Issue 11 • September and October 2014

ASIA BRIEFING

From Dezan Shira & Associates

ASEAN Investment Horizons: Key Industries for AEC 2015

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Introduction

ASEAN is synonymous with integration. Whether in terms of the closely-knit economies of the ASEAN-6, the narrowing gap between these and CLMV (Cambodia, Laos, Myanmar and Vietnam) in the lead up to ASEAN Economic Community 2015, or even more ambitious proposals such as the Regional Comprehensive Economic Partnership (RCEP) or Trans-Pacific Partnership, the leaders of Southeast Asia have shown unflagging commitment to making transnational trade a defining feature of the region.

Unsurprisingly, the ten-nation bloc has been high on the watchlist of foreign investors, especially against the backdrop of China's declining competitiveness. But with upwards of $US1.5 trillion in trade flowing through the region annually and a combined GDP of nearly US$2.5 trillion, deciding how and where to bring your business into ASEAN can be a bewildering exercise. Cognizant of the risks involved in any foreign investment venture, Dezan Shira & Associates offers insight pooled from our established presence in Vietnam and Singapore, and partner firms throughout the region.

In this issue of Asia Briefing, we forecast the effects of ASEAN Economic Community on foreign investment into the region. Following this, we highlight what is happening in some of ASEAN's hottest industries for investment, including electronics, information and communications technology, textiles and medical devices. Lastly, we examine opportunities for ASEAN-India trade in light of recent historic developments in India.

For a comprehensive list of trade agreements ASEAN is signatory to, as well as the latest updates on regulatory, legal and tax issues affecting investment in the region, please log on to our website at www.aseanbriefing.com.

Kind regards,

Alberto Vettoretti
Managing Partner
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For Reference

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ASEAN Investment Horizons: Key Industries for AEC 2015

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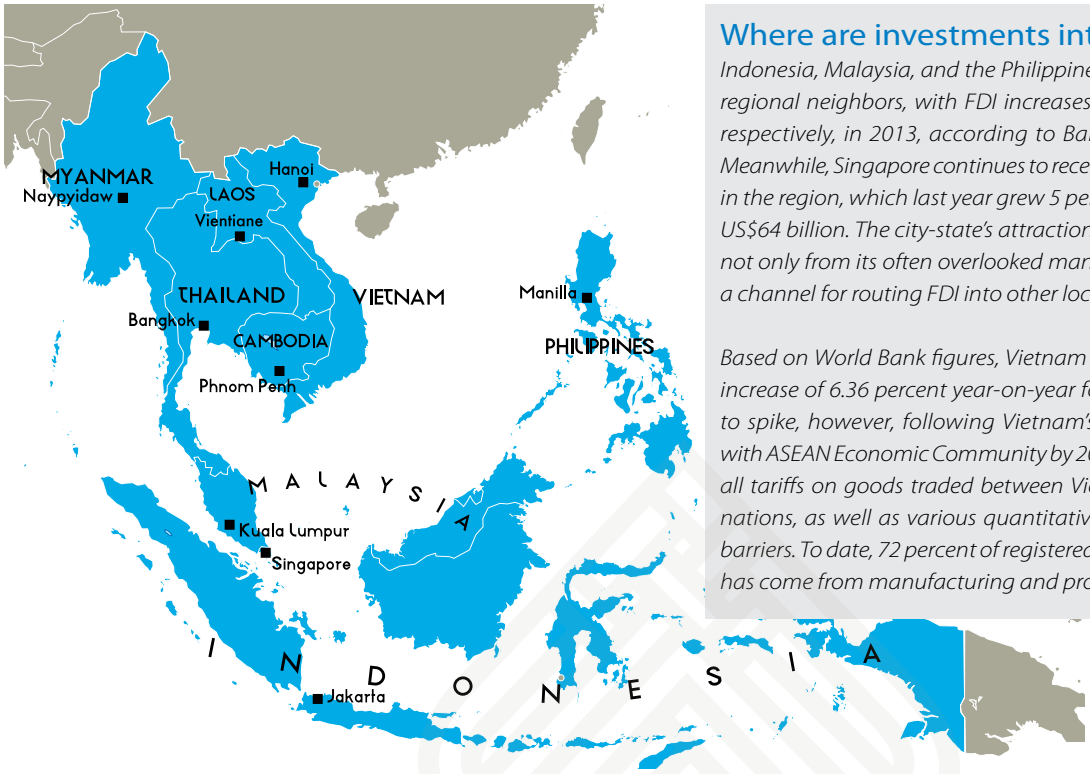
Outlook on ASEAN Investment 2015

– By Matthew Zito, Dezan Shira & Associates



Where are investments into ASEAN going?

