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# Doing Business in the ASEAN Countries

**Balbir B. Bhasin**



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## **Abstract**

This book is a practical and comprehensive guide to doing business in the newly emerging economies of the Association of Southeast Asian Nations (ASEAN), consisting of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, The Philippines, Singapore, Thailand, and Vietnam. Collectively these countries comprise a huge market of over half a billion people, a combined domestic product in excess of US\$1.49 trillion, and total trade of over \$1.54 trillion. The region's economy is the fastest growing in the world. It has distinctive business cultures and systems. Each country has a unique business environment and its own level of development.

Familiarity with the business, political, social, and cultural environment of the country is essential to succeed in doing business there. This book provides such insights into understanding the ASEAN region. It gives information on each country's history, geography, and demography; the political and economic environment; the legal framework, including procedures for starting a business; cultural intricacies, including religious issues, language, beliefs, and customs; business etiquette and attitudes; management and working styles; and negotiation strategies. It provides guidelines on establishing relationships, selecting business partners, and dealing with corruption and other ethical pitfalls. For further exploration into an issue, links to web resources are also given. Information and insights on each ASEAN country will enable the reader to evaluate better the risk factors in order to make meaningful decisions.

## **Keywords**

Association of Southeast Asian Nations (ASEAN), Asian cultures, business opportunities, business strategy, cross cultural communications, doing business in Asia, emerging markets, foreign direct investment (FDI), global business, global strategy, international management, international marketing, international marketing research

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# Introduction

Doing business in a foreign country requires awareness, consideration, and evaluation of risks that are unique to its environment. This necessarily involves knowledge of the politics, economics, legislation, and of course, the social and cultural traits of the community. These are factors external to the business enterprise, which plans to operate in the foreign country, and can directly affect all outcomes.

This book throws light on the business environment of the Association of Southeast Asian Nations (ASEAN) region and its 10-member countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. The book's framework is simple, yet allows for examination of the region's complexity. First it introduces the ASEAN community, then each country's environment is examined, and finally the entire region's business climate is integrated by arraying clusters with parities.

Chapter 1 introduces the ASEAN community by tracing its history and examining its current demographics. It outlines aims and objectives of the association. While describing the market and its potential, a detailed account of the ASEAN Free Trade Area (AFTA), which is on its way to total integration with removal of most tariffs and quotas, is provided. Also enumerated are the numerous free trade agreements the grouping has concluded with the United States, Australia, New Zealand, China, India, Japan, Korea, and the European Union (EU). These trade agreements illustrate the advantages of doing business in ASEAN. Finally, the significance of ASEAN to the United States, EU, and Asia is summarized.

Chapters 2 to 11 explore each ASEAN country. Each chapter begins with a table that provides basic data of the country. This is followed by a general background to enable a deeper understanding of the country's past and to allow for an appreciation of where it is now, which is often a result of how it got there. Important information on population, the size of the country, its people, languages, religions, natural resources, and challenges it faces is provided. This is followed by a detailed examination

of the business environment, which necessarily includes the political, economic, and legal system of the country. The political system includes the executive, the legislature, and the judicial structures. An assessment is made of the stability of the political system and attention is drawn to issues of concern. The analysis of the economic system of the country looks at the structure of the economy and its openness to foreign participation. The main sectors that are common to all the countries (agriculture, industry, and services) are explicated. Graphs provide a picture of the quality and quantity of trade and the relative importance of various trading partners. This allows for evaluating the country's productivity and the availability of resources and its needs. An analysis of the country's legal system follows. This is a summary of structures and levels of jurisdiction and the process of appointment of judges. The independence of the judiciary and fairness of the country's treatment of foreign investors and business organizations is also explored.

The introductory overview of each country is followed by an examination of the prevailing sociocultural environment and the business culture. The country's ethnic makeup and composition, identity and orientation, social structure and classes, values and beliefs, attitudes and priorities, languages and dialects, religions and religious practices, traditions and customs, and the worldview are examined. This is followed by an exploration of the country's business culture, including orientations in business approach; time and space; meetings and greetings; practices such as exchange of business cards and gift giving; manner of addressing senior officials and colleagues; use of English and other languages in business and government; social dress and business attire; response to modernization, globalization, and egalitarianism; direct and indirect communications used; personal and business relationships; organizational hierarchy; management styles and negotiations methods that work; and specific approaches and adjustments that will help build a business relationship. Finally, a list of web resources relating to the country is provided. These cover general information and history; people, culture, and health; government, infrastructure, and technology; economy and education; business environment and trade practices; and some local media. These resources are meant to allow for further research about the country and give access to the government, public, and private institutions for establishing contact.

