KPMG

ASEAN Business Guide

The economies of ASEAN and the opportunities they present

2018 edition

Table of Contents

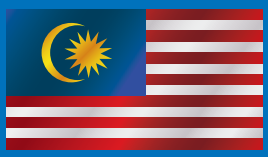
ASEAN: An emerging economic powerhouse
02

Brunei Darussalam
11

Cambodia
19

Indonesia
27

Laos
37

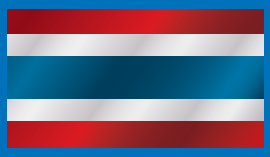


Malaysia
45

Myanmar
57

Philippines
65

Singapore
75



Thailand
87

Vietnam
97

KPMG in ASEAN
106

ASEAN: An emerging economic powerhouse

ASEAN is a region of geostrategic importance to the world. Each year, some US$5.3 trillion worth of global trade pass through ASEAN's waterways and close to 15 million barrels of oil pass through the Malacca Straits daily.

This region also presents a compelling proposition for businesses looking to grow. Its combined gross domestic product (GDP) of US$2.4 trillion makes it the third largest economy in Asia and the seventh largest, globally.

Across the region, we see opportunities driven largely by urbanisation, demographics and technology.

Large infrastructure investments, estimated to be US$60 billion per year till 2022, will be required to keep pace with rapid urbanisation while the openness to adopting technology is changing the way business is being conducted. The ASEAN-6 alone – Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam – are projected to run a digital economy worth US$200 billion by 2025.

These are exciting times we live in and ASEAN has much to offer, especially as it integrates to form an economic bloc.

Companies looking for growth should capitalise on the ASEAN growth story with its low-cost manufacturing base, growing middle and consuming class and sustainable economic growth.

At the same time, given the differences between individual markets, companies need to understand the local business ecosystem, build global-minded, culturally diverse organisations.

More importantly, they need to customise their products, services and business models to suit local conditions.

Frontrunners will be companies that are prepared to forge formal and informal business-to-business relationships, open to collaborating with local companies and adept at correctly positioning themselves within the local business ecosystem.

We hope you find this guide handy as you embark on your journey of expansion into ASEAN.

Honson To
Chairman, Asia Pacific
KPMG

Welcome to ASEAN

The Association of Southeast Asian Nations (ASEAN), a trade-driven block of 10 Southeast Asian nations, has gained tremendous momentum in the past 50 years. Founded as a political bloc of five Southeast Asian countries, ASEAN has evolved into a 10-member economic powerhouse and is now home to some of the world's fastest growing emerging markets. In the decades ahead, ASEAN is expected to write a new growth story with its rich resource reserves and established manufacturing base which will only be strengthened by the regional economic integration agenda of the ASEAN Economic Community (AEC).

ASEAN's economic performance continues to outperform the global average. The region's investment prospects look strong and consistently post impressive growth. Both intra- and extra-ASEAN trade has received its appropriate fillip from the prospect of an integrated ASEAN economy in the form of an unified market and single production platform via the free flow of goods and services, capital, investments and skilled labor. Foreign direct investment (FDI) inflows into ASEAN have surged in the last five years. In the coming years, the region will be able to enhance its attractiveness to FDI and several initiatives are on the cards to make the region compete more effectively against a global economy.

However, realizing the region's full potential can be challenging. Liberalization of trade, integration of capital markets and standardization of legal and regulatory frameworks will be necessary to increasing the ease of doing business in this region. The disparities in law, tax systems, financial systems, capital and exchange controls among the member nations continue to be road blocks for companies interested in ASEAN.

KPMG understands that businesses need to adopt a regional strategy to take advantage of the ASEAN growth story. KPMG member firms are well-poised to address the needs of businesses that are looking to expand or enter the region. This guide to doing business in ASEAN is part of our efforts to help international and regional companies navigate Southeast Asia with ease and success.

ASEAN

ASEAN, a regional organization promoting governmental and economic cooperation and regional stability, has ten members - Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam.

Since its formation in 1967, the organization has helped an underdeveloped region grow into one of the main drivers of the global economy, with a combined GDP of USD2.55 trillion in 2016[1]. With a large, young workforce, predicted GDP growth of 4.8% in 2017[2], and a newly-implemented single market - the AEC - the region provides an attractive destination for investors.