Indonesia, Malaysia, and the Philippines are surging ahead of their regional neighbors, with FDI increases of 17, 19 and 20.4 percent, respectively, in 2013, according to Bank of America Merill Lynch. Meanwhile, Singapore continues to receive the lion's share of total FDI in the region, which last year grew 5 percent to a net value of nearly US$64 billion. The city-state's attraction for foreign investors derives not only from its often overlooked manufacturing base, but also as a channel for routing FDI into other locations in ASEAN.

Based on World Bank figures, Vietnam showed a more modest FDI increase of 6.36 percent year-on-year for 2013. Analysts expect this to spike, however, following Vietnam's entry into full compliance with ASEAN Economic Community by 2015. This will remove virtually all tariffs on goods traded between Vietnam and ASEAN member nations, as well as various quantitative restrictions and non-tariff barriers. To date, 72 percent of registered capital for FDI into Vietnam has come from manufacturing and processing.

The ten member states of ASEAN can be divided in many ways: geographically, the bloc is split between continental states like Myanmar, Thailand and Cambodia and the archipelagos of Indonesia and the Philippines; culturally, the region is home to the largest Muslim nation in the world (Indonesia), bastions of Buddhism like Cambodia and Thailand, and the Roman Catholic majority of the Philippines; and in economic terms, the GDP of Indonesia exceeds that of runner-ups Thailand and Malaysia combined, and weighs in almost one-hundred times larger than Laos. But it is the region's growing integration that is drawing the attention of foreign investors. With a milestone target for economic integration fast approaching in 2015, the region is poised to be awash in FDI over the coming years.

In fact, investment into ASEAN is already at an all-time high, with FDI inflows into the region's five largest trading countries (the "ASEAN-5": Singapore, Malaysia, Indonesia, the Philippines and Thailand) totaling US$128.4 billion in 2013, according to Bank of America Merrill Lynch. Of course any discussion of the rising competitiveness of ASEAN must address the dragon in the room: China. In terms of both total investment and year-on-year growth, these five powerhouses outperformed China in 2013.

Historically, Singapore has been the greatest recipient of FDI into the region, followed at a wide margin by the remaining ASEAN-5 members and Vietnam. The city-state is also the largest source of intra-regional FDI at 45 percent, while the greatest outside contributors are the European Union (25 percent of total FDI), Japan (13 percent) and the United States (11 percent).

Investment has been variously directed into different sectors based on its country of destination. Whereas in Malaysia, Thailand and Vietnam, the manufacturing industry has been the main recipient of investment, there has been a greater emphasis on the services sector in the more advanced economies of Singapore, Indonesia and the Philippines.

From a regulatory standpoint, manufacturing is the most liberalized sector for foreign investment into ASEAN, contrasting with the more stringent restrictions placed on business services, communications and transportation in the region. The World Bank's East Asia Pacific Economic Update found that Thailand, the Philippines and Malaysia are among the most restrictive countries for foreign equity, while Cambodia and Singapore allow for nearly 100 percent foreign ownership in most sectors.

ASEAN Economic Community

ASEAN Economic Community is one element, along with the ASEAN Security Community and Socio-Cultural Community, of the larger ASEAN Community initiative targeted for implementation by 2020, as decided upon at the ASEAN Concord II in October 2003. In 2007, further details for AEC were laid out in the AEC Blueprint, including the now looming deadline of 2015. The Blueprint sets out the intention to "transform ASEAN into a single market and production base, a highly competitive economic region, a region of equitable economic development, and a region fully integrated into the global economy."

The first of these goals promises an unrestricted flow of goods, services investment, and skilled labor between member nations, as well as a "freer flow" of capital. Liberalization measures for the free flow of goods, services, skilled labor, capital and investment have already been 85 percent achieved, according to official ASEAN estimates. Although doubts have been raised as to whether Cambodia, Laos, Myanmar and Vietnam will be able to meet the compliance target of 2015, The World Bank has calculated that ASEAN's overall trade costs have come down 15 percent over the past ten years, with intra-regional trade nearly doubling over the same period, to almost US$500 billion last year.

As envisioned by the Blueprint, the achievement of these goals calls for "new mechanisms and measures to strengthen the implementation of its existing economic initiatives; accelerating regional integration in the priority sectors; facilitating movement of business persons, skilled labour and talents; and strengthening the institutional mechanisms of ASEAN." To accomplish these goals, the Blueprint sets out various targets for IP, ecommerce, and infrastructure projects by 2015.