Chapter 12 integrates all the 10 countries as a region and an economic community and explores the overall business environment. First, the required political, economic, and legal systems and inherent risks are evaluated. Next, the diversity of the region in terms of cultures, geography, religions, languages, and business systems and approaches are described to allow for an evaluation of the general landscape in which the foreign entity will be operating. This is followed by a section that details the business potential in the country and the sectors and industries that are growing or have growth potential. An overview of the relative time taken and processes involved in setting up a business is provided. Finally, conclusions are drawn about the potential challenges and opportunities for ASEAN in the coming years.

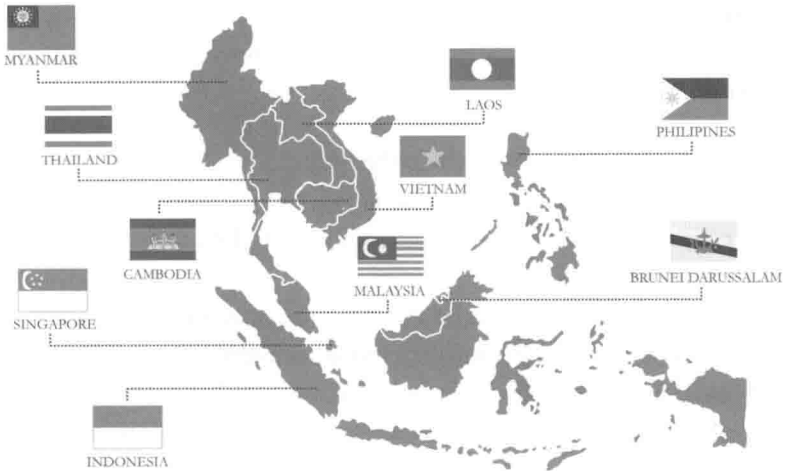
To ensure the accuracy of data used, all statistics in this book covering demographics and the economies, including trade and investment figures, gross domestic product (GDP), and foreign direct investment (FDI) are drawn from sources external to the country. The sources include the World Bank (WB),<sup>1</sup> Asian Development Bank (ADB),<sup>2</sup> Asia Pacific Economic Cooperation (APEC),<sup>3</sup> International Monetary Fund (IMF),<sup>4</sup> Gateway to the European Union,<sup>5</sup> Economy Watch,<sup>6</sup> The Financial Standards Foundation (FSF),<sup>7</sup> The World Factbook (CIA),<sup>8</sup> the U.S. Department of State (DoS),<sup>9</sup> and the Market Research Library of the U.S. Commercial Service (USCS).<sup>10</sup> The countries' history, political, economic and legal systems, and culture and business systems were drawn from Country Profiles chronicled in the Library of Congress's Portals to the World Country Studies,<sup>11</sup> *The Economist*, the British Broadcasting Corporation (BBC), globalEDGE's *Country Insight*,<sup>12</sup> U.S. DoS *Background Notes of Countries*,<sup>13</sup> The World Factbook, the Encyclopedia of Nations,<sup>14</sup> Nations Online's *Countries of Asia*,<sup>15</sup> the Asia Society,<sup>16</sup> and the World History Encyclopedia.<sup>17</sup> Finally, business opportunities and market potential are based on the U.S. Commercial Service's studies of industries and markets,<sup>18</sup> Apotheker et al.'s *New Business Opportunities for EU companies in the ASEAN Area: How to Benefit from the ASEAN Integration: An Investor's Guidebook*,<sup>19</sup> as well as on each country's chambers of commerce, and government trade and investment ministries. It is hoped that this book will serve as a practical guide to the reader, providing him or her with a deeper understanding of the business environment of ASEAN countries, assisting in evaluating the risk factors and in decision making while doing business there.





