partner for all

Major Trade Partners for Key Countries; Trade Surplus/Deficit with China



Source: TBA report
www.dezshira.com

China Trends & Demands & Threats

- 
- China has 20% of the world's population, but just 5% of the world's arable land. China is energy and water poor
- It is a One Party State leading to internal political pressures that must be addressed
 - Huge Consumption market- incomes rising 8% national wide, consumers have funds to save and spend. Spending will grow on health-related areas such as healthier foods, exercise activities, medical expenses for themselves and elderly relatives.
 - If China does not secure food and energy supplies or keep its population content the implications are very serious. OBOR is the answer
 - This means Import, Export & Service Opportunities
 - Manufacturing 2025 –hub of advanced manufacturing
 - Digital economy - Internet-enabled businesses (e.g. AI and the Internet of Things) and E-commerce
- 
- Regional disparities
 - An Aging population
 - Declining heavy-industrial sectors
 - Property bubbles
 - Growing debt level
 - Continuing environmental pollution
 - Tariff trends

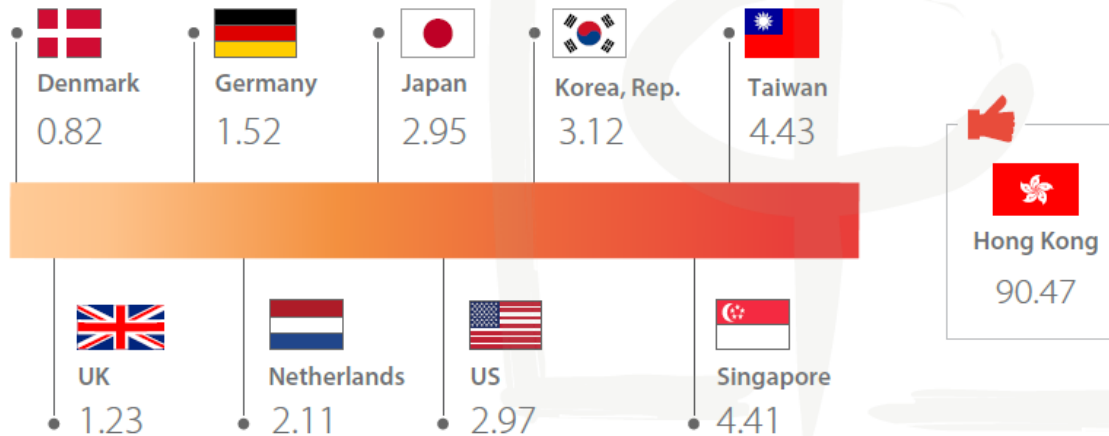
China FDI

- China FDI grew 9.8 % in 2017
- Value per transaction dropped
- WFOEs remains the core form of investment

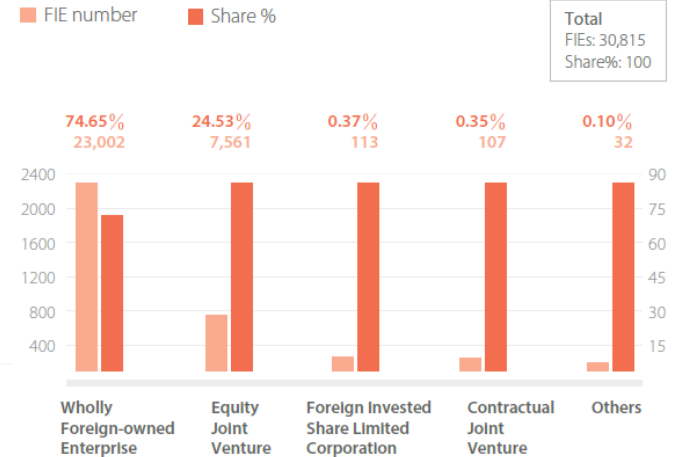
Top 10 Countries (Regions): FDI in China



Actual input of foreign capital (billion US\$)



FDI by Form 2017

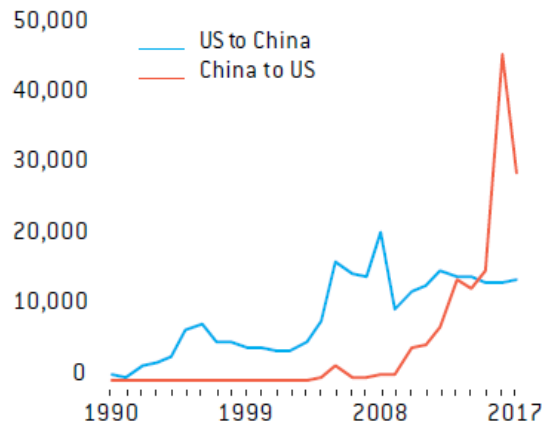


Source: MOFCOM

China – US FDI Flows

Annual Value of FDI Transactions between the US and China, 1990-2017

USD million



Source: Rhodium Group.

