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Southeast Asian shift to services redefines region

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The evolving shift from manufacturing to the services sector evidenced by the increasing percentage of national GDP figures made up of services revenues continues to be the storyline for the five major Association for Southeast Asian Nations (ASEAN) economies of Singapore, Malaysia, Thailand, the Philippines and Indonesia, according to a 2013 report released by ICAEW, an international professional association.

ICAEW data showed that services and trade in services are rising as a share of the economy. The report said that Singapore, at 86 percent, has the highest services trade share of the

region's economies as measured as the sum of services imports and exports. The share is 52 percent for the Philippines, 51 percent for Malaysia and 46 percent for Thailand.

The 10-member economic association was formed in 1967 and has seen its membership shift during its existence. In addition to the top economic tier nations identified above, the remaining ASEAN nations include Cambodia, Laos, Vietnam, Myanmar and Brunei. The combined nominal GDP is more than three trillion U.S. dollars, according to a report by EC Europa.

One of the things that makes the ASEAN region so interesting, said Larry Harding, CEO of High Street Partners, is that "it includes a handful of the large plus fast-growing economies – including the Philippines (6.6% in 2012), Thailand (6.4%), Indonesia (6.2%), and Malaysia (5.6%) – and there are different industries within in them that are accounting for this growth."

Industries to watch are tourism, creative services (advertising), banking, energy and food – each named among the fastest-rising industries in ASEAN nations by regional experts.

Tourism

Tourism is on the rise in Southeast Asia, yielding substantial employment and foreign currency earnings to ASEAN nations, according to the ICAEW report. Malaysia is the largest tourist destination, although a large number of visitors (75 percent) are from within the ASEAN region. Leading the way for non-ASEAN tourists is Thailand, which in 2011 welcomed more than 13.5 million visitors whose spending accounted for 7.2 percent of the country's GDP. Between 2007 and 2011, tourist arrivals from outside the region went up by 28.6 percent, and lower-income countries Laos (67.7 percent), Cambodia (43 percent) and Vietnam (42.2 percent) saw the fastest growth. Tourism numbers are being accelerated by increased business travel within the region.

Banking

"Banking is one of the fastest-growing industries in ASEAN countries today," said Sapna Masih Advani, managing partner with MasihWhite, a management consulting firm focused on Southeast Asia. "In banking, local players are now expanding outside the ASEAN region, having tasted fast growth domestically."

"The strategic entry of Singapore's DBS Bank into India is a great example," she said. "With the fight on for the 65% of the Indian population without bank accounts, DBS is poised to reap the rewards of its ambitious move."

George T. Haley, professor of marketing and international business at the University of New Haven and author of "New Asian Emperors: The Business Strategies of the Overseas Chinese" noted that Singapore leads the region with strong and transparent financial regulations. "There are more than 7000 regional and international headquarters of multinational corporations in Singapore, making the demand for banking and related services quite strong,"

he said.

Advertising

The digital marketplace is creating unprecedented demand for advertising and creative means for product and services suppliers to connect through an increasingly digital marketplace.

More than 40 percent of global internet users are now based in Asia Pacific, with an audience of 644 million. Southeast Asian markets account for approximately 10 percent of the Asia Pacific internet population, according to the 2013 Southeast Asia Digital Future in Focus report.

“The Philippines are developing a growing reputation for sophisticated and influential marketing and advertising and leads the way in this rapidly-growing arena,” Haley said. “They are particularly savvy regarding their work in Micronesia, New Zealand and Australia.”

Yutaka Shimizu, president of DAC Asia, spoke directly to the rapidly-growing market for advertising services in ASEAN nations. He noted in a recent interview, “The online advertising market in Southeast Asia is expected to grow significantly, with an increase in internet penetration in each country in the region, and a rapid expansion of smart devices, boosted by the high economic growth of recent years.”

Energy

The primary conclusions of a 2013 research report conducted by the International Energy Agency point to an increased demand for energy in Southeast Asia. Demand has expanded by two-and-a-half times since 1990, a rate of growth among the fastest in the world. Economic and demographic trends point to further growth, lifting the region’s energy use per capita from just half of the global average today. The 10 ASEAN members, along with China and India, are shifting the center of gravity of the global energy system towards Asia.

The report goes on to forecast that Southeast Asia’s energy demand will increase by more than 80% between today and 2035, a rise equivalent to current demand in Japan. This supports a near tripling of the region’s economy and a population that expands by almost one quarter. Sharply increasing reliance on oil imports will impose high costs and leave the region more vulnerable to potential disruption, the report says, calling for the development of policies to attract investment vital to enhancing energy security, affordability and sustainability.

Food

Between 2002 and 2011, the Asian functional foods and health claims market saw a 40 percent growth rate. By 2014, the global market for functional foods will likely grow by another 20 percent to \$38 billion. Burgeoning GDP, increasing consumer spending and changing lifestyles, taste and preferences are expected to drive the industry further from

2012–2017, particularly in emerging markets, according to a recent research report put out by the global market research firm Lucintel.

These trends are particularly evident in ASEAN nations, where in many markets food and agriculture are the primary economic drivers. Advancements in ASEAN standards efforts in both food and drug regulations are leading to more safety in the supply chain and greater consumer confidence. Lim Hng Kiang, Singapore’s Minister for Trade and Industry, spoke recently at the 13th annual ASEAN Food Conference in Singapore. Kiang said that the developments in food safety will establish a functional food research network allowing researchers from member states and dialogue partners to freely share experiences and knowledge, and collectively level up regional capabilities across ASEAN region.

Manufacturing still strong

While service sectors are supplanting manufacturing in terms of growth, the strength of manufacturing should not be overlooked, particularly in Vietnam.

“As Chinese labor costs increase along with the value of the renmimbi against the dollar, Vietnam has become the new manufacturing hotspot darling,” said Nicole M. Sahin, CEO of Globalization Partners. “China is moving upmarket into a services economy, and companies around the world are looking for a new, inexpensive manufacturing destination. So far, Vietnam seems to be the leading favorite in Asia.”