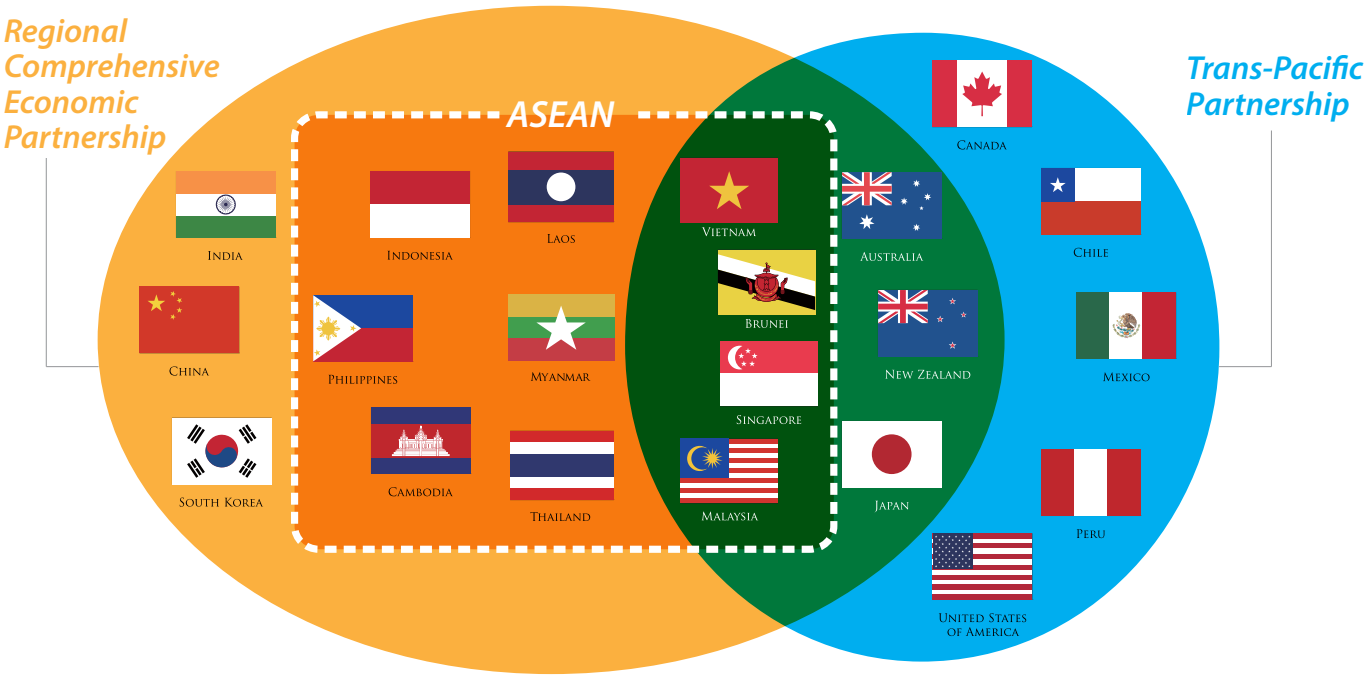
AEC is supported by two further agreements: the ASEAN Comprehensive Investment Agreement (ACIA) and the ASEAN Framework Agreement on Trade in Services (AFAS). The former includes provisions for the liberalization of FDI using a negative list approach - in which investment is permitted into all sectors not explicitly prohibited by a given signatory country -, and sets out mechanisms for dispute resolution and rule making . Conversely, AFAS provides for the opposite approach, whereby FDI in certain services is prioritized based on their inclusion on a positive list.

Additionally, several key ASEAN members (Brunei, Malaysia, Singapore and Vietnam) are also included in ongoing negotiations for the Trans-Pacific Partnership, a U.S.-led regional free trade agreement. The currently 12-member group represents two-fifths of world GDP, including economic heavyweights such as the U.S., Japan, Canada, Australia, and Mexico. If ratified, the TPP would entail FTA-style tariff reductions in key economic sectors, in addition to other commitments regarding intellectual property protection, environmental standards, and ecommerce.

Lastly, the Regional Comprehensive Economic Partnership (RCEP) is a proposed agreement for creating a free trade network between ASEAN and the six countries with whom ASEAN has existing FTAs (Australia, China, India, Japan, Korea and New Zealand). Unlike the TPP, the RECP aims to accommodate a broader range of economic disparity between its potential signatories, who account for nearly half of the world's population and approximately one-third of global GDP.

ASEAN's Regional Free Trade Agreements

(Proposed)



What is it that makes ASEAN a preferred destination for FDI?