China – New York

OFDI- \$5.86 bn (2016), **FDI** – \$ 1796 mill (2016)

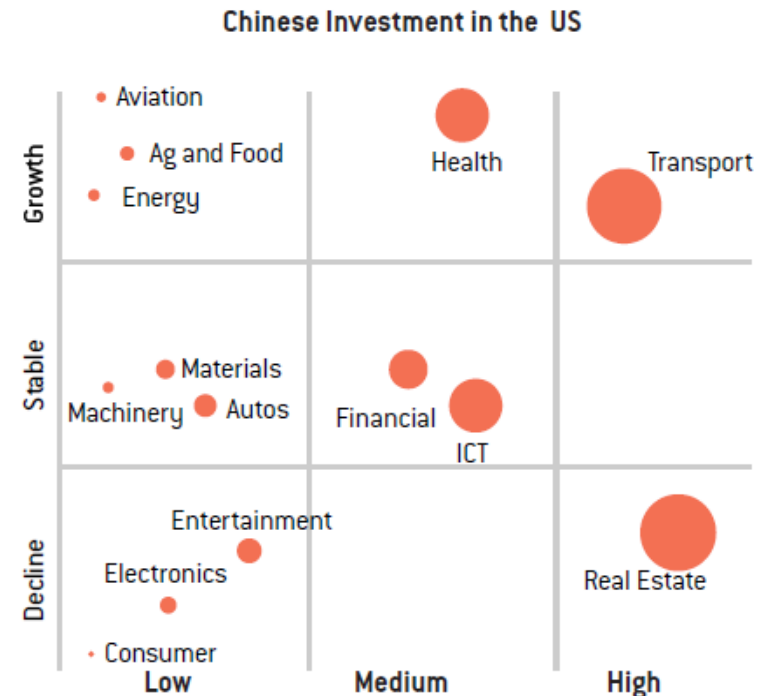
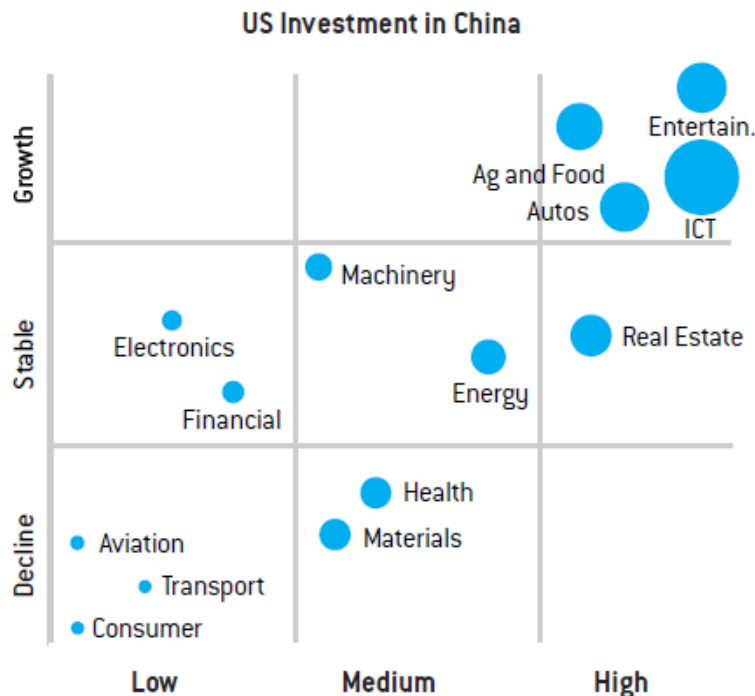
For the past 18 years – **OFDI** - \$15.72bn, **FDI** - \$35.46bn

- Consummated 2017 FDI transactions between China and the US reached **\$43.4 billion** (28% drop from the \$60 billion recorded for 2016)
- The reason for this drop was a decline in Chinese investment in the US to \$29 billion in 2017 from \$46 billion in 2016.
- US FDI to China remained largely flat in 2017
- Flows remained unbalanced with Chinese FDI in the US at twice the level of US investment in China (\$29 billion vs. \$14 billion).
- Beijing tightening controls over outbound investment which caused China's global outbound FDI (OFDI) to decline for the first time in more than a decade
- Increased investment screening by CFIUS (estimate that deals worth more than \$8 billion were abandoned in 2017 due to unresolvable CFIUS concerns)

Where the investment goes?

- FDI increased into high- tech services and manufacturing industries
- Digital economy

Stylized display of growth momentum (y axis) and investment value in 2017 (x axis, bubble size)



Source: Rhodium Group.

