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2020 Year in Review and What's Next for China, Vietnam, and India in 2021

January 27, 2021

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Covid-19 Response & Handling

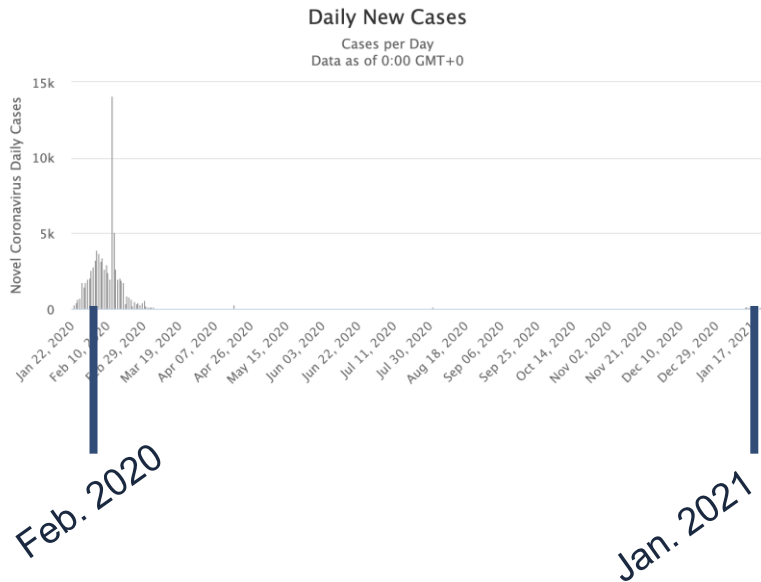




China's Response

China – 89,115

*Total cases as of January 26, 2021



Covid-19 was first reported in China

Initial Response – Full lockdown of Wuhan

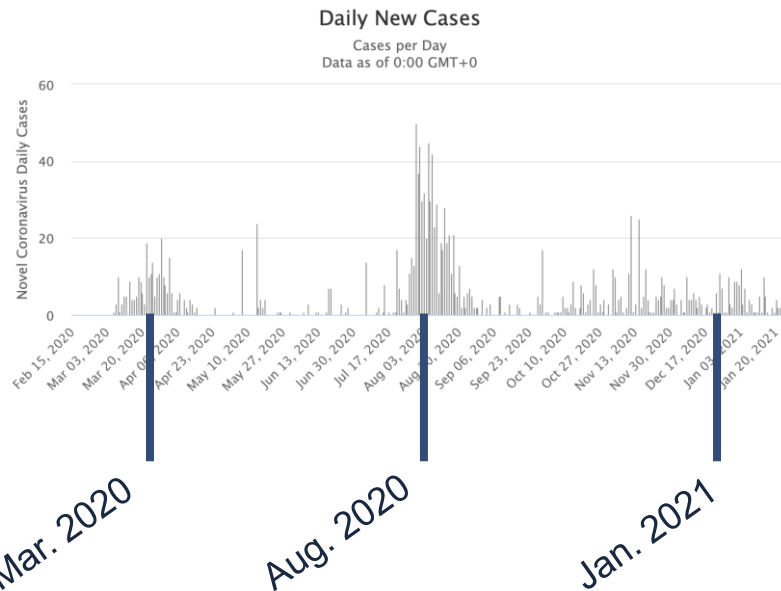
- Nation-wide shutdown
- Mobilized grassroots level gov. bodies in community prevention; but also had public cooperation
- Implemented temperature testing in public spots, masks mandatory
 - Required companies/buildings to take temperatures, monitor employee health/symptoms, provide masks, gloves and sanitizers
- No large-scale stimulus package, instead support policies
 - Measures to facilitate foreign trade
 - Tax and fee reductions and exemptions
 - Financial support
 - Social security benefits
 - Energy cost reduction
 - An infrastructure plan, digital & high-speed rail system
- Demonstrated will enforce strict lockdown of districts, cities and provinces to contain the spread; restricted immigration & repatriation
- Conduct wide-spread testing when new outbreaks detected



Vietnam's Response

Vietnam – 1,549

*Total cases as of January 26, 2021



Initial Response – Gov. moved quickly, experienced with epidemics

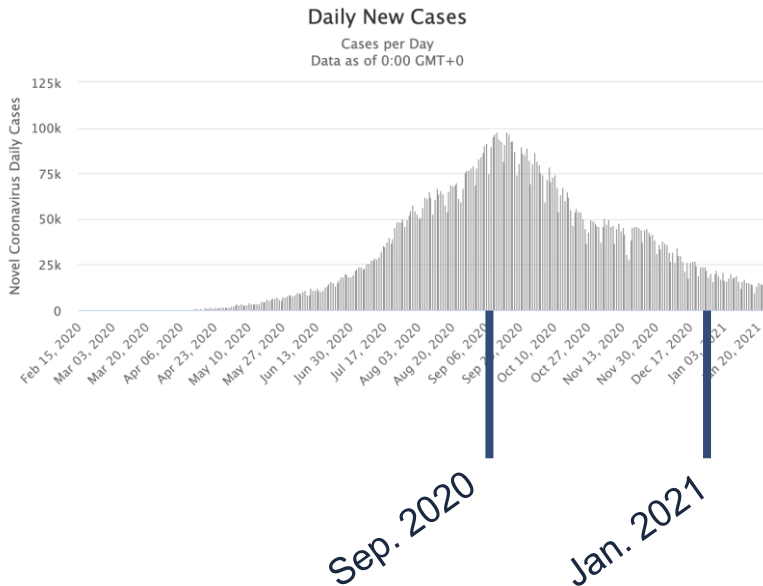
- All borders closed by end of March (Vietnam banned flights from China from Feb. 1)
- Experienced with MERS and SARS
- Had public cooperation, respect for professionals
- Strategic testing, early screening in airports and aggressive contact tracing
- Masks were mandatory, hand hygiene encouraged
- Vietnam showed with Da Nang, ready to lockdown areas to prevent spread
- Vietnam has had one of the best responses to the pandemic, rivaled only by Taiwan in Asia



India's Response

India – 10,677,710

*Total cases as of January 26, 2021



Initial Response – Early screening

- First case detected January 30th, on a returnee student from Wuhan
- At first just screening travelers from China, India proceeded to ban travel from certain countries on March 13th
- On 25th of March, India went into a nation-wide lockdown for 21 days and thereafter, phases of lockdown extensions
- In May, cases started to surge
- Indian government provided following support policies:
 - Extension on tax and compliance deadlines
 - Reduction in CIT
 - Measure to support individual tax payers – higher deductible, exemption for under a threshold
 - Changes in taxing dividend income
 - Extension of trade investment schemes
 - Import-Export tax relief

The gov. has also released over US\$300 billion in stimulus

Vaccine Plans & Updates

China – pop. 1,394,015,977

- China approved first vaccine, December 31st, for general public (Sinopharm)
- Plan to vaccinate **50 million** by **Feb. 14**
- Likely millions have already received other vaccines approved for emergency use like frontline, healthcare, military personnel & government employees abroad
- 4 Chinese vaccines were in phase III trials in late 2020. China will be keen to export to the developing world

Vietnam – pop. 98,721,275

- An agreement was signed with a Taiwan-based vaccine company for 3-10 million doses in 2021
- Domestic producer partnering with NYC-based Icahn School of Medicine and non-profit, PATH, with Phase II & III trials expected Q1 2021; production volume to be 30 million annually, ready by Oct. 2021
- Under Covax program, 16% of population is eligible for doses
- Set to receive 30 million doses in 2021 from Oxford-AstraZeneca

India – pop. 1,326,093,247

- Vaccination began on January 16th with healthcare & frontline workers; goal for 300 million Indians by July 2021
- Oxford-AstraZeneca's (locally produced - Covishield) and Bharat Biotech's Covaxin are being distributed; 4 more contenders may be approved by June/July, including Covaxin, potentially by Feb.