1 ASEAN Economic Progress 1967-2017, ASEAN Secretariat, 2017. Retrieved from: http://www.aseanstats.org/wp-content/uploads/2017/08/ASEAN_economic_progress.pdf

2 Key Outcomes of the 49th ASEAN Economic Ministers' Meeting and Related Meetings 7-11 September 2017, Pasay City, Philippines http://asean.org/storage/2017/09/AEM-49_Related-Meetings_Key-Outcomes_FINAL.pdf

Diverse economies

- Although ASEAN aspires to be an increasingly integrated single market, the reality is that there are still disparities between economies.
- Growth does tend to be higher in the CLMV countries, albeit from a much lower base. Real GDP growth for the CLMV countries in 2016 was 6.1% while that for the ASEAN-6 was 4.6%.[3]
- The economies of ASEAN vary dramatically, from the high-value knowledge economy of Singapore to the resource-focused industries of Myanmar, booming after the lifting of international sanctions following a successful democratic election in 2015.
- The region's 630 million-strong population, more than half of whom are under the age of 30, provides an attractive workforce for manufacturers seeking regional facilities outside of China, as well as a large and increasingly affluent domestic market.
- Major investment in infrastructure is needed if the region is to take full advantage of its geographic location at the crossroads of much global trade, providing opportunities for investment and public-private partnerships.

Attractive investment destination

- Intra-ASEAN FDI inflows accounted for 24.8% of the total USD96.7 billion received in 2016. Close to half of that total went to Indonesia. Singapore was a distant second with USD5.7 billion and Laos received the lowest share at just USD0.2 billion.[4]
- Finance and insurance accounted for 35.1% of all FDI inflows, followed by wholesale and retail at 19.1% and manufacturing at 8.3%. Traditionally key industries - agriculture, forestry and fishing, and mining and quarrying - accounted for just 5.9% combined.[5]

Main FDI investors

European Union
USD 32.2 bil

Singapore
USD 15.0 bil

United States of America
USD 12.2 bil

Japan
USD 11.5 bil

Hong Kong
USD 9.8 bil

Source: See footnote [4]

[3] ASEAN Economic Progress 1967-2017, ASEAN Secretariat, 2017. Retrieved from: http://www.aseanstats.org/wp-content/uploads/2017/08/ASEAN_economic_progress.pdf

[4] ASEAN Secretariat - ASEAN FDI Database as of 30 Jun 2017

[5] ibid

Greater economic integration

- The establishment of the AEC provides a single market across the region. The simpler cross-border processes and harmonized regulation in areas such as intellectual property paves the way for a company based in one ASEAN country to do business in all others.
- Established in 2015, the AEC has:
  - Virtually eliminated tariffs between members, with formal restrictions in the service sector being gradually removed
  - Simplified and harmonized customs and technical regulations
  - Enhanced mobility of skilled professionals between member countries
- The ASEAN member states have adopted a blueprint of their goals for 2025. Key characteristics are:

A highly integrated and cohesive economy	• Trade in goods • Trade in services • Investment environment • Financial integration, financial inclusion and financial stability • Facilitate movement of skilled labor and business visitors • Enhance participation in global value chains
A competitive, innovative, and dynamic ASEAN	• Effective competition policy • Consumer protection • Strengthening intellectual property rights cooperation • Productivity-driven growth, innovation, research and development and technology commercialization • Taxation cooperation • Good governance • Effective, efficient, coherent and responsive regulations and good regulatory practice • Sustainable economic development • Global megatrends and emerging trade-related issues
Enhanced connectivity and sectorial cooperation	• Transport • Information and communications technology • E-commerce • Energy • Food, agriculture and forestry • Tourism • Healthcare • Minerals • Science and technology
A resilient, inclusive, people-oriented, people-centered ASEAN	• Strengthen role of micro, small and medium enterprises • Strengthen role of private sector • Public-private partnership • Narrow development gap • Contribution of stakeholders on regional integration efforts
A global ASEAN	• More strategic and coherent approach towards external economics relations • Review and improve ASEAN FTAs and CEPs • Enhance economic partnerships with non-FTA dialogue partners by upgrading and strengthening trade and investment work programs/plans • Engage with regional and global partners to explore strategic engagement to pursue economic partnerships • Continue strongly supporting the multilateral trading system and actively participating in regional fora • Continue to promote engagement with global and regional institutions