China Free Trade Zones

Evolution of China's FTZs and Focus Industries

■ First generation - 2013 ■ Second generation - 2015 ■ Third generation - 2016 ○ Focus industry



Industry Clustering

Top 10 industrial clusters in China

IT

Automotive

Machinery and Equipment Manufacturing

Electronics

Shipbuilding

Nonferrous Metals

Petrochemical

New Energy

New Material

Light Industry

Example: Automotive industry clusters in China



Update in 2017 FDI Catalogue and FTZ Negative List

Opening up



- Special Medical Use Formula Food
- R&D and Manufacturing of Virtual Reality (VR), Augmented Reality (AR) Equipment
- Design and Manufacturing of Key Parts of 3D Printer Equipment
- Construction and Operation of Parking Facilities in Cities
- Creditworthiness Investigation and Ranking Service
- The managing partner (or any other highest management) of special general partnership of accounting firm is not compulsory to be a Chinese national

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Supervision Strengthening

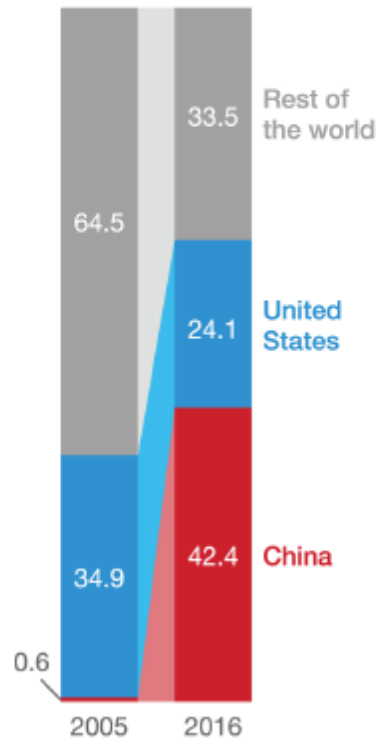


- Internet Public Information Service
- Research Institutes of Humanities and Social Sciences
- Editing of Books, Newspapers, and Publications
- Editing of Audio-visual Product and Electronic Publications

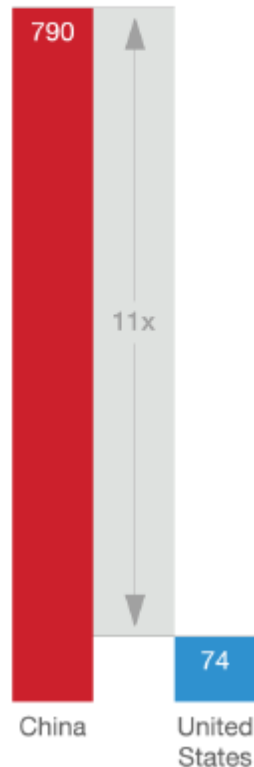
High- tech & Digital economy

China's digital economy is a story of commercial success and investor excitement.

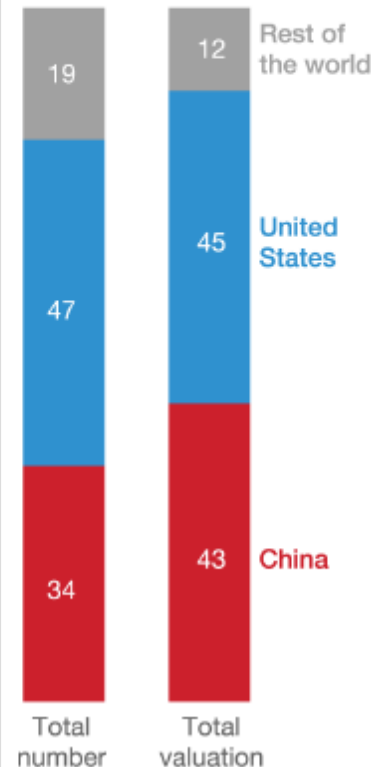
% of total retail e-commerce transaction value



Mobile payments,¹ 2016, \$ billion



% of global unicorns² June 2016



- Cash will become absolute.
- Requiring a real name for any activity – oversight of online behavior
- Restrictions on the market entry for foreign investors
- Defining “actual control” of the domestic companies
- IP protection

Healthcare

(Pharma, medical devices, biotech)

- Healthcare market is growing and one of the most attractive in the world for foreign investors due to its size and growth. China surpassed Japan to become the world's second largest healthcare market in 2013 and continue to develop as fastest-growing health-care market of all large emerging economies.
- Medical device market grew 20% (56 bill \$), pharma – 10% (\$227 bill).
- By 200 healthcare spending is expected to account 6.5 to 7 % of total GDP in China. (\$2 trillions) by 2030.
- Recent reforms as registration of the medical devices; SFDA registrations of imported medical devices
- FDI as medical institutions – form of JVs
- Encouraged advances medical technology, management experience and best-in-industry operational models and specialized services – nursing, hospice care (aging. popul)

- SFDA – ease of drug approvals

Clean energy

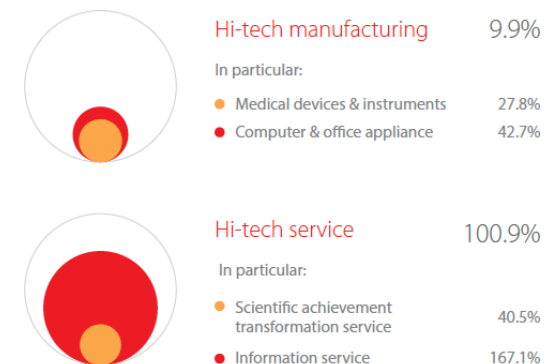


Effected industries: Textiles, Rubber, Leather, Chemicals, Carbon, Metal, Coating, Plastic, Dying, Painting, and Printing processes