## CHAPTER 1

# The ASEAN Community



The 10-member countries of the Association of Southeast Asian Nations (ASEAN) collectively make a market in excess of 580 million people.<sup>1</sup> This is nearly twice the population of the United States and a little more than the population of the European Union (EU). The countries are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. Together they cover a total land area of 4.5 million sq km—almost half the size of the entire United States. In 2009, the combined gross domestic product (GDP) exceeded US\$1.5 trillion and total trade was worth more than \$1.54 trillion.<sup>2</sup> ASEAN is the fourth biggest consumer of U.S. goods after Canada, Mexico, and China. If ASEAN were a country by itself, it would rank twelfth in the world for total GDP—ahead of Spain, South Korea, and Canada. ASEAN's trade pacts with Japan, India, South Korea, and, most importantly, China could pave the way for a regional economic bloc that could rival the EU. It is a dynamic region, one whose economy is the fastest growing in the world. It also has some of the world's most

distinctive cultures and business systems. Foreign direct investment (FDI) of the region increased by 150% between 2003 and 2008.<sup>3</sup>

ASEAN was set up in 1967 in Bangkok, Thailand, with five founding members: Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Its objectives were to accelerate economic development, promote regional peace and stability, and expand trade. Membership was extended in due course to Brunei in 1984, Vietnam in 1995, Laos and Myanmar in 1997, and Cambodia in 1999. In brief, the aims and purposes of ASEAN are to

1. accelerate economic growth in the region;
2. promote regional peace and stability;
3. cooperate in economic, social, cultural, technical, scientific, and administrative fields;
4. provide assistance to each other in the form of training and research in the educational, professional, technical, and administrative spheres;
5. collaborate more effectively in agriculture and industries, expansion of trade, and in raising the living standards of the populace;

**Table 1.1. ASEAN Key Indicators**

Country	Total land area (sq km)	Total population in thousands	Annual population growth (%)	GDP per capita (\$ PPP)
	2009	2009	2009	2009
Brunei	5,765	406.2	2.1	49,266.8
Cambodia	181,035	14,957.8	2.1	1,802.3
Indonesia	1,860,360	231,369.5	1.2	4,174.9
Laos	236,800	5,922.1	2.8	2,431.3
Malaysia	330,252	28,306.7	2.1	13,593.8
Myanmar	676,577	59,534.3	1.8	1,093.4
Philippines	300,000	92,226.6	2.0	3,525.1
Singapore	710	4,987.6	3.1	49,765.8
Thailand	513,120	66,903.0	0.6	8,072.2
Vietnam	331,051	86,024.6	1.2	3,067.9
ASEAN	4,435,670	590,638.3	1.4	4,829.3

*Note.* Adapted from ASEANstats, 2010 (data compiled from ASEANstats, selected basic ASEAN key indicators as of July 15, 2010). Retrieved August 24, 2010, from <http://www.aseansec.org/stat/Table1.pdf>

6. maintain close and beneficial cooperation with existing international and regional organizations.

The continuing joint efforts of the ASEAN community have had a stronger influence on the region's trade and the political and security environment than its members could have achieved individually. The basis of this has been their wide use of consultation, consensus, and cooperation with each other over the past 40 plus years. Despite its shortcomings, ASEAN has been considered as the most successful regional grouping after the EU.

### **Market Potential and Development**

The ASEAN countries have experienced substantial growth and industrialization, which has created a middle class with substantial purchasing power. As in all developing nations, ample opportunities exist for investments and trade. There continues to be a strong demand for both infrastructure development and consumables. Rising populations and wages make several member countries favorable for imports and exports, establishment of manufacturing units, and distribution of products and services both to industry and retail establishments.

The creation of the ASEAN Free Trade Area (AFTA) in 1992 has placed the ASEAN region in an advantageous position for trade and investment.<sup>4</sup> This effort at economic integration removes tariff barriers and allows for the free flow of goods, services, and investments. Under the Common Effective Preferential Tariff (CEPT) scheme, tariff on most products has been removed altogether or limited to a maximum of 5%. This goal is expected to be achieved by 2010 by the six original signatories to the CEPT: Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand. The newer members—Cambodia, Laos, Myanmar, and Vietnam—will eliminate all import duties by 2015.<sup>5</sup> A dispute settlement mechanism is in place. Incentives are provided for companies operating in two or more ASEAN countries under the ASEAN Industrial Cooperation Scheme (AICO). This allows for economies of scale, reduction in production costs, and efficient use of human and material resources. Inter-ASEAN trade has grown dramatically at an average of

1.5% annually. Small and medium enterprises (SMEs) account for 90% of this trade volume.<sup>6</sup>

Another tool to facilitate business activity is the creation and implementation of the ASEAN Investment Area (AIA). This program allows for more liberal investments in manufacturing, agriculture, forestry, and mining. The AIA can benefit regional and international investors as its liberal definition of an ASEAN investor allows multinationals enterprises, which already have an investment project in a host country and meet the nationality or equity requirement, to get the same privileges as a national of the host country.