Source:
http://www.asean.org/asean-economic-community/
AEC 2015 Consolidated Strategic Action Plan, ASEAN Secretariat

Comprehensive Progressive Agreement for the TPP

When the United States announced its withdrawal from the Trans-Pacific Partnership ("TPP") agreement in January of 2017, it could be said that a crossroad was created for global trade. Would the rest of the world follow suit and look inwards for economic development? Or would the trend of pursuing opportunities for economic partnerships and liberalizing trade continue?

The latter appears to be occurring, while the United States took to the road of protectionism, the rest of the world, inclusive of the TPP members, proceeded forward. Recently, major multilateral trade deals have been taking shape, inclusive of the Regional Comprehensive Economic Partnership ("RCEP"), the Japan-EU Economic Partnership Agreement ("JP-EU EPA") and the newly re-named Comprehensive Progressive Agreement for the TPP ("CPTPP").

Almost 15 years have passed since the TPP began, and without the U.S.'s participation, many thought that there would be little economic incentive for the remaining 11 members to proceed, thereby concluding the journey of the TPP. It's evident that more liberalized access to the U.S. market through the TPP would have generated far greater economic growth.

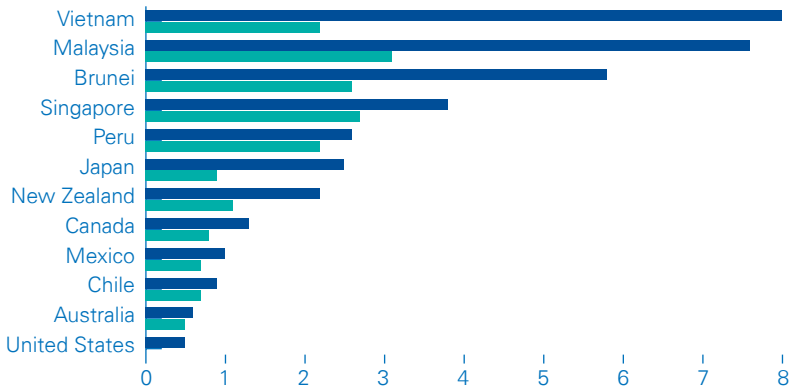
Despite this, the remaining member's still saw enough potential for economic growth, and as a result, the 11 members signed the CPTPP on 8 Mar 2018. The member nations will now have to ratify the agreement which will come into effect when at least six members have completed the ratification procedures.

"The TPP with the US included was set to be the largest regional trade agreement in history with a combined GDP of $28 trillion USD. Whilst the revived CPTPP shows the continued commitment from the remaining 11 TPP countries, with the exit of the US, it accounts for half the GDP and so delivers less income benefits to its members. It does however leave the door open for the US to re-join in future and for other members such as China to join as well.

Now that the CPTPP has been signed, it adds tension to complete the other regional agreements such as Regional Comprehensive Economic Partnership and Japan-EU Economic Partnership Agreement. These agreements along with US stated commitment to establish bi-laterals will pave the way for further growth in the Asia Pacific region.**"**

John Teer
Chief Operating Officer, Asia Pacific
KPMG

2030 Change In Percent of Income: TPP vs. CPTPP[1]



Trans-Pacific Partnership
CPTPP (Excluding US)

[1] Peter A. Petri, Michael G. Plummer, Shujiro Urata, and Fan Zhai, "Going It Alone in the Asia-Pacific: Regional Trade Agreements Without the United States", *Peterson Institute for International Economics*, October 2017, https://piie.com/system/files/documents/wp17-10.pdf

Comprehensive Progressive Agreement for the TPP

The members of the newly signed CPTPP are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.

There is potential for the CPTPP to expand by allowing other countries to apply and join at a later time. In fact, one of the motivations behind proceeding with the CPTPP was the hope that the United States would one day rejoin the partnership.