- In 2013, China passed the “10 Measures for Environmental Protection
- More than 80,000 factories has been shut down across the country by the anti-pollution drive in 2016
- Where foreign investors can capitalize?
 - Selling part
 - Technology

Performance of Hi-tech Manufacturing and Hi-tech Service Sector (Year-on-Year Growth)



Clean Tech

- Chinese investment into green industries increase tremendously (US\$3 billion in 2005 vs over US\$100 billion in 2016)
- The last decade has witnessed China's transition from the world's top polluter to the one of the leaders in clean energy.
- At present China has the highest capacity for renewable power production as it holds a quarter share in the global capacity for renewable energy. Wind and solar power are the backbone of China's renewable energy sector and are the highest in the world in terms of capacity.
- Ban of petrol and diesel petrol vehicles, bringing New-energy vehicles (NEV). Last year China surpassed US to become the world's largest and fastest growing market for NEVs.
- Potential ease for foreign investors to produce as long as it is new-energy cars.



China Plus One

- China Plus One strategy is an international business strategy that consists of the expansion of one company's current operations in China
- Companies are either relocate to another country or set up alternative location in India and ASEAN

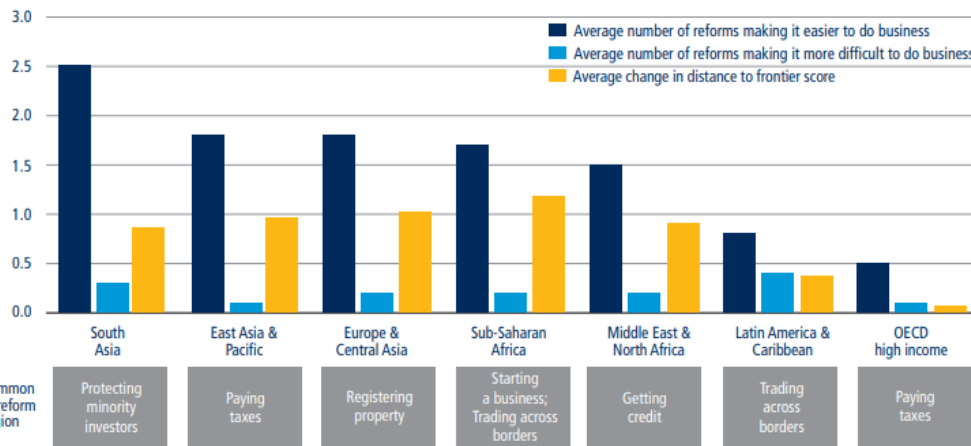


Ease of doing business in Asia



FIGURE 1.3 The average number of reforms per economy is highest in South Asia but the average impact is biggest in Sub-Saharan Africa

Number of reforms and change in distance to frontier score (average number per economy)



Source: The World Bank

Economy	Ease of Doing Business Rank	Improved change	Starting a Business
Singapore	2	0.04	2
Hong Kong	5	0.29	1
Malaysia	24	0.96	12
Thailand	26	5.68	5
Brunei	56	5.83	7
Vietnam	68	2.85	13
Indonesia	72	2.25	17
China	78	0.4	10
India	100	4.71	156
Philippines	113	0.42	24
Cambodia	135	0.23	25
Lao	141	0.43	22
Myanmar	171	0.3	20

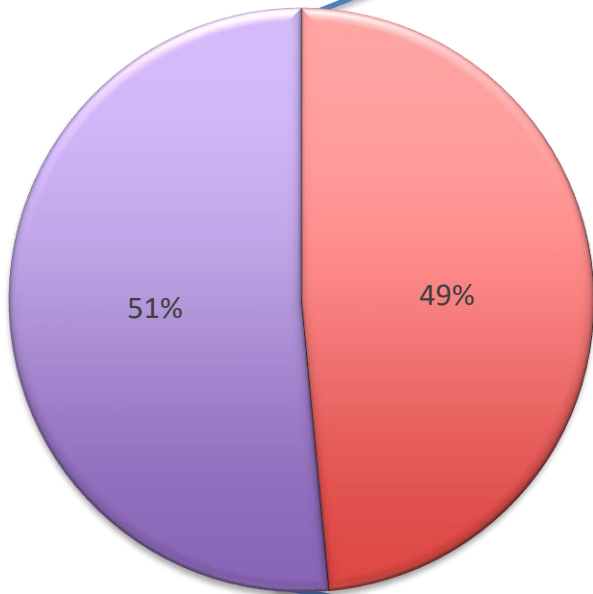


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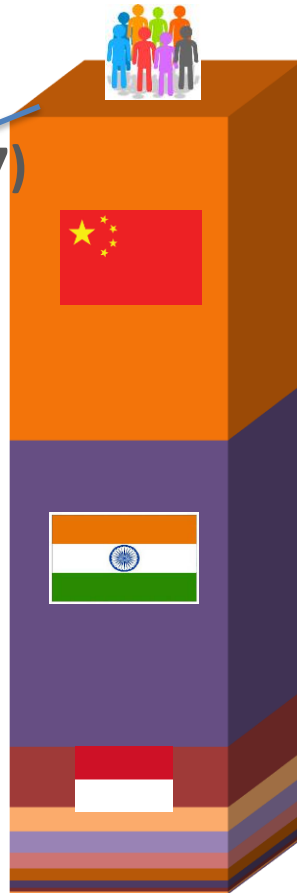
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Consumer markets to watch...