What Else Happened in 2020?



Trade Agreements made or in Effect

Regional Comprehensive Economic Partnership (RCEP) –

Signed by 15 countries, including China & Vietnam; making up 30% of world's output *parties plotted on map

- India backed out over agricultural concerns
- First regional multilateral trade pact for China
- Lowered trade barriers, streamlined processes, and improved market access.
 - **Unified rules of origin**

EU Vietnam Free Trade Agreement (EVFTA) – in effect July 2020

EU China Agreement on Investment – signed December 30, 2020

China – Cambodia FTA – Signed October 5th

China's FTAs:

15 Free Trade Agreements (FTA)

7 FTAs under consideration

9 FTAs signed or in negotiation

Vietnam's FTAs:

13 FTAs in effect

4 FTAs signed or in negotiation

*ASEAN has multilateral trade agreements with India, China, New Zealand, Australia, Japan and South Korea

India's FTAs:

3 FTAs

2 Preferential Trade Agreements (PTAs)

3 Economic or Partnership Agreements (CECA, CEPA respectively)

7 Agreements signed or in negotiation



Macroeconomic and Regulatory Changes in 2020 - China

- Trade spats – U.S. China trade war marches on; Australia and China enter geopolitical/trade spat
 - Phase One Deal signed; commitments not met
 - Tariff exclusions, export control laws, scrutiny on Chinese NYSE listings, sanctions - to ban or not ban?
- Dual Circulation Strategy (DCS) – proposed in May, 2020 by President Xi Jinping as a new economic model – to create conditions for domestic and foreign markets to boost each other
 - Replacement of ‘Made in China 2025’ (lots of backlash)? Signal China will look inward for growth? Just a hedge against external shocks and pressures?
 - Vague; expect upcoming policy to be crafted in this principle
- New Infrastructure Plan – Part recovery plan, part way to advance economy
 - Plan includes 3 key categories of infrastructure: Innovative, Information, Integrated
- New Foreign Investment Law came into effect January 2020, changing JV structures
- China’s Market Access Negative List further shortened, relaxing requirements in oil and gas, and trading and financial services; Encourage list expanded
- 3 new Free Trade Zones – Beijing, Hunan, Anhui
- Corporate Social Credit System was to be rolled out – could not fully do so considering amount of businesses taking survival measures



Macroeconomic and Regulatory Changes in 2020 - Vietnam

- A part of Covid-19 recovery plan, **CIT effectively reduced to 14% for businesses with revenue under US\$8.8 million in 2020**
- Near miss trade spat with US – Trump admin investigated for currency manipulation, opening door to countervailing duties; Biden admin likely to drop case in bid for multilateralism

Major Regulatory Changes

- New Law on Immigration effective Jul. 10
New type of investment visa based on capital and industries; changes of visa type; additional visa exemption conditions for investors
- Passed new labor code (effective Jan. 2021)
- Pass new Law on Investment (effective Jan. 2021)

Macroeconomic and Regulatory Changes in 2020 - India



- Tensions with China – incl. violent border clashes & resulted in India banning over 260 Chinese apps
- India consolidated labor codes. Highlights include:
 - Hiring decisions made more flexible for companies
 - Reduction in the labor compliance burden,
 - Labor unions required to give 60 days' strike notice
- Consolidation of FDI policies over last three years, including:
 - Revision of FDI policy to guard against opportunistic takeovers by businesses in neighboring countries – aimed at China?
 - Business from countries sharing a land border must seek government approval for projects, including for example, a US company target that Chinese investors want to acquire with an Indian subsidiary
 - Investment cap on digital news media
 - Compliance obligations on e-commerce entities
 - And industry approval routes
- Extended manufacturing incentive scheme (PLI) for 10 sectors
- CIT & MIT cuts continue through 2020/2021

Growth or Retraction?



China

+2.3%

vs. 6.1% in 2019



Vietnam

+2.91%

vs. 7% in 2019



India

-7.7%

vs. 5% in 2019

Things to Watch in 2021



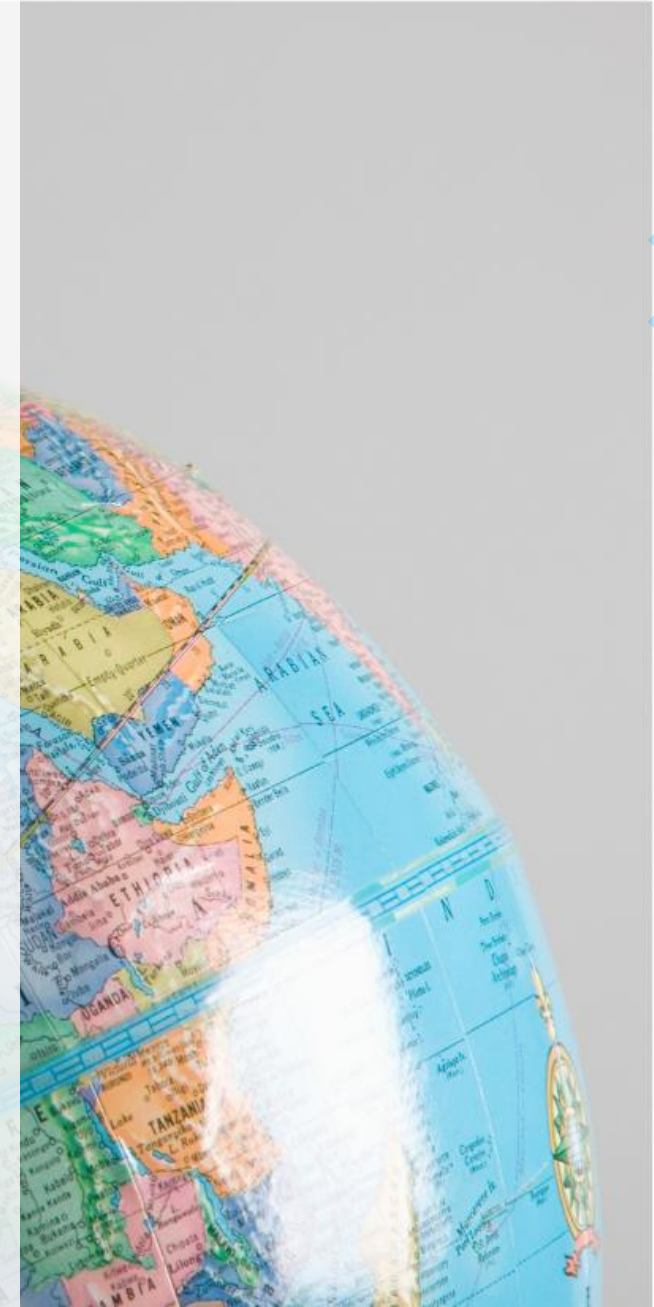
A Change in US Leadership – A Biden admin approach to trade and Asiatic relations