All these will bear fruit in the coming years with the realization of total economic integration and the emergence of the ASEAN Economic Community (AEC) by 2015. The AEC is expected to establish ASEAN as a single market and production base.<sup>7</sup>

Over and above the creation of a free trade area within ASEAN, member states have concluded free trade agreements with Australia and New Zealand (2009), China (2009), India (2009), Japan (2008), and Korea (2009).<sup>8</sup> A separate Trade and Investment Framework Agreement was signed with the United States in 2006 and discussions with the EU for a free trade area (FTA) are in progress.

**ASEAN–Australia–New Zealand Free Trade Area (AANZFTA):** This agreement attempts to integrate the 12 markets of more than 600 million people with a combined GDP of \$1.7 trillion (2005). It eliminates 90% of all tariffs and allows for greater market access to all.

**ASEAN–China Free Trade Agreement (ACFTA):** This agreement went into effect on January 1, 2010, and is expected to reduce all tariffs between ASEAN countries and China by 2015. It is now the third largest FTA in the world after the EU and the North American Free Trade Agreement (NAFTA). China's trade with ASEAN is growing exponentially.

**ASEAN–India Free Trade Agreement (AIFTA):** Under this agreement signed on August 13, 2009, ASEAN and India will lift import tariffs on over 80% of traded products between 2013 and 2016. Tariffs on sensitive goods will be reduced to 5% in 2016. Only India, Singapore, and Malaysia have implemented this accord.

**ASEAN–Japan Comprehensive Economic Partnership Agreement (AJCEPA):** This agreement requires Japan to eliminate tariffs on 93% of imports within 10 years, while six major ASEAN partners (Brunei,

Indonesia, Malaysia, the Philippines, Singapore, and Thailand) will abolish tariffs on 90% of imports from Japan within 10 years.

ASEAN–Korea Free Trade Agreement (AKFTA): Under this agreement it was agreed that ASEAN-7<sup>9</sup> and Korea shall eliminate tariffs for 90% of all products by 2010 or, in the case that tariffs are levied, they will be no higher than 5%. Indonesia, Laos, and Cambodia are yet to ratify this agreement.

ASEAN–United States Trade and Investment Framework Agreement (TIFA): This is a precursor to a full free trade agreement with the United States, ASEAN's largest trade partner. ASEAN–United States trade is valued at over \$150 billion per year. ASEAN is the United States' fourth largest trading partner. Talks to further the agreement are scheduled for 2010.

ASEAN–European Union Free Trade Agreement (AEUFTA): Negotiations are ongoing to craft a comprehensive agreement. EU procedures require all ASEAN countries to sign a Partnership Cooperation Agreement containing a commitment to human rights as a prerequisite to the free trade agreement.

ASEAN also holds routine meetings with the major trading partners to foster better relations and also further commercial dealings. Called "full dialogue partners," they include Australia, Canada, China, EU, India, Japan, Korea, New Zealand, Pakistan, Russia, and the United States. A new dialogue with the Gulf Cooperation Council (GCC) has also started.

For all practical purposes, AFTA is an established and functioning entity. Cambodia, Laos, Myanmar, and Vietnam are slightly behind in the implementation of their CEPT commitments. However, by 2010 almost all products will be subject to no more than 5% duties. Inter and intraregional trade has increased tremendously. The United States, Europe, and Japan continue to be ASEAN's largest export markets. Japan, the United States, and the EU were the largest sources of ASEAN imports.

## Significance of the ASEAN Community

ASEAN is Southeast Asia's only multilateral organization that can take advantage of the complementarities of the members' economies by using economies of scale, industrial efficiency, and productivity. The four primary objectives of the community are

1. a single market and production base,
2. a highly competitive economic region,
3. a region of equitable economic development,
4. a region fully integrated into the global economy.