World Population (2017)



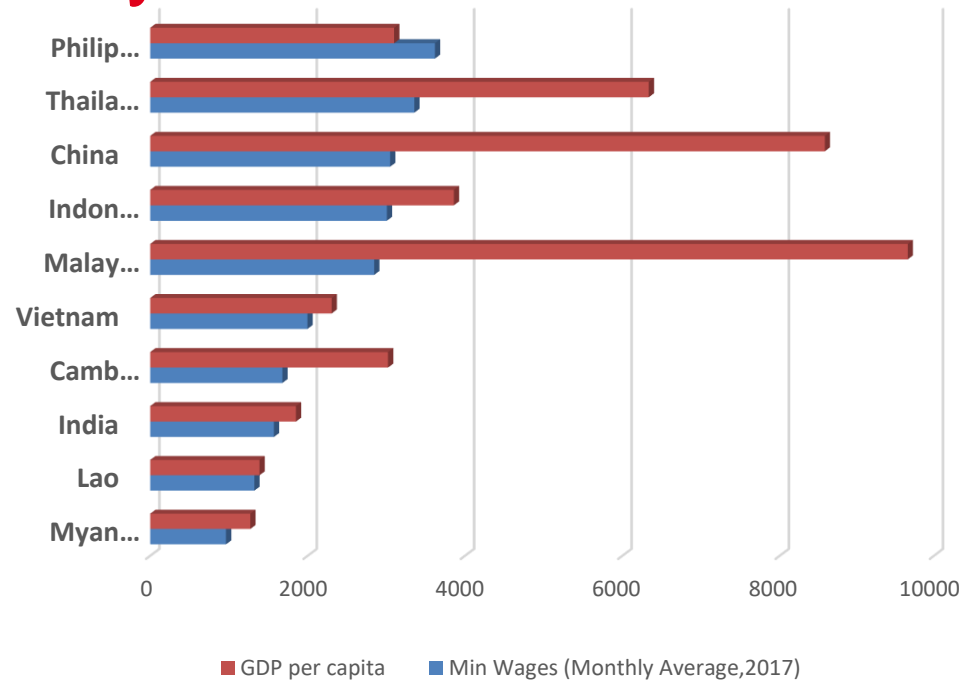
Emerging and Developing Asia Other countries



	2017 Population	Med. Age (2018)	GDP per Capita (Bill USD/2017)	Population % change 2022
China	1390.848	30	8,582	2.98%
India	1316.896	24	1,852	6.75%
Indonesia	261.989	24	3,858	6.51%
Philippines	106.268	23	3,022	10.41%
Vietnam	93.643	28	2,306	4.87%
Thailand	69.095	27	6,336	0.40%
Myanmar	52.645	28	1,272	3.26%
Malaysia	32.077	40	9,659	6.60%
Cambodia	16.013	30	1,389	7.72%
Lao	6.68	28	2,567	7.41%
Singapore	5.675	37	8,583	4.55%
Brunei	0.429	38	27,893	6.29%