For the most part, the contents of the agreement under the renamed CPTPP have stayed the same as that of the original TPP. In total, the agreement contains 30 chapters with some of the more relevant benefits and requirements described in further detail below:

- Goods: Eliminates customs duties on most qualifying goods from the TPP region, either immediately upon entry into force of the agreement or through a gradual reduction over time.
- Customs Administration and Trade Facilitation: Helps ensure the speedy movement of goods across borders with the promise of transparent customs procedures that require customs authorities to treat goods fairly and reduce opportunities for conflicts of interest in customs administrations.
- Cross Border Trade in Services: Establishes obligations to not discriminate against foreign member countries and their suppliers. Also prohibits quantitative restrictions on the supply of services and the requirement to establish an office or affiliate in order to supply services.
- Investment: Provides for basic protections in the TPP markets for investors or investments.
- E-Commerce: Contains provisions to ensure free flow of data, prevent the spread of forced localization of technologies and servers, and help to more effectively guarantee the security and privacy of internet users.
- Government Procurement: Requires TPP parties to extend the same treatment it provides to its own firms to other bidders on covered government procurement contracts.
- Competition: Requires members to adopt, maintain and apply national competition laws that outline anticompetitive business conduct.
- Sanitary and Phytosanitary ("SPS"): Ensures that science based SPS measures are developed and implemented while also providing the ability to ensure food safety, and plant and animal health.
- Technical Barriers to Trade: Cooperation to ensure international standards do not create unnecessary barriers to trade.
- Intellectual Property: Includes commitments to combat counterfeiting, piracy and other infringements.
- Trade Remedies: Allows for the use of trade remedy laws such as anti-dumping and countervailing duties.
- Temporary Entry for Business Persons: Ensures efficient visa processing procedures and transparency for temporary entry applications.
- Environment: Obligates members to effectively enforce their environmental laws and not to waive from them in order to attract trade or investment.

- Labor: Establishes commitments to adopt and maintain labor laws and practices for rights such as the freedom of association, the right to collective bargaining, elimination of forced labor, abolition of child labor and the elimination of employment discrimination.
- Small and Medium-Sized Enterprises ("SMEs"): Helps promote small and medium-sized enterprises entering global trade.
- Development: Establishes a committee to help developing country members take full advantage of the agreement opportunities.
- Transparency and Anti-Corruption: Promotes good governance and addresses the corrosive effects of bribery and corruption on trade investment.
- Dispute Settlement: Provides for a system to settle disputes for areas covered under the agreement.
- Regulatory Coherence: Includes provisions to promote the use of good regulatory practices in developing and implementing regulatory measures.

There have been, however, certain updates made from the original TPP. CPTPP members have agreed to articles more clearly outlining the review, withdrawal and accession provisions of the agreement. An article was also added to suspend certain portions of provisions from the original TPP, 20 in total, which were mainly areas of importance to the United States. They are, in part, as follows:

- Express shipments and Express Delivery Services
- Investment Agreements, Authorizations and Disputes
- Minimum Standards of Treatment
- Resolution of Telecommunication Disputes
- Labor right commitments
- Further Negotiations
- National Treatment
- Intellectual property
- Biologicals
- Legal Remedies and Safe Harbors
- Conservation of Trade
- Transparency and Procedural Fairness for Pharmaceutical Products and Medical Devices

There are also four pending issues where a consensus needs to be reached in order to finalize the agreement. They are listed below and members have indicated they will address the respective topics through the exchange of separate letters with other members:

- State Owned Enterprises related to Malaysia;
- Services and Investment Non-Conforming Measures for Coal related to Brunei;
- Dispute Settlement for Trade Sanctions Related to Vietnam; and
- Cultural Exceptions related to Canada.

It is difficult to predict what the future holds for the CPTPP and what benefits, both direct and indirect can be realized by its members and the rest of the world. But one for certain, is the continued pursuit of international economic partnerships and global trade liberalization.

Developing the region's potential

In 2015, the ASEAN framework was expanded to include the ASEAN Community, which broadens its reach to cover three pillars: Political-Security Community, Economic Community, and Socio-Cultural Community.

With more than half the region's population under the age of 30, ASEAN is placing strong emphasis on developing its human capital. Through the ASEAN Socio-Cultural Community, the group has:

- Lowered the proportion of people living on less than USD1.25 per day from one in two to one in eight
- Reduced maternal mortality by two thirds from 1990 to 2012
- Increased net enrolment in primary schools from 92% in 1999 to 94% in 2012

Over the next pages, this report will walk you through country by country, highlighting the potential advantages each country has to offer. We hope you will find information and direction that can help you take advantage of each country's unique strengths and resources.