- International Trade Policy was not a priority in Biden’s election campaign
 - 2020 election cycle in the US was dominated by Covid-19 and issues of personality; substance on trade was severely lacking
 - Recent comments by Biden regarding “rewriting rules of trade,” but sparse on specifics
- Domestic recovery, economic and health is the top priority, and will be the focus for short-medium term
 - Build Back Better
 - Supporting sustainable infrastructure
 - Supporting returning manufacturing companies and strengthening the US, domestic supply chain in that and the technology industry
 - Buy American – procurement investment
 - Green New Deal? Maybe not



U.S. Trade Policy

- Tariffs and the Phase One deal are likely to remain – Biden team to evaluate Phase One deal
- Expect change in style, but not substance on China – 2020 point of no return in relationship?
- Multilateral and traditional approach:
 - May remove tariffs on close allies, such as Europe
 - Potential to campaign for WTO reform – “rewrite rules of the road”
 - Potentially re-engage CPTPP – perhaps influenced by signing of RCEP? Remember TPP a priority for Obama Administration...
 - If not above, expect formalized efforts to improve trade framework with Vietnam bilaterally
 - But first, domestic recovery
 - Seek multilateral economic action to pressure China – collective leverage
 - What must be done through ASEAN? Can anything be done with Asia Quartet (India, Japan, Australia, USA) in economic arena?
- Return to normalcy

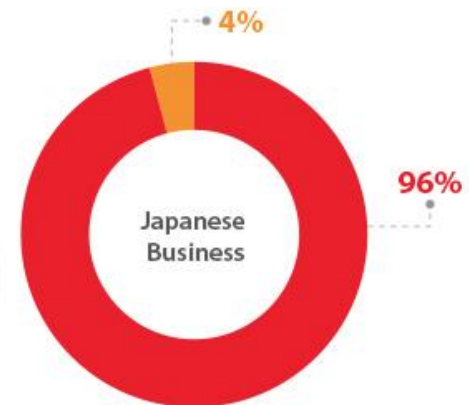
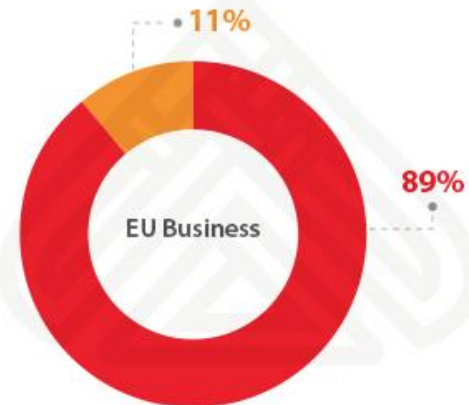
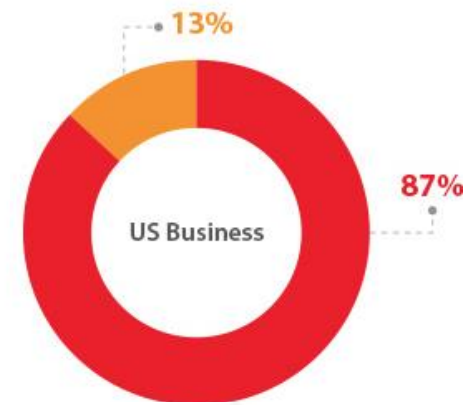


What's New with China in 2021?

- RCEP could potentially go into effect for China and Vietnam
- Bilateral goodwill and multilateral challenges
 - Vaccine diplomacy and trade deals (EU's CAI) **vs.** multilateral pressure
- More FDI inflow – US\$163 billion in 2020, the most in the world
- **A few regulatory notables:**
 - Policy agendas to be amplified to meet long-running targets – 2021 both centenary of CCP and start of 14th Five-Year Plan
 - Theme of 'continuous, stable, and sustainable' growth
 - China GAAP Changes, effective Jan. 1 (Read our guide on changes [here](#))
 - Minor IP regulatory changes
 - Personal Information Protection Law potentially to be passed in 2021
 - Cross-Border Service Trade Negative List - first of its kind and will open the services sector
 - Special Negative List for the Hainan Trade Port (2021 Edition) - Following up on flurry of favorable policies passed for Hainan in 2020

Foreign Businesses Planning to Leave China

■ Stay in China ■ Leave China



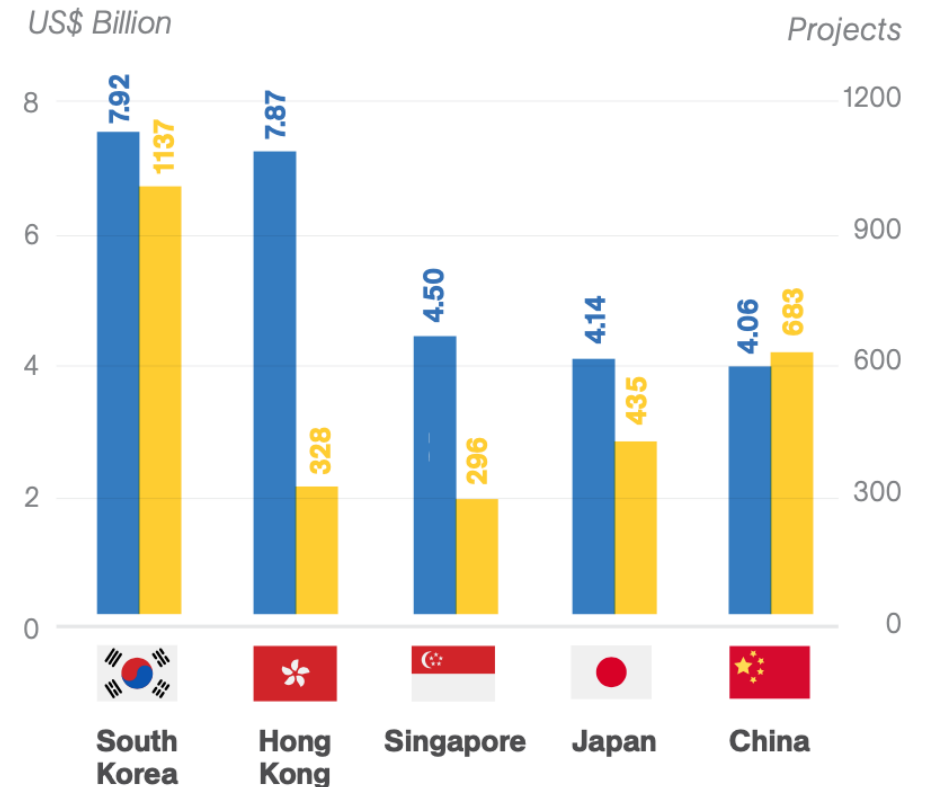


What's New with Vietnam 2021?