Labor cost & Productivity

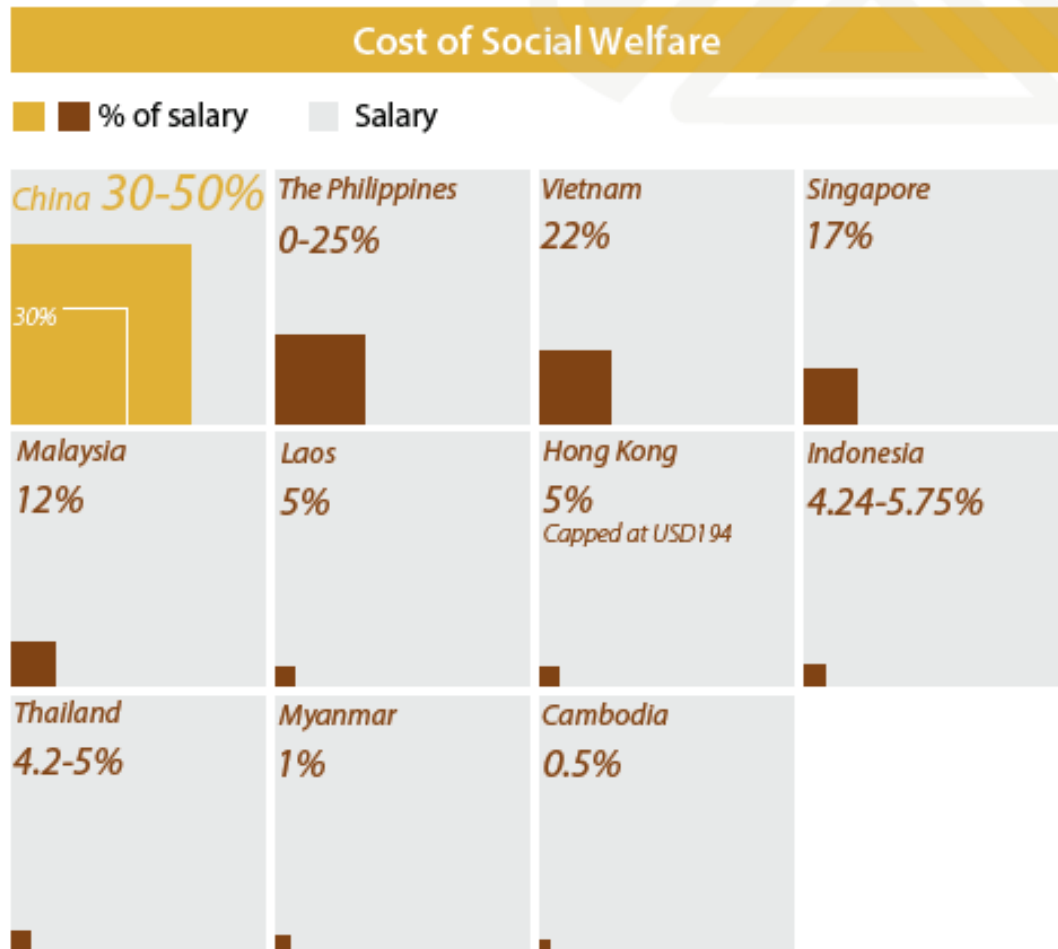
- Minimum wages vary in different regions of the countries (India, Philippines, Indonesia)
- The countries with well-performing economies like Thailand, Malaysia, China grant the highest wages
- India & ASEAN countries offer young and dynamic workforce



Country	Min Wages (Monthly Average, 2017)
Philippines	301.5
Thailand	279.74
China	254.07
Indonesia	250.63
Malaysia	237.23
Vietnam	166.5
Cambodia	140
India	131
Lao	110.34
Myanmar	80.28

Cost of social welfare in SE Asia

- China social welfare cost is high depending on the city – 30%-50% on the top of employee's salary
- India social welfare (or provident fund) is 12 % of the salary
- Thailand and Indonesia show significantly lower rates (4.2 to 5% and 4.2 to 5.75%)



* World Bank, Ernst & Young

Global Manufacturing competitiveness index ranking

Country	Rank	Index Score
China	1	100
India	11	67.2
Thailand	14	60.4
Malaysia	17	59
Vietnam	18	56.5
Indonesia	19	55.8

Country	Rank	Index Score
China	2 (▼-1)	93.5
India	5 (▲+6)	77.5
Thailand	14	62
Malaysia	13 (▲+4)	62.1
Vietnam	12 (▲+6)	65.5
Indonesia	15 (▲+4)	61.9

2020 (Projected)

Office rent & cost per living across Asia



* Cushman & Wakefield, Colliers International, Cambodian Investment Bureau, CapitalVue

- Philippines and Thailand show lowest office rent cost in average;
- While India and Vietnam have the lowest living cost ranking;
- Hong Kong, Singapore, historically played the role of Asian regional hubs, remain expensive for living and office lease.
- China costs increasing and moving to the top of the list