Demographics

Of especial interest to manufacturers, ASEAN's population of more than 600 million is already in the middle of a "demographic dividend"—a period in which the ratio of employable workers rises against the number of dependents. With some 60 percent of the total population of ASEAN under the age of 35, multinationals like Volkswagen and Foxconn have been keen to take advantage of the labor surplus, especially in light of China having spent its own dividend and now entered a period of demographic aging.

Consumer Markets

Beyond its status as a preferred site for manufacturing, ASEAN is also witnessing vibrant growth in consumer markets throughout the region. Five of its ten member nations have populations of over 50 million, and the leader among these (Indonesia) has nearly as many people as the next three countries combined. Beyond their sheer numbers, the demographics of these populations are also transforming: Vietnam's middle class, for example, is expected to increase from 2 million today to 33 million by 2020.

Investors eyeing opportunities in the ASEAN's domestic markets would be advised, however, to keep in mind the disparity existing between member states; per capita income among the 52.8 million inhabitants of Myanmar, for example, is only US$900, whereas the equivalent figure for the 5.3 million Singaporeans is US$50,000.

Treaty Network

International treaties form the basis of ASEAN. In addition to the tariff reductions between member nations as part of the ASEAN Economic Community (see below), the members of ASEAN are also signatories to free trade agreements (FTAs) with some of Asia's biggest economies—China, India, Japan and Korea—and commonwealth nations Australia and New Zealand. As one such example, the China-ASEAN FTA ratified in 2011 has reduced tariffs to practically zero on 90 percent of goods trade between the two jurisdictions. For ASEAN-based manufacturers, the agreement facilitates access to China's gargantuan domestic market, expected to grow to 600 million by 2020, up from 250 million today.

Taxes

Tax implications for foreign investment into ASEAN vary considerably between specific countries. Although the AEC Blueprint identified the removal of double taxation between ASEAN countries by 2010 as a top priority, several members have yet to meet this target; notably, Cambodia has yet to ratify a DTA with any other nation. Meanwhile, the Common Effective Preferential Tariff (CEPT) scheme has long since removed customs tariffs on 99 percent of goods traded between the ASEAN-6.

At present, tax rates vary between Brunei's total absence of individual income tax, to Thailand's maximum bracket of 37 percent; and from Singapore's ultra-low 17 percent corporate income tax to Myanmar's exacting rate of 35 percent for some foreign entities. In general, ASEAN members are concentrated toward the lower end of the World Bank's "Ease of Paying Taxes" rating, with Singapore, Brunei, and Malaysia being exceptions to this trend.

Standard Tax Rates Across ASEAN

	Corporate Income Tax	Value-Added Tax	Withholding Tax			Individual Income Tax	
			Div.	Int.	Roy.	Min.	Max.
Brunei	20%	0%*	0%	15%	10%	0%	0%
Cambodia	20%	10%	14%	14%	14%	20%	20%
Indonesia	25%	10%	20%	20%	20%	5%	30%
Laos	24%	10%	5%	5%	5%	0%	24%
Malaysia	25%	5%-10%**	0%	15%	10%	0%	26%
Myanmar	5%-40%	0%	0%	15%	20%	1%	35%
Philippines	30%	12%	15%/30%***	20%	30%	5%	32%
Singapore	17%	7%**	0%	15%	10%	0%	20%
Thailand	20%	7%	10%	15%	15%	5%	37%
Vietnam	22%	10%	0%	5%	10%	5%	35%

* Indirect taxes ** Goods and Services Tax *** 15% rate applies to profits remitted by a branch to its parent company

Key Industries for Investment in ASEAN

– By Matthew Zito, Benedict Lynn and Emily Liu, Dezan Shira & Associates

Electronics

The electronics sector has long been a major force in ASEAN's rapid economic development, and continues to rise. In 2010, total ASEAN electronics exports accounted for over US$195 billion, or 18 percent of the region's total exports, and last year electrical and electronic (E&E) product exports from East Asia Pacific (EAP) countries (31 percent of total exports in developing EAP nations) grew 9.2 percent, up from 7.8 percent in 2012 and 8.7 percent in 2011.

Traditionally it was China, with its vast and cheap labor force, where parts supplied by ASEAN-4 countries (Indonesia, Thailand, Malaysia, Philippines) and financed by the EAP's high-income countries, such as Japan and New Zealand, would be assembled and shipped to the rest of the world. However, China's recent rise up the export market value chain from mass manufacturing to more high-tech products, as well as its rising labor costs, have resulted in a shift of FDI to ASEAN's Mekong countries (Myanmar, Thailand, Cambodia, Vietnam).