BRUNEI DARUSSALAM

Brunei has an abundance of natural resources and excellent land, sea and air infrastructure which, when combined with its history of political and economic stability, provide an environment ideal for business and investment.

Much of the country's wealth comes from the hydrocarbon industry but to sustain growth in the longer term, the government has committed to diversifying the economy. It has indicated it will invest in the halal industry, innovative technology and creative industry, business services, tourism and downstream oil and gas industry.

This drive to diversify is complemented by policy and regulatory reforms designed to improve the country's investment climate. The positive impact of these reforms is noted in the World Banks' Ease of Doing Business 2018 index where Brunei significantly improved its rankings from 72 in 2017 to 56 in 2018.

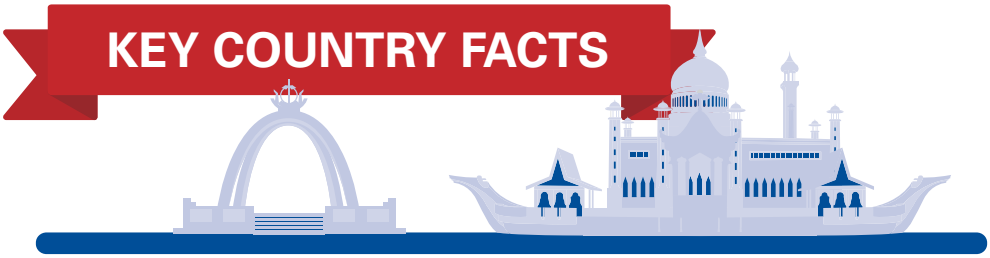
While further reforms are needed in order to strengthen the country's competitiveness, businesses seeking growth opportunities in Southeast Asia should keep in mind Brunei's advantages, key of which are its increasingly pro-business environment, a highly-educated workforce and proximity to emerging markets in the ASEAN region.

Shazali Sulaiman

Partner In Charge
KPMG in Brunei Darussalam

BRUNEI DARUSSALAM

KEY COUNTRY FACTS



Brunei Darussalam is a small, prosperous, oil rich sultanate strategically located in the Southeast Asian region. This nation state has a stable government and one of the world's highest standards of living and per capita GDP. Its excellent transport and communications infrastructure connects the nation with the rest of the world.

GOVERNMENT

An independent sovereign sultanate

POPULATION

422,678 (2016)

CURRENCY

Brunei Dollar (BND)

LANGUAGES

Malay (official), English, Chinese, Indian

RELIGIONS

Islam, Christianity, Buddhism

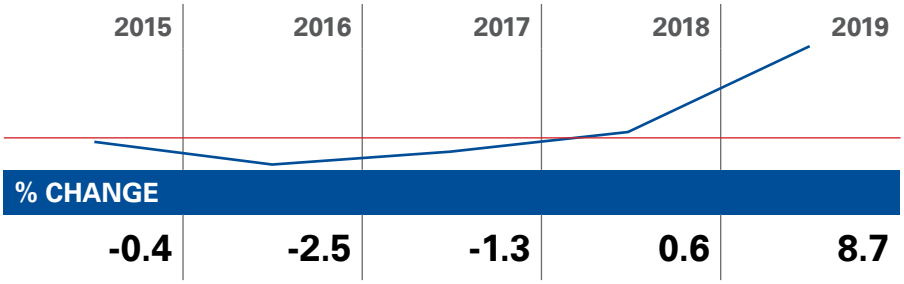
Source: Prime Minister's Office (PMO), Department of Economic Planning and Development PMO; Embassy of Brunei Darussalum to the USA

STABLE GROWTH

Brunei is rich in natural resources and much of its economic growth over the last 80 years has been due to its oil and gas industry. Its main exports – crude oil, petroleum products and liquefied natural gas – are sold largely to Japan, the United States and ASEAN countries[1].