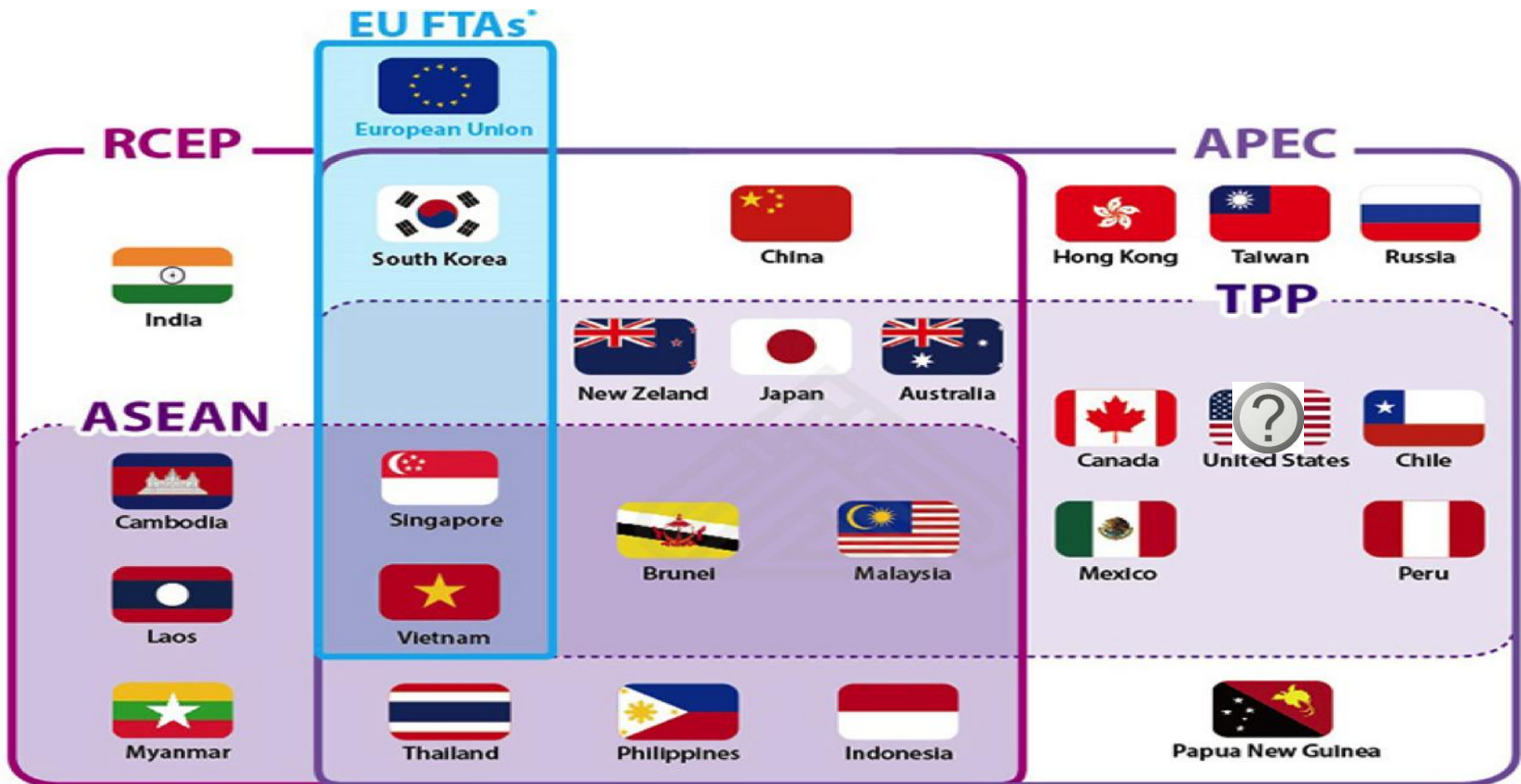
Country	Cost of Living Ranking	Price Index
Hong Kong	5	210
Singapore	7	193
China	44	120
Thailand	53	110
Malaysia	74	90
Indonesia	90	80
Philippines	96	77
Vietnam	98	76
India	99	74

Tax implications across the region

Country	Corporate Income Tax	Indirect tax for Goods/Services
India	25%-30%	5%, 12%, 18%, 28%
Vietnam	20%	Up to 10%
Malaysia	19%,24%	6%
Singapore	17%	7%
Indonesia	25%	10%
China	25%	6%,10%,16%
Thailand	20%	10%
Philippines	30%	12%

India and China recently went through the tax reform implementing GST and VAT replacing indirect taxes across the countries.

Trade and investment will grow further



APEC (Asia-Pacific Economic Cooperation); TPP (Trans-Pacific Partnership); RCEP (Regional Comprehensive Economic Partnership); ASEAN (Association of Southeast Asian Nations).

* The EU's FTA with South Korea has been finalized; Its FTAs with Vietnam and Singapore have been concluded, but not yet entered into force

Graphic @ Asia Briefing

Trade partners with existing FTAs vs those without FTAs

	ASEAN	Australia	New Zealand	China	India	Japan	Korea
Australia	Signed and in effect		Signed and in effect	Signed and in effect	Negotiations launched	Signed and in effect	Signed and in effect
New Zealand	Signed and in effect	Signed and in effect		Signed and in effect	Negotiations launched	Proposed	Signed and in effect
China	Signed and in effect	Signed and in effect	Signed and in effect		Proposed	Negotiations launched	Signed and in effect
India	Signed and in effect	Negotiations launched	Negotiations launched	Proposed		Signed and in effect	Signed and in effect
Japan	Signed and in effect	Signed and in effect	Proposed	Negotiations launched	Signed and in effect		Negotiations launched
Korea	Signed and in effect	Signed and in effect	Signed and in effect	Signed and in effect	Signed and in effect	Negotiations launched	
ASEAN		Signed and in effect	Signed and in effect	Signed and in effect	Signed and in effect	Signed and in effect	Signed and in effect

Source: OECD Development Center compilation, 2018.