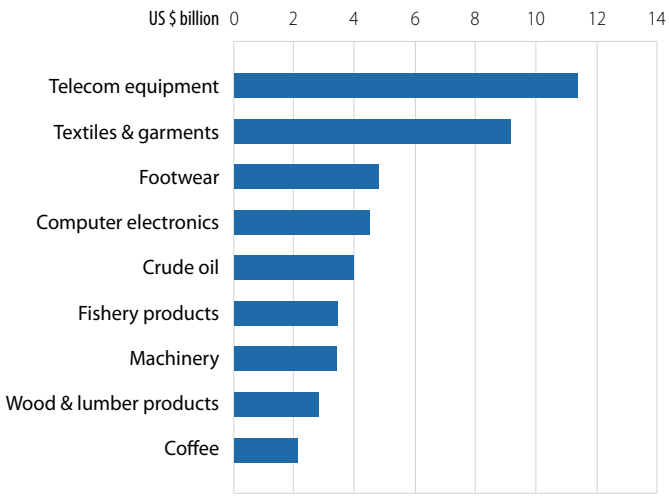
In particular, Vietnam has emerged as an important electronics exporter, with E&E products overtaking coffee, textiles and rice to become the country's top export item in 2012, as well as capturing a six percent share of the computer and telecom equipment market, up from zero. The country has recently attracted substantial investments from multinational giants such as Samsung and Mitsubishi, and analysts predict that once Thailand moves up the value chain, Vietnam will take its place.

Thailand, long a global leader in the manufacture and export of computer hard-disk drives, saw its electronics-related FDI more than triple in 2010. However, the global shift away from PCs to tablets resulted in its hard-disk drive exports contracting by 5.6 percent last year. Despite this, due to the countries continued strong exports in other E&E products such as radios, TVs and printers, a recent Credit Suisse report not only rated Thailand as the region's most competitive country in electronic exports over the last 15 years, but also forecasted it to rank top among ASEAN countries in 2013.

Singapore's well-established electronics industry generated a manufacturing output of S$86.1 billion (US$ 68.86 billion) in 2011. As ASEAN's de facto commercial center, its highly educated workforce, reliable business environment and transparent legal and tax regimes have ensured that Singapore remains a popular destination for global electronics companies, with electronics accounting for 45 percent of all investments in 2010.

From 2011 - 2013, however, the city state's reliance on PC and semiconductor manufacturing as well as its rising labor and energy costs have resulted in a year-on-year contraction in its electronics cluster. Singapore will have to adapt to the needs of the global market – shifting its focus to higher growth industries – and manage costs if they are to compete with emerging economies such as Thailand and Vietnam. But this should not pose a problem to highly developed and wealthy Singapore, nor will the large manufacturers be relocating any time soon.

Vietnam's Top Export Commodities (first half 2014)



Source: Vietnam Customs

Information and Communications Technology (ICT)

Historically, the information and communications technology (ICT) sectors have remained some of the most closed to foreign investment in ASEAN. Between 2010 – 2013, in direct response to the imposition of foreign owned restrictions (FORs) in telecommunications, FDI to Indonesia's tertiary sector dropped by over 30 percent (US$3 billion), while in the Philippines, foreign equity in the same area is constitutionally limited to 40 percent.

However, as ASEAN marches ever closer to total economic integration in 2015, great strides are being taken to both further regional cooperation between the group, with members at varying degrees of ICT development, and to open up the sector to the rest of the world.

One such initiative is the ASEAN ICT Masterplan 2015 (AIM2015), which seeks to expand the reach of services, such as broadband and telecommunications infrastructure, further develop innovation capacity, and encourage FDI. Since its launch in 2011, as many as 60 related projects have been undertaken, ranging from capacity building and training workshops to the development of regional frameworks for cooperation and coordination in areas such as electronic government, cyber security and policy and regulations.

Internet Use Across ASEAN

Country	Internet Penetration	Online Population
Brunei	64.50%	269,471
Cambodia	6.00%	908,110
Indonesia	15.82%	39,528,743
Laos	12.50%	846,216
Malaysia	66.97%	19,901,451
Myanmar	1.20%	639,108
Philippines	37.00%	36,405,622
Singapore	73.00%	3,941,416
Thailand	28.94%	19,392,839
Vietnam	43.90%	39,382,207

Source: International Telecommunications Union; The World Bank

The industry has been developing at a remarkable pace and currently employs over 11.7 million people across the region, contributing more than US$32 billion, or over three percent, of ASEAN's GDP. Mobile penetration and internet penetration across all member states, which make up the second largest community of Facebook users in the world, stand at 110 and 25 percent, respectively. Vietnam, Indonesia, and the Philippines each have a subscriber base of over 100 million.

