LEADING COMPANIES IN ASEAN (INDONESIA, THAILAND, MALAYSIA)

Harue Shimato
Strategic Planning Dept., Planning Div.
Mitsui & Co. (Asia Pacific) Pte. Ltd.

INTRODUCTION

The Association of South East Asian Nations (ASEAN) is home to about 651 million people, and it is estimated that its total GDP will be about $2.97 trillion in 2018. The average rate of annual economic growth for the major five-member nations is 5.3%, and this is projected to be around 5-6% for the next five years. Many Japanese companies operate in the region, backed by people's positive sentiment toward Japan. Meanwhile, leading local companies have played a key role in their countries' industrialization, and have matured as partners of foreign companies. Given their presence in each country's economy, it is important for Japanese companies to have a good understanding of leading local companies' views on individual markets, as well as their own business strategies, regardless of whether Japanese companies are entering the market alone or partnering with local companies over the long term. In this report, we will analyze leading local companies' strategies based on interviews with such companies in Indonesia, Thailand, and Malaysia, and suggest implications for Japanese companies.

HISTORY OF LEADING ASEAN COMPANIES

Leading companies in ASEAN are typically engaged in key industries in each country, or have enhanced their capabilities as partners of foreign companies in line with each country's industrialization policy, although individual companies have unique characteristics based on their respective nation's history and industry structure. Many of them have diversified their operations and become conglomerates, while boasting an overwhelming share of the market in their core business.

In Indonesia, government-owned companies, such as Pertamina (oil and gas), Antam (coal and nickel), and PLN (electricity), are key players in resource development and infrastructure. Meanwhile, private companies, especially ethnic Chinese companies, such as Salim, Sinar Mas, Djarum, and Lippo, have built a strong presence in other industries.

After Indonesia gained independence, ethnic Chinese companies played an important role in the country's industrialization policy. They have expanded/diversified their operations and become conglomerates. Then President Suharto granted to ethnic Chinese companies a monopoly of trade and land development rights, and in return, such companies offered funds and know-how to companies run by the president's family or the government, leading to mutual growth. During the 1997-98 Asian financial crisis, many ethnic Chinese companies went bankrupt or downsized their operations. However, top ethnic Chinese companies recovered amid high economic growth driven by the resource boom from the late 2000s. New pribumi[1] companies, including CT Corp, also emerged at that time.

[1] "Pribumi" refers to native Malays, while "non-pribumi" refers to non-natives, mainly ethnic Chinese.

Leading companies in Thailand can be divided into three groups: (1) companies owned by royal family, (2) those owned by the government, and (3) private-sector companies. (1) includes Siam Cement, established by the Crown Property Bureau (CPB), and (2) includes PTT (oil, gas, petrochemicals) and EGAT (electricity). These two groups are mainly engaged in the heavy chemicals, basic materials, and infrastructure industries. Meanwhile, (3) mainly consists of ethnic Chinese companies, as in Indonesia. Such companies, including CP, TCC, Saha, and Central, made a recovery after the financial crisis by integrating/streamlining their business, and now show an overwhelming presence in the foods, consumer goods, and retail industries. In the automobile industry, major players are Japanese and other foreign companies, which local companies tie up with. For example, Siam Motors partners with Nissan Motor and other Japanese makers, and Siam Cement with Toyota Motor.

In Malaysia, British companies, the former colonial power, and those run by ethnic Chinese, which were engaged in energy and agriculture trading, had a strong presence soon after Malaysia's independence. The government then implemented the Bumiputera[2] (pro-Malay) policy and led the economic development. Key players in each industry are under the control of Khazanah Nasional, the strategic investment fund of the Government of Malaysia. Such examples include Petronas (oil, gas, petrochemicals), Tenaga Nasional (electricity), Axiata (communications), CIMB (banking and finance), UEM (infrastructure building), and IHH Healthcare (hospitals). Sime Darby, established by British businessmen and engaged in large-scale palm plantation, survived by selling its shares to the Malaysian government. Meanwhile, ethnic Chinese companies, such as YTL, Hong Leong, Kuok, and Genting, collaborated with government-owned companies or expanded overseas, in response to the Bumiputera policy.

These companies have a great influence in each country's economy. The total sales of the 48 leading companies in the six ASEAN nations (the three countries mentioned above, plus the Philippines, Singapore, and Vietnam) account for about 26.5% of the aggregate nominal GDP[3].