- RCEP could potentially go into effect for China & Vietnam
- **Key regulations businesses should be aware of:**
 - Amended Law on Enterprises, effective Jan. 1
 - Simplifies business registration process, redefining SOE
 - Amended law on Investment, effective Jan. 1
 - Updated investment incentives, support mechanisms and removed approval for certain types of projects
 - New Public-Private Partnership Law, effective Jan. 1
 - Clarified framework to increase private & foreign investment
 - New Labor Code, effective Jan. 1
 - More in-line with international standards in favor of employees
 - Amended Tax Administration Law, effective Jul. 1
 - Easing of some tax admin procedures, stricter enforcement
- An Election – but with a one-party state, no dramatic changes
- **A continuation of supply chain diversification and relocation from China**

Top 5 Countries Investing in Vietnam

- Total registered capital (US\$ Billion)
- Newly granted projects

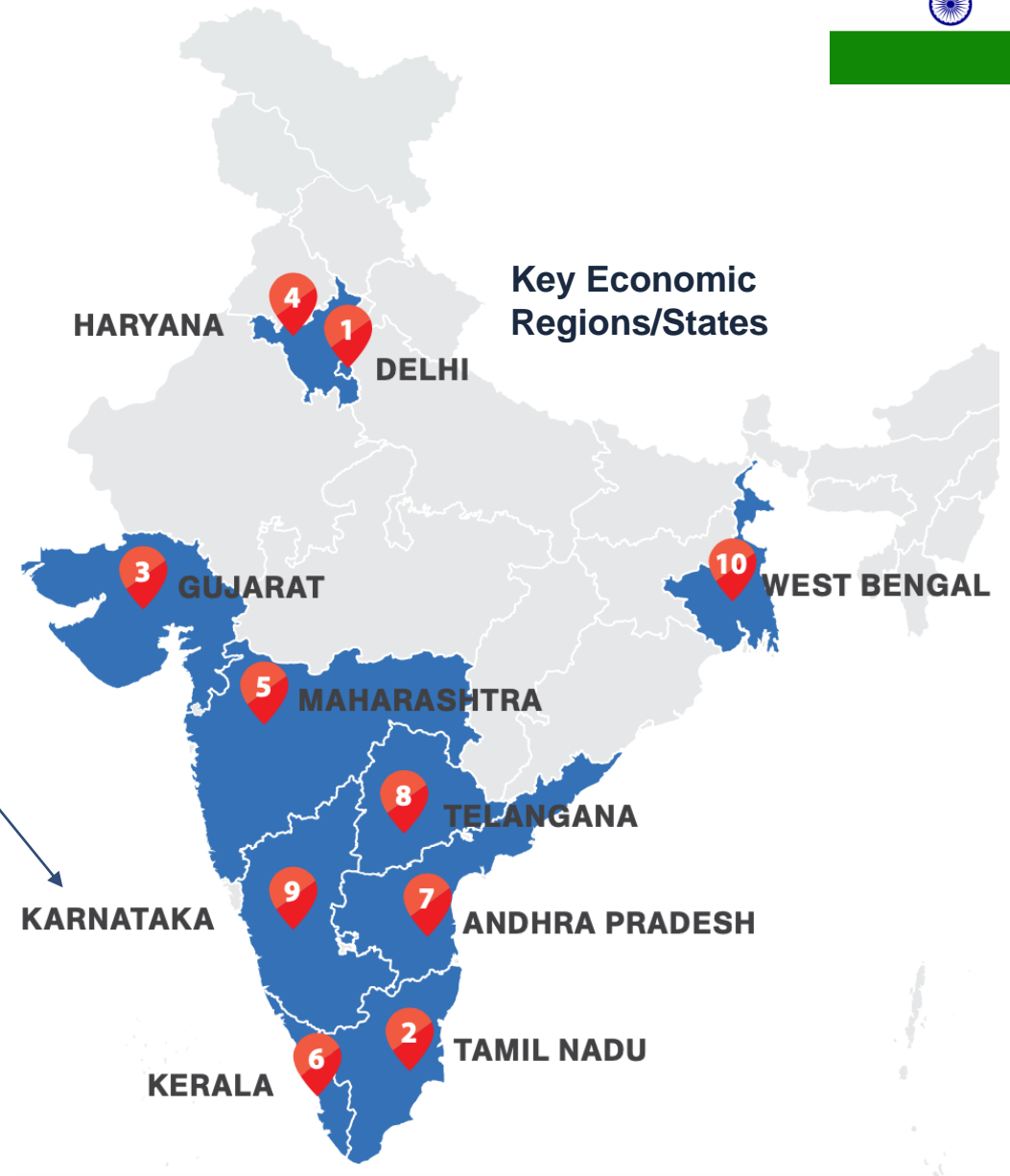


Source: Ministry of Planning and Investment



What's New with India 2021?

- Further tensions with China?
- India's National E-commerce policy could potentially come out – a draft policy was released in February 2020
 - Ensure level-playing field between online & offline retailers; data security; data storage; etc.
- Continued **state-level competition** on attracting FDI – **Karnataka was the latest with its new Industrial Policy for 2020-25**
- Too soon for another major motion to address foreign business concerns? Like 2020's Labor Code consolidation
- Potential for the US and India to renegotiate GSP status in exchange for greater access to Indian agricultural market
 - Likely no US-India trade deal, even picking up from the Trump administration would likely be longer term