The EU has described ASEAN as a 10-nation group that “is a large, fast-growing, and relatively affluent market, characterized by a deepening trade integration and a growing outward reach to even larger markets [India and China].”<sup>10</sup> The United States considers ASEAN vital to its strategic interests as it is one of its largest trading partners and because “it has some of the world’s most critical sea lanes, including the Straits of Malacca, through which pass a large percentage of the world’s trade.”<sup>11</sup> The United States acceded to the ASEAN Treaty of Amity and Cooperation (TAC) in 2009, followed by 15 other countries including Japan, South Korea, Australia, China, Russia, and India. This is seen as a “symbol of commitment to engagement in Southeast Asia, and to the organization’s emphasis on multilateral processes.” ASEAN became China’s fourth biggest trading partner in 2010, and Japan, South Korea, and India see huge potential in and share interests with ASEAN not only in terms of trade but also in terms of politics and security.<sup>12</sup> Their cultural ties are also binding.

The region has recovered from the negative impact of the 1997–1998 Asian financial crises and has moved significantly toward an integrated trade area. Three main draws of the region are its huge potential and growing market (Tables 1.1 and 1.2); abundant natural resources, including raw materials (see Table 1.3); low costs of business; and the large labor pool.

From the foregoing discussion, it is clear that ASEAN holds tremendous potential for business, trade, and investment. The mission of the AEC is to create a single market; a production base that is stable and highly competitive; to allow for a free flow of goods and services and capital; and to facilitate trade and investment. A priority integrated sector (PIS) has been created where liberalization is being accelerated. Priority sectors are agro-based products, air travel, automotives, e-ASEAN, electronics, fisheries, health care, rubber-based products, textiles and apparel, tourism, and wood-based products. There are concerns that more integration is still some distance away and much more management is

Table 1.2. ASEAN Economic Indicators

Country	Exports (US\$ millions)	Imports (US\$ millions)	Total trade (US\$ millions)	FDI inflow (US\$ millions)	Growth rate of GDP (%)	Inflation rate (%)	Unemployment rate (%)
	2009	2009	2009	2009	2009	2009	2009
Brunei	7,168.6	2,399.6	9,568.2	176.8	-0.5	1.9	3.7
Cambodia	4,985.8	3,900.9	8,886.7	530.2	0.1	5.3	0.8
Indonesia	116,510.0	96,829.2	213,339.2	4,876.8	4.5	2.8	8.4
Laos	1,237.2	1,725.0	2,962.1	318.6	7.6	8.5	1.3
Malaysia	156,890.9	123,330.5	280,221.4	1,381.0	-1.7	1.1	3.6
Myanmar	6,341.5	3,849.9	10,191.3	578.6	4.8	n.a.	4.0
Philippines	38,334.7	45,533.9	83,868.6	1,948.0	1.1	4.4	7.4
Singapore	269,832.5	245,784.7	515,617.1	16,256.2	-1.3	-0.6	2.2
Thailand	152,497.2	133,769.6	286,266.8	5,956.9	-2.2	3.5	3.2
Vietnam	56,691.0	69,230.9	125,921.9	7,600.0	5.2	6.9	1.3

Note. Adapted from ASEANstats 2010 (data compiled from selected key indicators and ASEANstats 2010), data current as of July 15, 2010. Retrieved August 24, 2010, from <http://www.aseansec.org/stat/Table1.pdf>



**Table 1.3. Natural Resources of ASEAN**

Country	Types of natural resources
Brunei	Oil and gas
Cambodia	Oil and gas, timber, gemstones, iron ore, manganese, phosphates, hydropower potential
Indonesia	Oil and gas, minerals (gold, silver, copper, tin, coal), fish
Laos	Wood, gold, cooper, tin, aluminum, rattan, coffee, hydroelectricity
Malaysia	Petroleum, gas, tin, timber, copper, iron ore, bauxite
Myanmar	Petroleum, timber, tin, antimony, zinc, copper, tungsten, lead, coal, marble, limestone, precious stones, natural gas, hydropower
Philippines	Timber, petroleum, nickel, cobalt, silver, gold, salt, copper
Singapore	fish, deepwater ports
Thailand	Tin, rubber, natural gas, tungsten, tantalum, timber, lead, fish, gypsum, lignite, fluorite, arable land
Vietnam	Phosphates, coal, manganese, bauxite, chromate, offshore oil and gas deposits, timber, hydropower

*Note.* Adapted from Central Intelligence Agency: The World Factbook 2010a. Retrieved August 24, 2010, from <https://www.cia.gov/library/publications/the-world-factbook/index.html>

required to make the agreement work. The goal for ASEAN remains full economic integration of the AEC by 2015.<sup>13</sup>

The next 10 chapters (2–11) present a detailed picture of the business environments of each of the 10 countries, and the final chapter 12 will integrate the business environment of the entire region and suggest considerations for entering the market(s).