STRATEGIES OF LEADING COMPANIES IN EACH COUNTRY

(1) Indonesia

Market Overview

Growth drivers in Indonesia are shifting from resource development and exports to consumer spending and infrastructure investments (Chart 1). Indonesia is classified as an upper middle-income economy[4], with estimated GDP per capita at USD 4,052 in 2018. For the capital city Jakarta alone, GDP per capita exceeded USD 14,000 in 2015. The population of Jabodetabek or Greater Jakarta topped 31 million in 2015. Although traffic congestion has been a problem in this area, a mass transit system including a subway has been built at an accelerated pace in recent years. Thanks to this infrastructure development, the consumer market is expected to grow further over the medium to long term. Of note, rapidly-growing startup companies such as

[2] Bumiputera is a Malaysian term used to describe Malays and other indigenous people, who account for 62% of the country's population. Compared to non-Bumiputera, such as Chinese (21%) and Indians (6%), Bumiputera's economic status is low. The Malaysian government does not officially use the term "Bumiputera policy", but has implemented measures to give preferential treatment to Bumiputera to narrow economic disparities. More specifically, the government set a generous quota for Bumiputera, in hiring civil servants, granting scholarships and training opportunities, public projects, and government procurement, as well as government approval and licenses. It was also decided that Bumiputera should control at least 30 percent of corporate shares. The equity requirements were later lifted, except for some service industries including large supermarkets, as a result of the easing of regulations in recent years.

[3] Estimate by Mizuho Bank.

[4] According to the definition by the World Bank, countries with GNI per capita of USD 1,006-3,955 are classified as "lower-middle income", those with USD 3,956-12,235 as "upper-middle income", and those with USD 12,236 or above as "high-income".

Tokopedia and Go-Jek help drive overall consumer spending, while playing a key role in social infrastructure in such areas as transportation, logistics, and payment settlement.

Chart 1: Contributions to Indonesia GDP Growth (%)

	2011	2012	2013	2014	2015	2016	2017
Real GDP Growth (2010 prices)	6.17	6.03	5.56	5.01	4.88	5.03	5.07
＜By Final Demand＞							
Consumption Expenditure	54.16	57.61	65.28	60.45	64.43	55.26	58.01
Household	45.15	49.72	53.01	55.73	55.22	54.06	53.02
Government	8.06	6.72	10.71	2.07	9.37	- 0.25	3.47
Gross Fixed Capital Formation	44.51	48.10	29.49	28.92	33.25	28.80	39.15
Change in Stock	- 2.57	12.74	- 11.58	9.58	- 12.15	4.55	- 3.77
Statistic Discrepancy	0.30	6.74	6.22	5.81	- 4.88	8.26	- 0.28
Net Export	3.60	- 25.19	10.59	- 4.77	19.34	3.13	6.89
Oil & Gas Export	12.08	- 5.14	- 8.95	- 2.09	5.77	- 2.82	1.02
＜By Industry＞							
Agriculture, Forestry, and Fisheries	8.91	10.37	10.18	11.24	10.15	8.69	9.65
Mining & Quarrying	7.28	5.14	4.54	0.84	- 6.50	1.61	1.12
Manufacturing Industry	22.36	20.56	17.27	20.15	19.22	18.21	18.03
Construction	13.35	10.20	10.36	13.20	12.58	10.15	13.14
Wholesale and Retail Trade, Repair	21.08	12.45	11.96	14.21	7.15	10.75	11.65
Transportation & Storage	4.82	4.30	4.62	5.49	5.25	5.75	6.66
Accomodation & Food Beverages Activity	3.24	3.23	3.61	3.44	2.66	3.07	3.28
Information & Communication	6.06	7.87	7.65	8.65	8.93	8.28	9.43
Financial & Insurance Activity	3.95	5.56	5.73	3.50	6.57	6.84	4.33
Real Estate	3.60	3.60	3.49	2.99	2.52	2.77	2.15

Source: Prepared by author based on CEIC data.

Leading Companies' Strategies: Focusing on Domestic Consumer Market

Leading local companies aim to strengthen the consumer business (e.g., retail, financial, and real estate), which is at the center of their operations, as the market is expected to grow further. Each company has taken measures to attract/retain customers by enhancing user interfaces, such as payment settlement platforms and online portal services, through the utilization of digital technology. For example, with its payment application, OVO, Lippo Group collects digital customer data at shopping malls, hotels, and hospitals nationwide. Based on such data, it then offers reward points and discounts, or pays interests to the points balance, thereby retaining customers. The company also aims to utilize the personal data to create new business or encourage customers to buy products or use services offered by other companies within the group. However, it is still seeking ways to realize this. We should also note that leading companies actively invest in or collaborate with startup companies in the digital field. They are apparently trying to expand their business platforms by tapping into the digital economy, which is becoming an essential part of the social infrastructure.