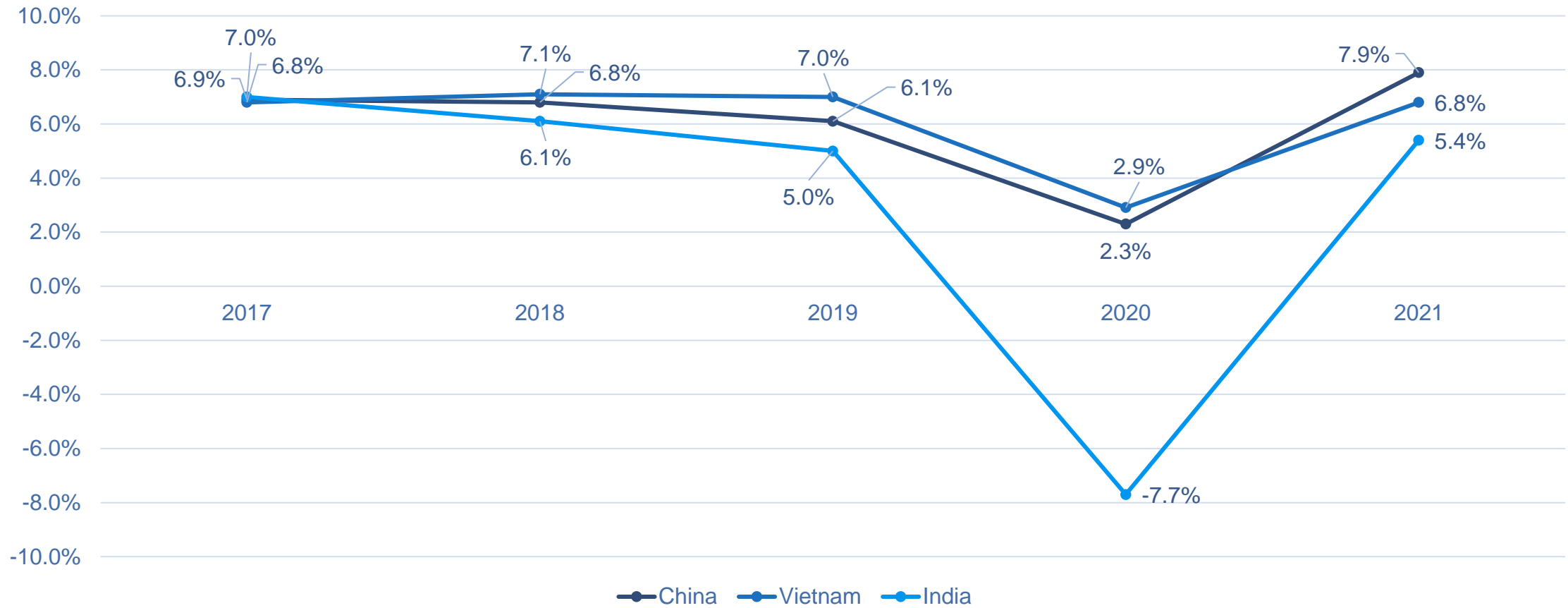


Economic Forecasts for 2021

*If vaccines can be widely distributed

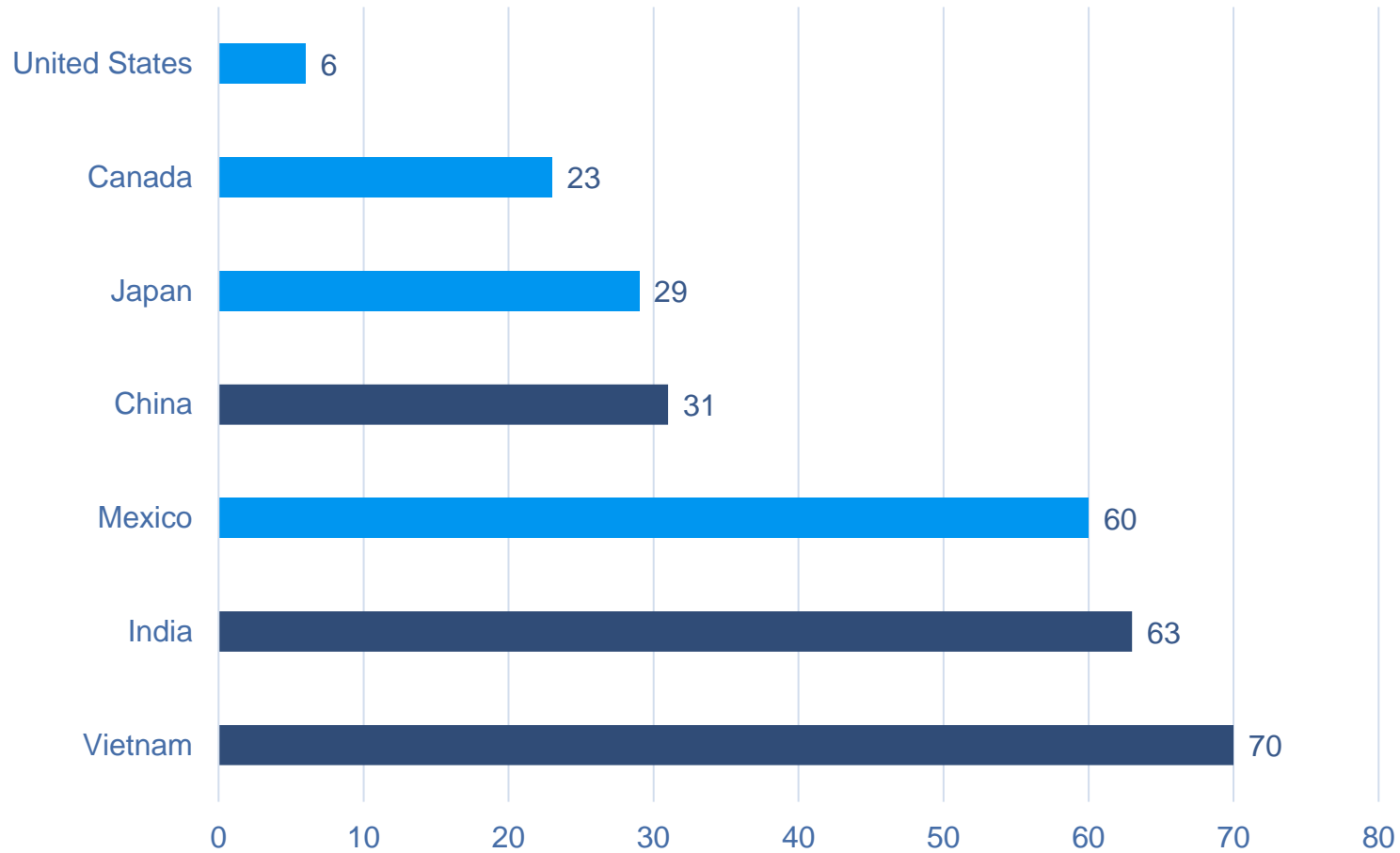
China: 6.5% Q4 vs. 4.9% Q3
Vietnam: 4.5% Q4 vs. 2.7% Q3
India: 3% Q4 vs. 4.5% Q3

GDP Growth with 2021 Projection



Ease of Doing Business 2020 – World Bank

Ease of Doing Business Ranking



31 China **+15**

63 India **+14**

70 Vietnam **-1**

Expect further improvement in 2021

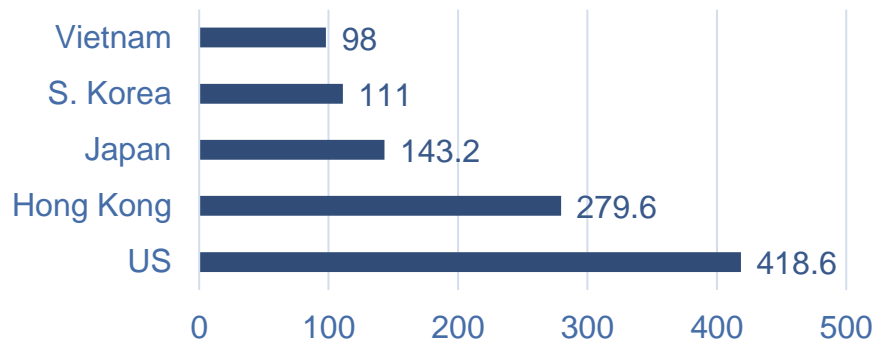
Opportunities for 2021



China's Key Industries and Trade






- **High end manufacturing:**
 - Prioritized and highlighted in 2020 Encouraged list
- China's **healthcare** market size in 2019: 7,816.2 trillion RMB, with 10% growth
 - Encouraged List added new sector – medical institutions
 - Also expanded category of pharmaceuticals
- **High tech** sector:
 - FDI increased by 27.6% YoY, accounting for 28.5% of all FDI inflow to China for 2019

Top 5 Export Partner (Billion US\$)








Top 5 Imports and Exports (US\$ Billion)

TOP 5 IMPORTS








| | | | |
|---|---------------------------------------|---|-------|
| 1 | Electrical machinery, equipment |  | 496.8 |
| 2 | Mineral fuels including oil |  | 343.6 |
| 3 | Machinery including computers |  | 190.3 |
| 4 | Ores, slag, ash |  | 163.6 |
| 5 | Optical, technical, medical apparatus |  | 98.7 |

TOP 5 EXPORTS

| | | | |
|---|---|---|------|
| 1 | Electrical machinery, equipment |  | 671 |
| 2 | Machinery including computers |  | 417 |
| 3 | Furniture, bedding, lighting, signs, prefab buildings |  | 99.5 |
| 4 | Plastics, plastic articles |  | 84.4 |
| 5 | Vehicles |  | 74.4 |