The region's large, young, tech-savvy population is shifting from feature phones to smart phones, which currently make up about 66 percent (and rising) of ASEAN's mobile market. Despite this, the market (largely dominated by Android devices) remains far from saturation, with mobile commerce opportunities continuing to increase.

A recent Mastercard study rates hyperconnected Singapore (which has the fourth highest smartphone penetration in the world and 73 percent of its population online) as the most mobile payment ready member state, followed by the Philippines, Malaysia and Thailand. At the other end of the scale is Myanmar, which only has one percent of its population online along with underdeveloped telecoms networks, infrastructure and power grids. However the newly outward-looking republic has been making significant efforts toward open up its telecommunications sector, and hopes to achieve 50 percent wireless accessibility by 2015. In January of this year, in an unprecedented move, formal licenses to operate networks in Myanmar were granted to two foreign telecoms giants, Telenor and Ooredoo. A target has been set to raise the country's mobile penetration rate from nine percent to 80 percent by 2016.

Indonesia, also known for its restrictive ICT sector, already has 282 million mobile subscriptions and is expected to have 100 million Internet users by 2016. Jakarta, (alongside Bangkok) has the highest density of Facebook users in the world and the Nusantara Super Highway (currently under construction) will expand broadband penetration to even the country's most rural provinces.

Whether in Malaysia, seeking to privatize its telecoms industry, Thailand and Indonesia, with their rapidly growing middle class and broadband initiatives, or even developing Myanmar, with its projects for improving infrastructure, opportunities abound across ASEAN's ICT sector. In 2010 exports in information-technology products accounted for more than a quarter of the region's total exports, at US$ 258 billion. As FORs and other barriers to foreign equity continue to be relaxed or wholesale abolished, investment is only likely to rise in this very exciting growth industry.

Textiles and Apparel

Another industry to watch for foreign investment opportunities in the lead up to AEC 2015 is textiles and apparel. Long a bulwark of China's manufacturing sector, textiles and apparel represents a fast-rising sector in the greater ASEAN economy, where it is the largest industrial employer in the majority of member states. Early on, the importance of textiles to the ASEAN economy was marked by its inclusion as one of 11 sectors selected for accelerated regional integration as part of the Vientiane Action Programme (2004).

It is not simply the case, however, that ASEAN stands to siphon off production from China; rather, in addition to the region's rise as a low-cost manufacturing center, ASEAN is also the fastest growing export market for Chinese textiles (30 percent year-on-year in 2013), and China's third largest export market overall, as facilitated by the China-ASEAN Free Trade Area agreement. Additionally, in a recent report by Standard Chartered, apparel and clothing was identified as one of six areas in which Indian exports to ASEAN could boom in the coming years.

Within ASEAN, Vietnam is the strongest competitor for inheriting low value-added textiles and apparel manufacturing from China. In contrast to other leading textile exporters in the region (Indonesia, Thailand, Malaysia), the share of Vietnam's textile exports against its total exports has grown in recent years, based on WTO figures. As of 2012, there were over 3800 companies in the industry in Vietnam, the majority of which are cut-and-sew enterprises. The industry's comparative lack of upstream suppliers, where various fabrics and accessories must be imported from outside Vietnam, makes it a prime candidate for regional integration.

Textiles consistently ranks among Vietnam's leading export industries, employing upwards of 1.3 million workers in directly related jobs and more than 2 million with auxiliary work included. The country's voracious demand for cotton (400,000 megatonnes consumed in 2012) is primarily fed by the U.S., India and South Africa.

"As of 2012, there were over 3800 companies in the industry in Vietnam, the majority of which are cut-and-sew enterprises. The industry's comparative lack of upstream suppliers, where various fabrics and accessories must be imported from outside Vietnam, makes it a prime candidate for regional integration."

Vietnamese-produced yarn is then exported to buyers in China, Korea and Turkey. Vietnam has set targets for 2020 of increasing investment capital in its textiles industry to US$25 billion and the related workforce to 3 million.

Cambodia's textile and apparel industry faces similar problems as that of Vietnam in terms of moving up the value-added chain, albeit on a smaller scale. Nevertheless, the country's production capacity exceeds 500 factories staffed by upwards of 500,000 textile and apparel workers. Low wages and weak enforcement of labor laws, however, have led to endemic volatility in the industry and hesitation on the part of foreign investors to continue sourcing from the country.