Economic Performance

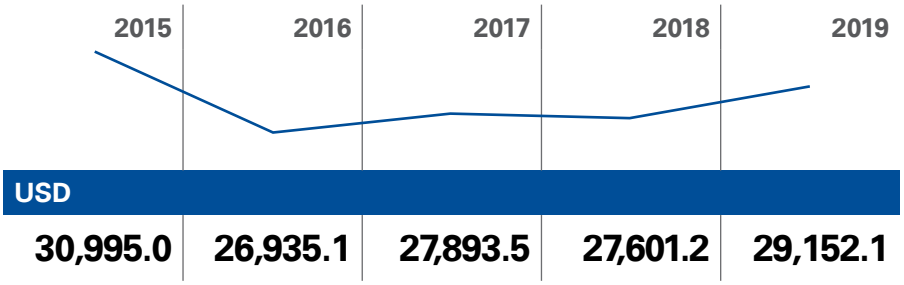
GDP constant prices*



*2010 market price; percentage change estimates start after 2016

Source: International Monetary Fund, World Economic Outlook Database, October 2017

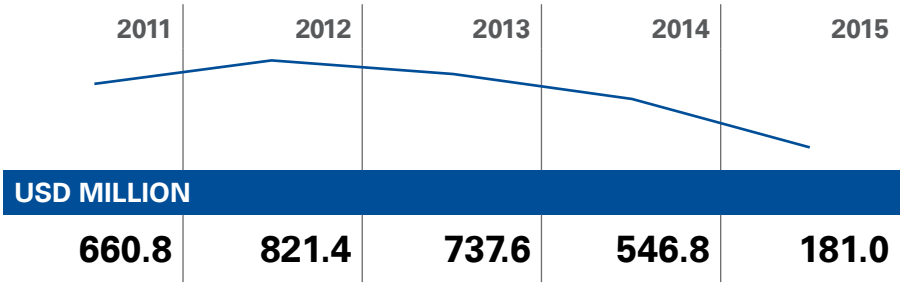
GDP per capita, current prices (CAGR –1.52%)



Figures after 2015 are estimates

Source: International Monetary Fund, World Economic Outlook Database, October 2017

Foreign direct investment inflows



Source: Department of Economic Planning and Development, Prime Mininster's Office

Main FDI investors

Singapore
USD 40.5 mil

United Kingdom
USD 34.6 mil

Malaysia
USD 30.9 mil

The Netherlands
USD 20.4 mil

Germany
USD 4.4 mil

Source: Department of Economic Planning and Development, Prime Minister's Office; 2015 figures

FROM PRODUCTION TO KNOWLEDGE-BASED ECONOMY

Brunei offers an attractive environment for businesses looking to expand into the ASEAN region. This includes 100% ownership by foreign companies; foreign investment incentives; credible and reliable co-investment partnerships available through the Strategic Development Capital Fund and government-linked companies under the Ministry of Finance[2]; and pro-business policies such as the Brunei Competition Order 2015 which promotes a competitive business environment.[3]

The government recognizes the need to move the economy beyond its current reliance on oil and gas. It welcomes economic and technical cooperation, as well as initiatives designed to build capacity to support Wawasan Brunei 2035, Brunei's long-term development plan.

The government aims to position Brunei as a nation of well-educated and skilled professionals, a country that ranks among the top 10 nations in the world for quality of life and a dynamic, sustainable economy.[4]

Political stability

- Stable political environment with the Sultan retaining absolute power[5]
- Strict sharia law and system of government[6]
- Balanced policies – both traditional and reforming[7]

Young educated workforce

- Well-educated, largely English-speaking work force
- National emphasis on education, HR development in managerial and industrial skills (in particular entrepreneurial skills), and vocational and technical training to meet future workforce needs[8]

Rankings

[+] All rankings are global unless otherwise indicated

Source: Doing Business 2018, World Bank; Corruption Perceptions Index 2016, Transparency International; Global Competitiveness Index 2017-2018, World Economic Forum; Global Innovation Index 2014, Cornell University, INSEAD and WIPO

Index	Ranking[+]
Ease of Doing Business	**56**
Intellectual Property Protection	**55**
Transparency of Government Policymaking	**71**
Corruption Perceptions Index	**41**
Global Competitiveness Index	**46**
Global Innovation Index	**71**