China's New Infrastructure Development – Innovative, Information, Integrated

Is it on the Foreign Investment Negative List (2020 Edition)?

| | Internet Data Centers | New Energy Vehicle Charging Stations | 5G Networks | Industrial Internet | Inter-city Transportation and Inner-city Rail Systems | AI | Ultra-high Voltage Power Transmission |
|--|---|---|---|---|---|---|---|
| |  |  |  |  |  |  |  |
| | *Generally Restricted | ** | | ** | ** | ** | ** |
| | | | * < 49% share; in practice no FDI has been approved | | | | |

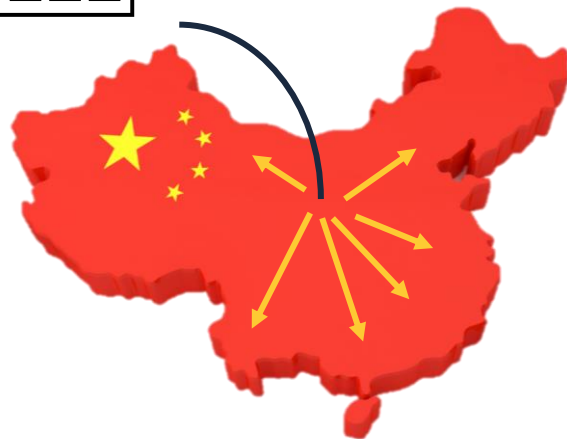
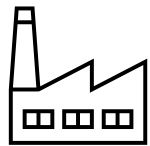
** Encouraged Activities (i.e. incentives), may include:

- R&D
- Manufacturing
- Development & Implementation

China Strategies

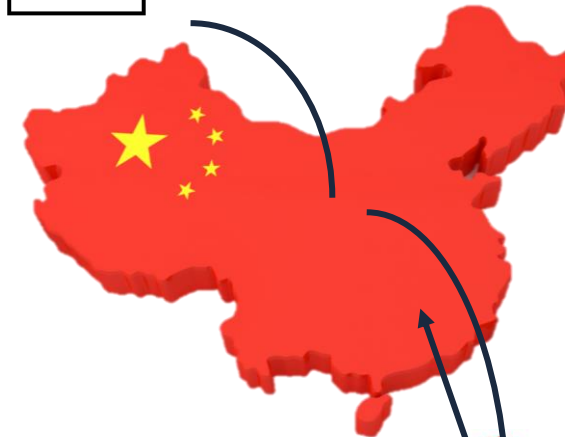
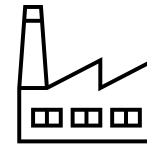
- Continuation of Trade War and/or Hardline on China likely to continue for US (and West?)
- Low-end manufacturing costlier in China
- BUT still growing business opportunities in China

In China, for China



No Export
Produce locally
for local market

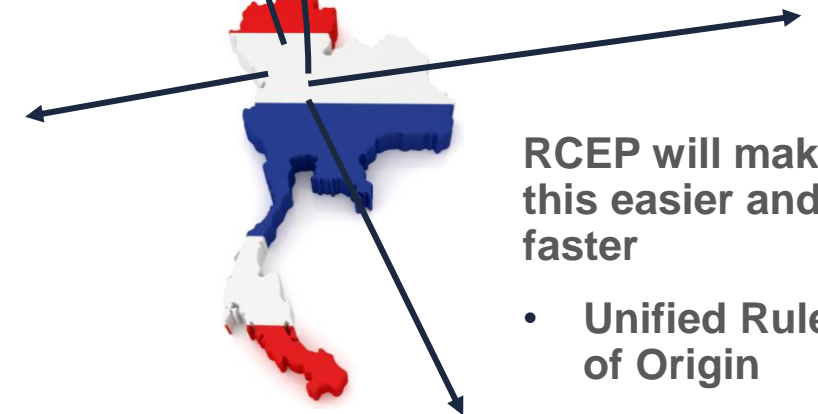
China + 1



Get materials/Parts
in China

Finish in another
country

Export

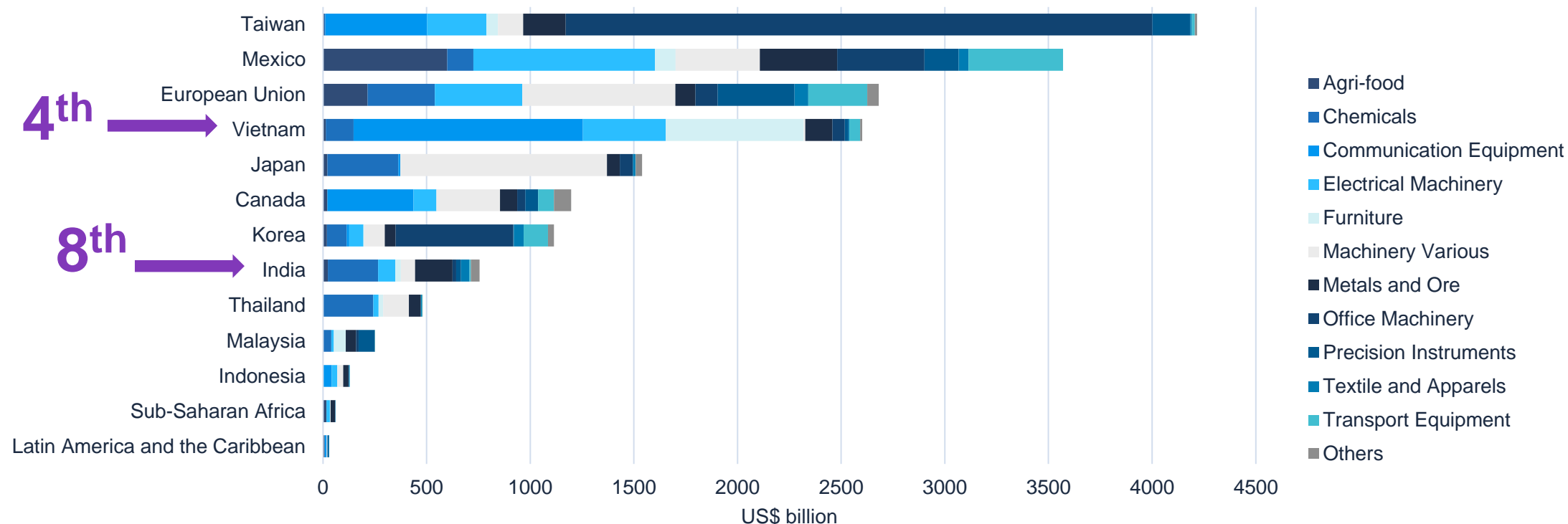


RCEP will make
this easier and
faster

- Unified Rules
of Origin

The Trade War didn't grow U.S production as intended but diverted trade from China...