Investment Opportunities in Asia, our bets

	Polit./ Econ. stability	Regulat. Fr.work	FDI trends	Market develop. /size	Currency	Ease of doing business	Affordability	Labor productivity	Supply chain localiz.	Business English
China	Very stable	Weak	Mildly decr.	Very good	Stable	Bad	Not afford.	Very high	Very good	Acceptable
India	Stable	Weak	Static	Very good	Shaky	Bad	Affordable	Weak	Good	Good
Indones.	Shaky	Weak	Static	Very good	Shaky	Bad	Mildly afford.	Weak	Weak	Acceptable
Malay.	Shaky	Good	Mildly decr.	Static	Shaky	Very good	Mildly afford.	Medium	Good	Good
Philipp.	Acceptable	Acceptable	Mildly incr.	Mildly incr.	Shaky	Good	Mildly afford.	Medium	Mild	Good
Thailand	Shaky	Weak	Static	Static	Shaky	Good	Mildly afford.	High	Good	Good
Vietnam	Very stable	Weak	Mildly incr.	Mildly incr.	Stable	Bad	Very A	Medium	Weak	Weak

Very good , v. high Very stable Very affordable Increasing	Good, high Stable Mildly affordable Mildly increasing	Acceptable Mildly stable Affordable Static, average	Bad, low, weak Shaky Unaffordable Mildly decreasing	Very bad, v. low/weak Very shaky Very Unaffordable Decreasing
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Graphic @ Asia Briefing

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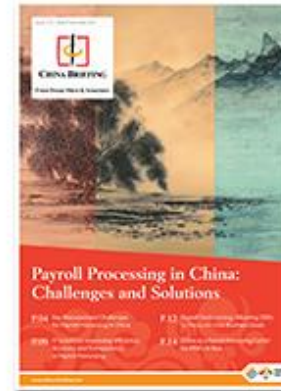
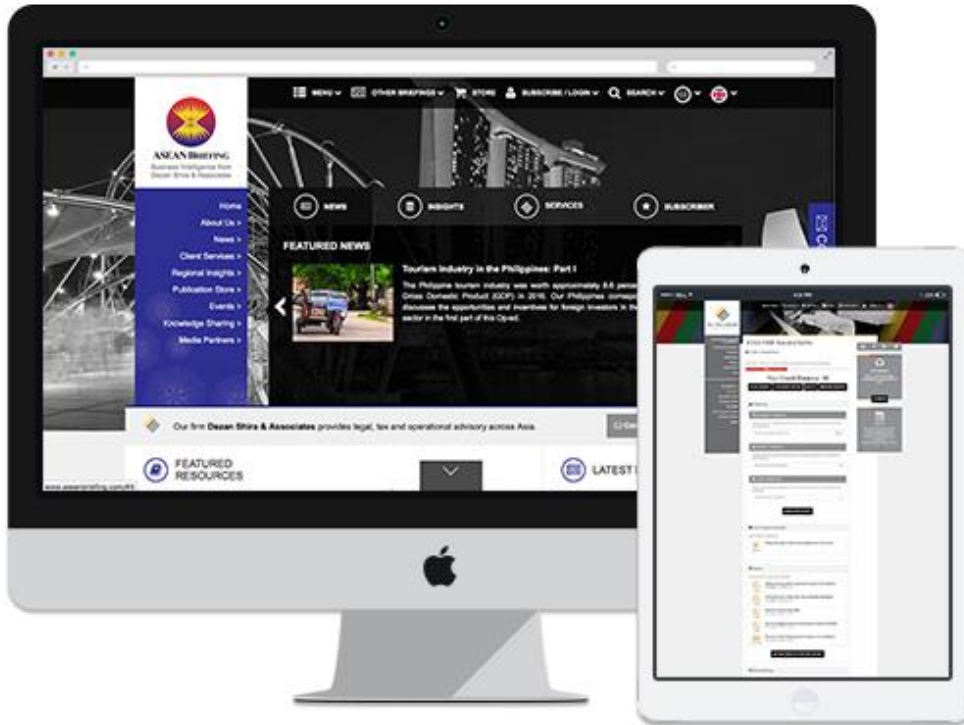


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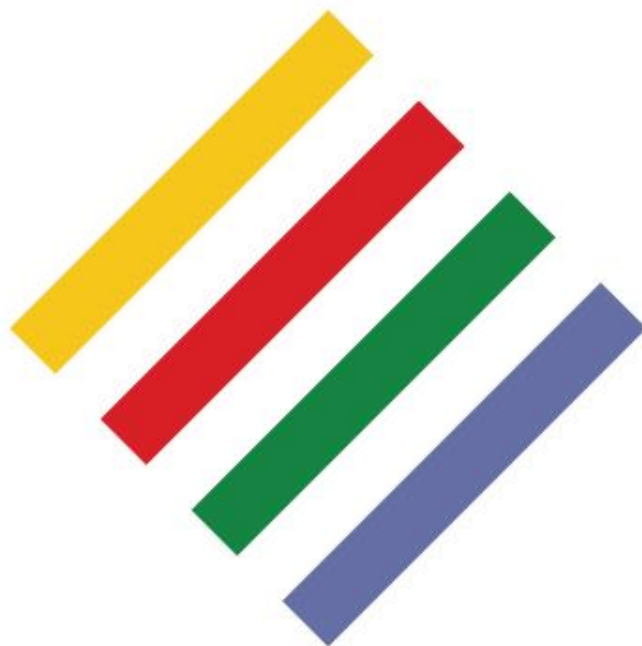
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