Overall, challenges remain for creating an intra-ASEAN comprehensive supply chain for the textiles industry capable of competing on a global footing. Such is the aim of the Source ASEAN Full Service Alliance (SAFSA) established in 2010 by the ASEAN Federation of Textile Industries (AFTEX). Within the region, the Thai and Vietnamese apparel industries are already very closely tied: bilateral trade in garments reached US$160 million in the first half of 2014, which was heavily weighted toward imports into Vietnam.

ASEAN Tariff Lines

Country	Number of Tariff Lines				Percentage			
	0%	>0%	Other	Total	0%	>0%	Other	Total
Brunei (AHTN 2012)	9,844	-	72	9,916	99.27	-	0.73	100
Indonesia (AHTN 2012)	9,899	17	96	10,012	98.87	0.17	0.96	100
Malaysia (AHTN 2012)	12,182	73	82	12,337	98.74	0.59	0.66	100
Philippines (AHTN 2012)	9,685	109	27	9,821	98.62	1.11	0.27	100
Singapore (AHTN 2012)	9,558	-	-	9,558	100.00	-	-	100
Thailand (AHTN 2012)	9,544	14	-	9,558	99.85	-	-	100
Cambodia (AHTN 2007)	3,327	4,834	-	8,161	40.77	59.23	-	100
Laos (AHTN 2007)	7,525	1,946	87	9,558	78.73	20.36	0.91	100
Myanmar (AHTN 2007)	7,614	1,882	62	9,558	79.66	19.69	0.65	100
Vietnam (AHTN 2007)	6,905	2,463	190	9,558	72.24	25.77	1.99	100
Total ASEAN	**86,083**	**11,338**	**616**	**98,037**	**87.81**	**11.57**	**0.63**	**100**

Medical Devices

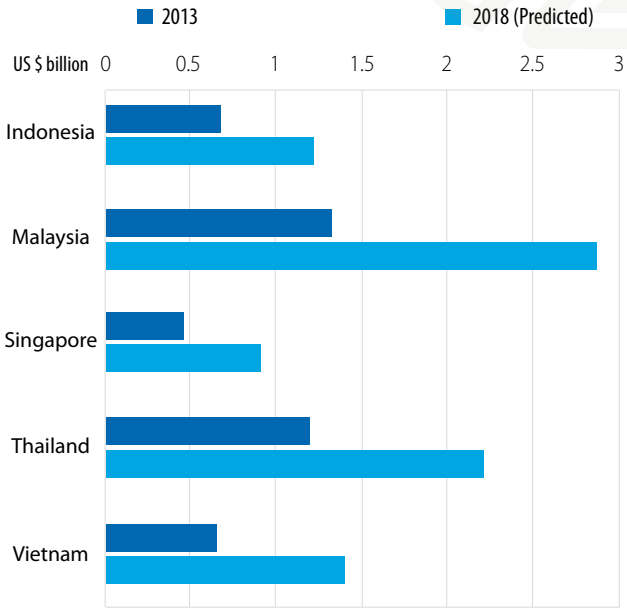
A rapidly expanding middle class and, for some, the beginnings of a greying population, has been driving the boom in trade of medical devices in the region. ASEAN's medical device market, which was worth about US$4.6 billion in 2013, is expected to double to $9 billion by 2019, according to Pacific Bridge Medical.

Local medical device markets within the region have been charting double digit growth rates in recent years, and will likely continue to do so. With the increased demand for better healthcare, encouraged by governmental focus on healthcare as a priority sector for trade and service liberalization under the AEC Blueprint, the upside market potential for medical devices in the region is immense.

Currently, the individual medical device markets across ASEAN's ten member countries are in various stages of development. Countries such as Malaysia and Indonesia, which are rich in rubber, lead global production in latex products such as surgical gloves and syringes. Singapore, the region's medical and technological hub, has a thriving biomedical research and development industry, and a strong comparative advantage in the advanced manufacturing skills valued for medical manufacturing, including precision engineering.

In recent years, Thailand has been gunning to become the next regional medical hub, with its Healthcare 2020 Masterplan. Together, Malaysia, Indonesia, and Thailand make up about 65 percent of the current medical device market in ASEAN.

Predicted Growth in ASEAN's Medical Device Market



Source: Epsicon

On the regulatory side, countries have made significant strides towards developing a mature regulatory framework for medical devices, both individually and regionally. In 2012, Malaysia introduced its first set of medical device regulations under its Medical Devices Act 2012, making it mandatory for all medical devices to be registered with the Medical Devices Authority (MDA). Brunei, Cambodia and Laos are still in the midst of developing their own requirements.