Trade diversion effects, by economy and regional groups (first half of 2019)



Vietnam is the biggest winner in South/South east Asia

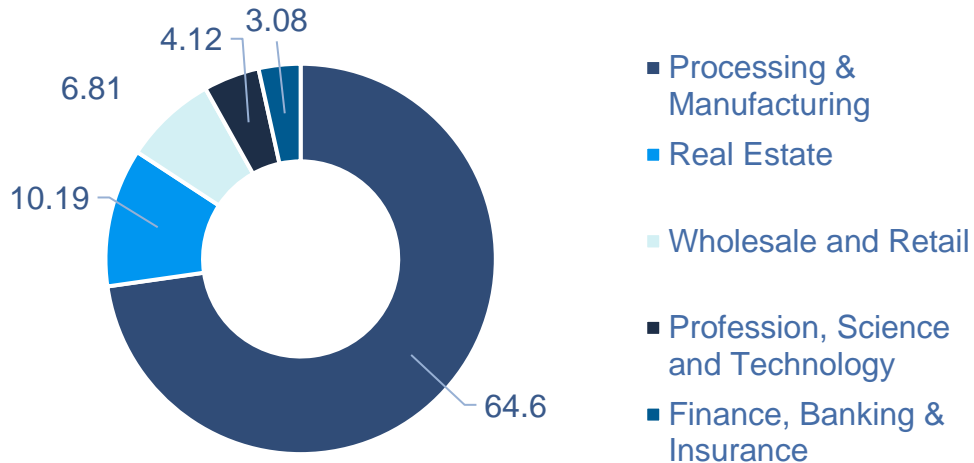
Vietnam's key product beneficiaries:

- Communication equipments
- Furniture
- Electrical Machinery

Considerable variance both across countries and sectors emphasizes **the inability of one economy** to match China's production capacity

Vietnam's Key Industries and Trade

Top 5 Sectors Receiving Investment (US\$ Billion)



Other sectors to watch:

- E-commerce (and logistics) – ecommerce market could be 3rd in ASEAN after Indonesia & Thailand by 2025
- Fintech – was expected to reach US\$7.8 billion in 2020
- High, advanced, and environmentally-friendly technologies
- Clean and renewable energy
- Medical equipment production and high-quality healthcare services

Top 5 Imports and Exports (US\$ Billion)










TOP 5 IMPORTS

| | | | |
|---|---|--|-------|
| 1 | Computers, Electronic products and Components | | 51.35 |
| 2 | Machinery and Equipments | | 36.75 |
| 3 | Telephones | | 14.62 |
| 4 | Textile fabrics | | 13.28 |
| 5 | Iron and Steel | | 9.51 |

TOP 5 EXPORTS

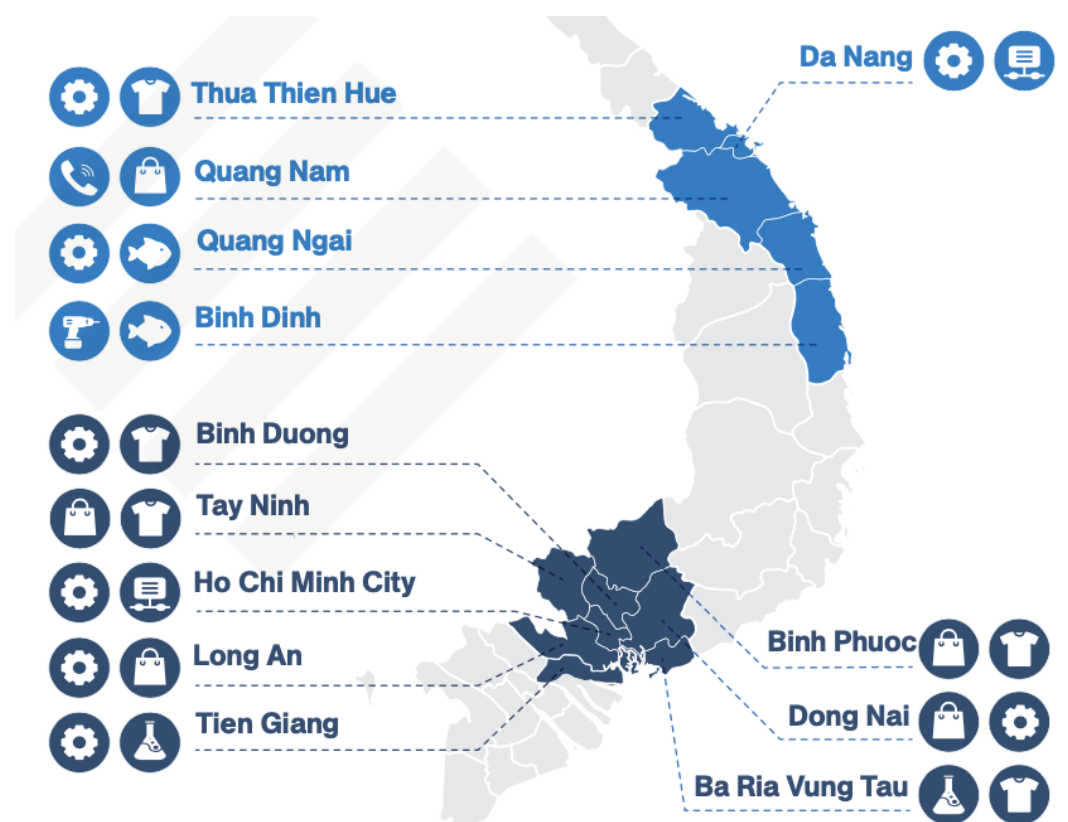
| | | | |
|---|--------------------------|--|-------|
| 1 | Telephones | | 51.38 |
| 2 | Computers and Components | | 35.93 |
| 3 | Textile and Garment | | 32.85 |
| 4 | Footwear | | 18.32 |
| 5 | Machinery and Equipments | | 18.30 |

Vietnam's Key Economic Regions

-  Electronics and Mechanical engineering
-  IT
-  Automobile
-  Textile and Garment
-  Telecommunication
-  Consumer goods
-  Construction materials
-  Forestry and Fisheries
-  Chemical and Chemical products

THE NORTHERN ECONOMIC ZONE

| | |
|--|---|
| <p>23,401.3 Industrial Zone Area (ha)</p> | <p>3.7 Average Factory Rent (US\$/SqM/Month)</p> |
| <p>78% Occupancy Rate</p> | <p>75.8 Average Industrial Land Price (US\$/SqM)</p> |



THE CENTRAL ECONOMIC ZONE

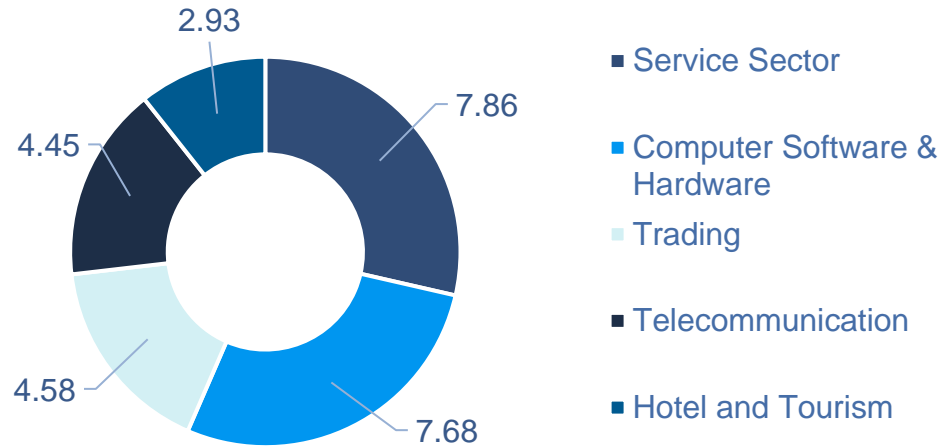
| | |
|--|---|
| <p>12,862.6 Industrial Zone Area (ha)</p> | <p>3 Average Factory Rent (US\$/SqM/Month)</p> |
| <p>77% Occupancy Rate</p> | <p>32.8 Average Industrial Land Price (US\$/SqM)</p> |