As for overseas strategies, many ethnic Chinese companies in Indonesia have entered the Chinese and Hong Kong markets. However, they plan to focus on domestic operations, rather than strengthening overseas operations, as there are more business opportunities and a larger room for profit growth in the domestic market. As for future destinations, they seem to believe that India is a competitive and challenging market, and that they have more chances in Muslim countries, such as Pakistan, Bangladesh, and Gulf countries in the Middle East, as well as the ASEAN countries, because such countries have common ground with Indonesia in terms of culture and religion. They also appear to believe that they can take advantage of experiences in halal certification and a similar taste in foods, as well as price competitiveness, in foods and other areas.

Implications for Japanese Companies

As Japan is facing a declining population, many domestic demand-oriented companies in Japan are earnestly expanding overseas operations. For them, Indonesia will be one of the important markets, as it is a populous nation. The key to successfully making inroads into the country is collaborating with leading local companies that have an established supply chain there. Given that many Chinese mainland companies have entered the Indonesian market and have actively tied up with local companies run by ethnic Chinese, collaboration with companies run by Pribumi may be worth considering, for Japanese companies hoping to differentiate themselves.

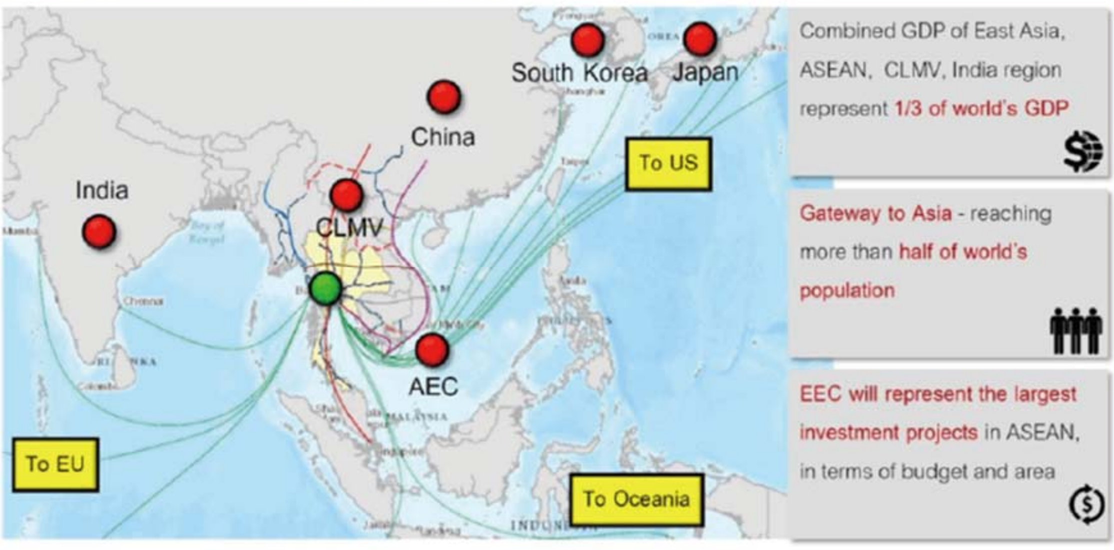
Leading Indonesian companies have established a supply chain themselves. Based on such experiences, they point out high logistics costs as a business challenge. They believe business opportunies will increase significantly if lower logistics costs are achieved through infrastructure development. Japanese companies can offer solutions in this area, which may lead to enhanced opportunities to work with leading local companies. Japan has a reputation for its advanced infrastructure technology. While it is important that Japan's public and private sectors jointly work on infrastructure projects in Indonesia, entering the market by collaborating with growing local companies which have sharing business models can be another option for Japanese companies.

(2) Thailand

Market Overview

Thailand is an upper middle-income nation with GDP per capita of USD 6,992 in 2018. However, it is facing a labor shortage due to the declining birthrate and aging population, as well as growth constraints in the domestic market. To overcome the "middle income trap" and narrow the gap between regions, the Thai government is promoting Thailand 4.0, a new economic model aimed at promoting high-value-added and innovative industries and pushing the country into the high-income range. The government has also focused on an infrastructure project in the eastern seaboard region, known as the Eastern Economic Corridor (EEC), and tried to invite high-value-added industries by offering generous incentive packages (Chart 2).