After years of negotiations, the ASEAN Consultative Committee on Standards and Quality's Medical Device Product Working Group (ACCSQ – MDPWG) has finalized the ASEAN Medical Device Directive (AMDD), a set of non-legally binding stipulations to harmonize regulations across the region, in line with its aim to liberalize trade and investment in the healthcare sector under the AEC Blueprint. The AMDD is expected to take effect on January 1, 2015, and will mark a significant step towards promoting easier access for medical device companies to the regional market of more than 600 million people.

At present, ASEAN countries are still reliant on imports to feed their demand for medical devices. As much as 97 percent of the medical devices consumed in Indonesia in 2013 were imported, mainly from the United States, Japan and Europe. Nevertheless, momentum is building for local manufacturing to transition towards higher-level products, as foreign companies move into the region to take advantage of the lower costs and rising demand.

In Malaysia, which produces about 62 percent of the world's rubber gloves and 79 percent of its catheters, diagnostic imaging exports have been growing in recent years, particularly in electrocardiographs and other electrodiagnostic apparatus, according to research by Espicom. In December, operations at Malaysia's first diagnostic imaging systems manufacturing base by Toshiba Medical Systems are slated to begin. Espicom estimates the country is likely to see compound annual growth of 16.1 percent to 2018, with growth for consumables as high as 24.8 percent.

Singapore, a leading regional and global biomedical hub, is home to more than 30 medical technology firms that have set up manufacturing bases in the island-nation, according to its Economic Development Board. All of the largest medical technology firms also have their regional headquarters in Singapore, tapping the state's extensive entrepôt trading network.

Throughout the region, strong governmental support is accelerating growth for the industry. In Thailand, the Board of Investment offers incentives for investors interested in manufacturing medical equipment in the country, ranging from import duty exemptions for machinery, to tax breaks and land ownership rights for foreign investors. In April 2012, the Thai government announced approval of a plan to establish a medical industrial park for manufacturers of medical devices in the country, hoping to raise Thailand's medical device exports to 30 percent of the global market in the near future.

Opportunity in the India-ASEAN Free Trade Area

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It has been nearly four years since the ASEAN-India Free Trade Area (AIFTA) went into effect on 1 January 2010 and liberalized tariffs on some 80 percent of goods traded between the two jurisdictions. In the intervening years, the agreement has presented something of a double-edged sword for the Indian economy: while bilateral trade and its rate of growth have both increased since the signing of the FTA, these have been accompanied by a widening Indian trade deficit vis-à-vis ASEAN. Indian exports to Southeast Asia have simply been unable to keep up with the country's demand for cheap goods imported from ASEAN, despite the remaining tariffs placed on palm oil, coffee, black tea, and pepper.

Recent historic developments in India, however, bode well for raising the prominence of the India-ASEAN FTA to one of the most important agreements affecting foreign investors with operations in either locale. Firstly, India's domestic consumer market has only just begun to take off. With a middle class consumer base of 250 million and a rising demographic dividend, India represents a massive pool of both producers and consumers. The country's notorious problems in infrastructure are soon to be alleviated as well, if BJP campaign promises and a proposal by China to contribute US$300 billion for related projects hold true.

Second, under the leadership of Narendra Modi's markedly pro-FDI majority government, the ASEAN- India FTA was recently expanded to include liberalization measures for services and investments - making it even more comprehensive in scope than the ASEAN-China FTA. Given India's comparative specialization in these areas, the agreement is expected to be a corrective to what in the eyes of many Indian critics have been disproportionate benefits enjoyed by ASEAN to date. The signing comes on the heels of Q2 figures indicating that during Modi's first 100 days in office, capital investment in India expanded by 7 percent.

Combined, the above factors should help the two rapidly growing economies reach their target of $US100 billion in trade by 2015 (up from US$ 76 billion in 2012-13) and US$200 billion by 2022. For foreign investors entering the ASEAN market, the expansion of ASEAN-India trade is just one more factor in ASEAN's persuasive bid as a premier destination for FDI in the coming years.

India's main exports to ASEAN	ASEAN's main exports to India
• Coal, coke, briquettes	• Coal, coke, briquettes
• Vegetable and petroleum oils	• Vegetable and petroleum oils
• Electronic goods	• Electronic goods
• Organic chemicals	• Organic chemicals
• Non-electrical machinery	• Non-electrical machinery
• Wood and wood products	• Wood and wood products
• Non-ferrous metals, metalliferous ores and metal scrap	• Non-ferrous metals, metalliferous ores and metal scrap

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