THE SOUTHERN ECONOMIC ZONE

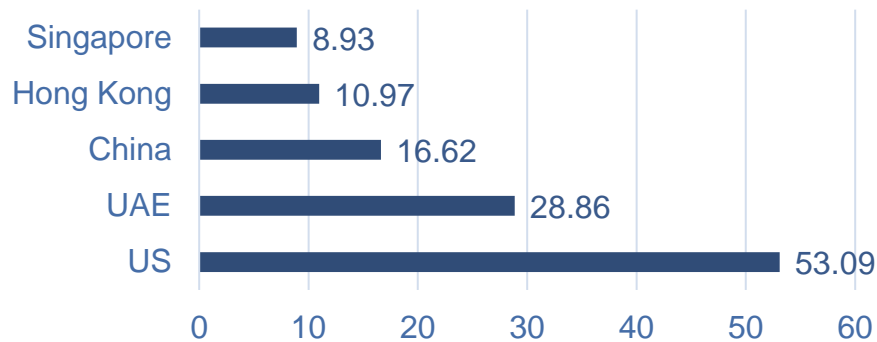
| | |
|--|---|
| <p>62,143.1 Industrial Zone Area (ha)</p> | <p>4 Average Factory Rent (US\$/SqM/Month)</p> |
| <p>90% Occupancy Rate</p> | <p>83 Average Industrial Land Price (US\$/SqM)</p> |

India's Key Industries and Trade

Top 5 Sectors Receiving Investment (US\$ Billion)



Top 5 Export Partner (Billion US\$)



Top 5 Imports and Exports (US\$ Billion)

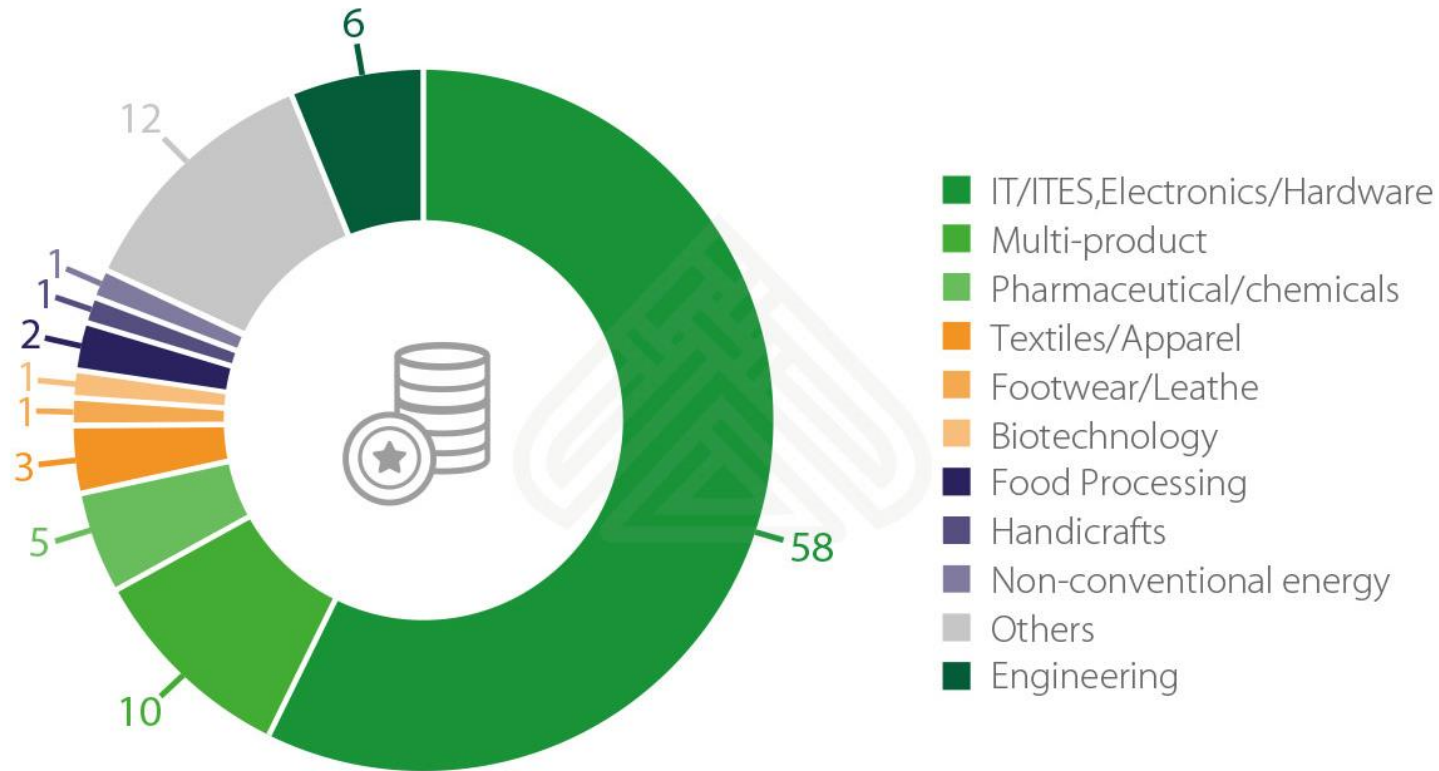
TOP 5 IMPORTS

| | | |
|---|---------------------------------|-------|
| 1 | Mineral fuels including oil | 153.5 |
| 2 | Gems, precious metals | 60 |
| 3 | Electrical machinery, equipment | 50.4 |
| 4 | Machinery including computers | 44.1 |
| 5 | Organic chemicals | 20.5 |

TOP 5 EXPORTS

| | | |
|---|-------------------------------|------|
| 1 | Mineral fuels including oil | 44.1 |
| 2 | Gems, precious metals | 36.7 |
| 3 | Machinery including computers | 21.2 |
| 4 | Organic chemicals | 18.3 |
| 5 | Vehicles | 17.2 |

Sector-wise distribution of SEZs in India (%)



Graphic © Asia Briefing Ltd.

India's SEZs

Assessment

China

- **Political issues between US and China will dominate view of China by US investors in 2021;**
 - Biden admin may wish to have some measure of public détente, but more likely a cooler tone will be matched by increased measures to push US firms out of the China supply chain
- **Despite high level political concerns and increasing costs, China remains popular with some sourcing/manufacturing investors;**
 - Nevertheless, firms would be foolish not to explore supplemental +1 opps in 2021 if they have not done so already

Vietnam

- Vietnam will see a leadership transition shortly – no major changes in policy expected
- The country did exceptionally well managing Covid-19, as travel regulations ease we expect a burst of US FDI into the country
- MNCs may have concerns regarding long term labor availability, but for the majority of investors Vietnam is, generally speaking, the most attractive China alternative on average

India

- India struggled with response to Covid-19 like US did, economy took a major hit;
 - Despite these struggles, India remains very hot for FDI both for export processing and domestic market
- We expect further deepening of ties between US and India as strategic partners, events of 2020 have brought them much closer
- India competes poorly with countries like Vietnam in efficiency and taxation, however the country's profile provides only peer competitor to China, and is especially attractive for MNCs



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