Chart 2: Strategic Location of EEC as a Gateway to Asia (Thailand)



Source: Website of The Royal Thai Embassy in Washington, D.C.
(http://thaiembdc.org/eastern-economic-corridor-eec/)

Leading Companies' Strategies: Expanding Manufacturing/Logistics Value Chain into ASEAN Market

Leading local companies generally support the government's Thailand 4.0 policy. For example, PTT, a state-owned oil and gas company, is embracing robotics for industrial plants and trying to help the country upgrade to Thailand 4.0. We should note, however, that Thailand has relied on foreign companies for industry development, as seen in the automobile industry, and it is weak in creating advanced technology. In Thailand 4.0, too, the government aims to invite R&D centers of foreign companies and will try to rely on them. Lack of skillful engineers may be an obstacle to such initiatives, and the development of human resources within the country is an urgent issue.

As Thailand has an aging population, leading local companies see growth potential for products/services targeting the elderly. Most of such products/services, however, are an extension of existing products/services. For example, Siam Cement deals with housing materials targeting seniors, such as barrier-free bathrooms, and elevators for individual residences, but it is not considering starting new business, such as nursing-care services.

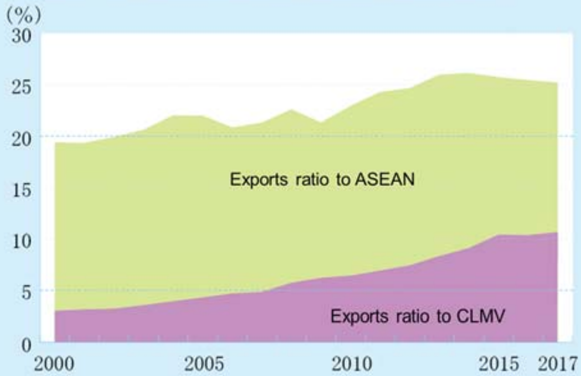
Leading companies in Thailand position ASEAN as the most important market, as culture and business practices in the region are similar to those of this country. Meanwhile, they also understand that land acquisition is difficult in Indonesia, and the competition with local conglomerates is fierce in the Philippines. Many Thai companies have successfully done business in the neighboring CLMV countries (namely, Cambodia, Laos, Myanmar, and Vietnam), and aim to continue expanding business in these countries. PTT spun off its fuel retail business in 2017, and then expanded its retail business to such areas as coffee shops attached to its gas stations ("Café Amazon"); convenience stores ("7-ELEVEN"); and fast foods. It has also entered into Cambodia, Laos, and Myanmar. Drinking coffee at Café Amazon is seen as a symbol of urban lifestyles in Cambodia. PTT is also considering entering the populous Vietnamese market. Meanwhile, both PTT and Siam Cement see India as a large market, but one that is not attractive, because it is difficult to secure sufficient profits amid fierce competition with local companies.

Implications for Japanese Companies

Thailand 4.0 targets next-gen cars, smart electronics, robots, and other areas, where Japanese companies can contribute through advanced technology. As such, there will be increasing opportunities for Japanese companies to collaborate with leading Thai companies and create new business.

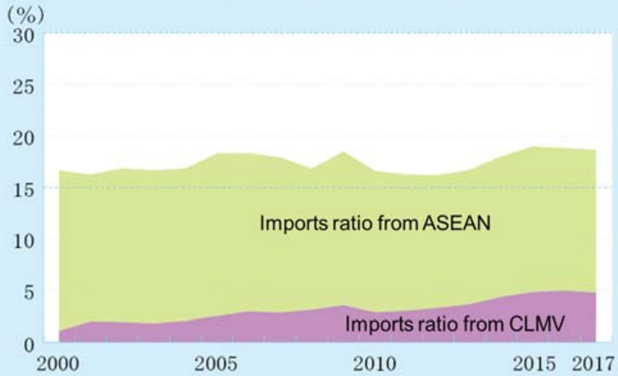
Thailand is geographically and economically at the center of the Mekong region, and functions as a hub for doing business in the CLMV market, as evidenced by its increasing trade with CLMV (Charts 3-4). As the country's leading companies have experience and know-how in the CLMV market, collaborating with them is worth considering for Japanese companies aiming to enter the Mekong market. In addition, the Thai government plans to open a logistics route to the west by constructing a road connecting Bangkok and Dawei in Myanmar. Japanese companies that have offices/factories in Southwest Asia (including India), Africa, or the Middle East

Chart 3: Thailand's Exports Ratio to ASEAN, CLMV



Source: Prepared by author based on CEIC data.

Chart 4: Thailand's Imports Ratio from ASEAN, CLMV



Source: Prepared by author based on CEIC data.

can propose the utilization of such business assets to leading Thai companies, thereby turning these Thai companies' attention to the west and expanding the possibility of collaboration in the Southwest Asian market.

(3) Malaysia

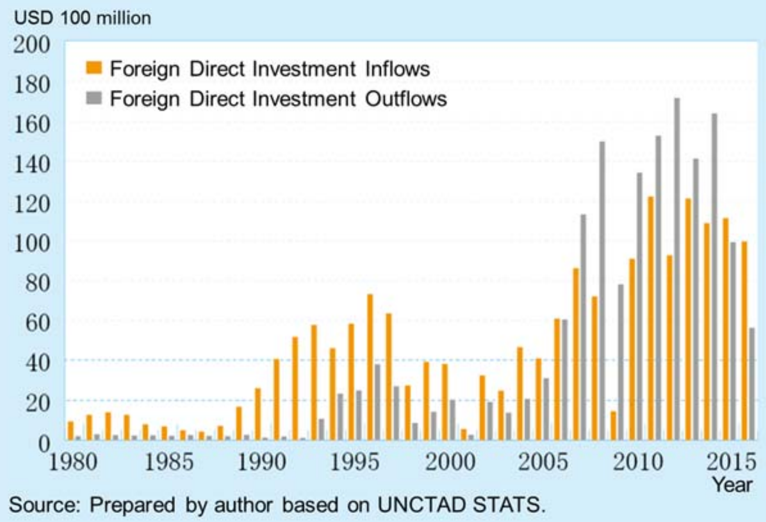
Market Overview

Malaysia's GDP per capita is estimated at USD 11,237, just below the threshold for the high-income group. With the population aging at a slower pace than Thailand, the country is expected to enjoy stable economic growth of 4-6%. As labor costs are rising, it is pointed out that Malaysia needs to upgrade and diversify its industries, with particular focus on electronics, biotechnology, oleochemicals, and digital economy.

Leading Companies' Strategies: Growth Driven by Overseas Expansion

Malaysia has a population of only 32.47 million, and its domestic market size is relatively small. As such, leading local companies have achieved growth by expanding business overseas. From a macroeconomic point of view, outward foreign direct investment surged from the mid-2000s, and has exceeded inward foreign direct investment since 2007 (Chart 5). Of note, foreign assets account for roughly 20% of the country's GDP compared to that of about 2% in emerging countries. Two examples of companies that have aggressively invested overseas are Petronas and IHH Healthcare.

Chart 5: Malaysia's Inward/Outward Foreign Direct Investment



Source: Prepared by author based on UNCTAD STATS.

For Malaysian companies aiming to expand overseas, the US withdrawal from the Trans-Pacific Partnership (TPP) was disappointing, because the US is the largest market. Meanwhile, there were high expectations for increasing business opportunities for domestic infrastructure development and other projects under China's Belt and Road Initiative. However, Mahathir bin Mohamad, current Prime Minister of Malaysia, intends to review large projects approved through opaque decision-making procedures under the former administration, and China's infrastructure projects are likely subject to the review. The new administration's policy will be welcomed by Malaysian companies to a certain extent, as they have pointed out a quality problem with Chinese contractors, among other problems, and that too much reliance on China is undesirable.

Under the former administration led by Najib Razak, the political relationship between Malaysia and China became closer, leading to active business activities between the two countries. For example, China's e-commerce giant Alibaba developed an e-commerce and logistics hub near the Kuala Lumpur International Airport, while Khazanah Nasional, Malaysia's sovereign wealth fund, opened an office in Beijing and invested in Alibaba and its logistics subsidiaries. Many SMEs in Malaysia started to use Alibaba's e-commerce platform, and large companies are also trying to tap into the Chinese market. Such momentum in the private sector may lose steam temporarily, due to the administration change. However, close economic ties with China will likely continue over the medium to long term.

Implications for Japanese Companies

To facilitate industrial upgrading, Malaysia needs to introduce technology and know-how from foreign companies. The current administration, which took office in May 2018, is likely to lessen its overreliance on China and adopt a balanced foreign policy. As such, business opportunities for Japanese companies will increase.

Malaysia is attractive for foreign companies because it is a multilingual country, its legal system is largely based on the British Common Law system, and it has a large middle-income group. Some companies have chosen Malaysia as a gateway to the ASEAN region.

The Malaysian government aims to differentiate itself from other countries by promoting a strategy to work as hub in the halal industry. Khazanah Nasional also sees business opportunities in the halal industry. Although there is no single established globally-harmonized halal certification, Malaysia's halal certification, the first government certification in the world, is said to be credible and be widely used in the Middle East. For Japanese companies aiming to enter the huge Muslim market, especially in the Middle East, Southwest Asia, and Indonesia, establishing an R&D center, or an export base for halal products in Malaysia should be worth considering.