Strengthening intellectual property environment

- Establishment of the Brunei Intellectual Property Office (BruIPO) to manage the registration of patents, trademarks, industrial designs and plant varieties protection[9]

Attractive tax environment[10]

- Corporate income tax rate is 18.5%
- Companies are subject to tax on the following types of income:
  - Resident company: income derived from or accrued in country, or received from overseas
  - Non-resident company: income arising in country
  - Gains of profits from any trade, business or vocation
  - Dividends from companies not previously assessed for tax in Brunei
  - Interest and discounts
  - Rents, royalties, premiums and any other profits arising from properties
- There are no sales, payroll, capital gains, manufacturing and personal income tax.
- Flat rate of 1% export tax on activities in respect of approved types of export
- Individuals do not pay income tax, capital gains tax or tax on profits arising from the sale of capital assets
- Double taxation agreements with the United Kingdom, Indonesia, China, Singapore, Vietnam, Bahrain, Oman, Japan, Pakistan, Malaysia, Hong Kong, Laos, Kuwait, Qatar, South Korea, Luxemborg and United Arab Emirates[11]

Trade agreements

- Brunei has signed seven regional and one bilateral free trade agreement (FTA).[12]

Bilateral FTA

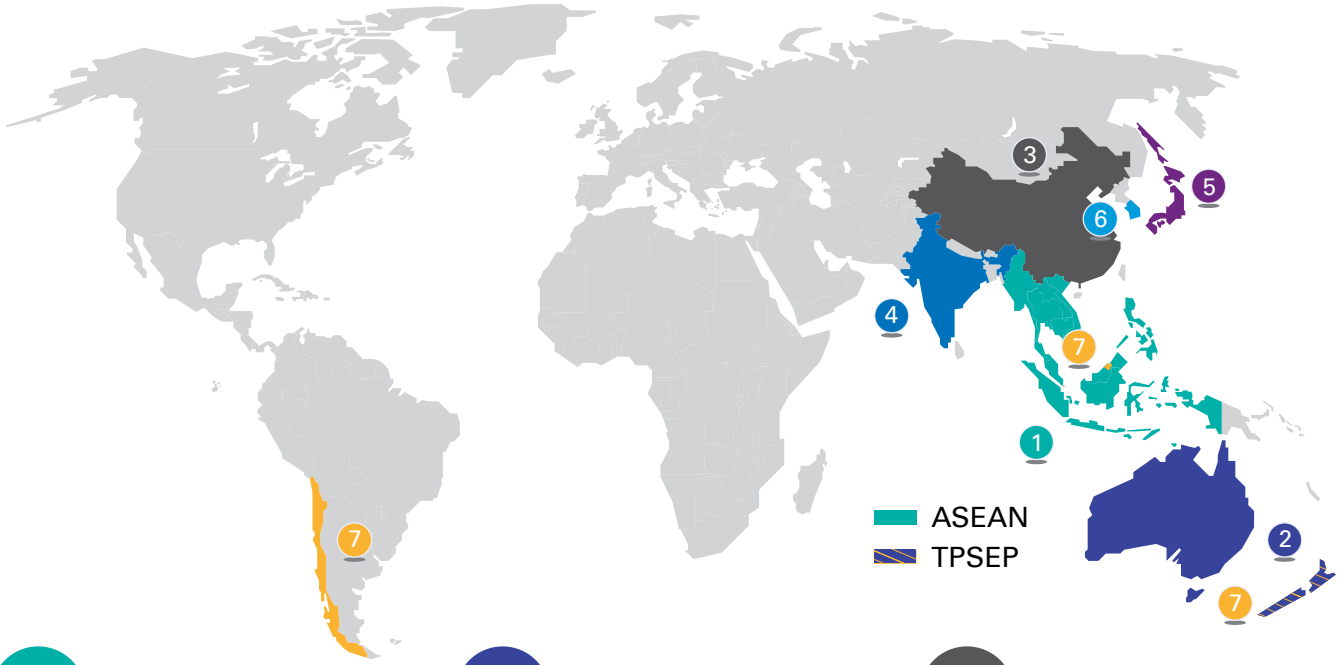
Agreement signed between Brunei and a single trading partner

Brunei-Japan Economic Partnership Agreement[13]

- Enhance investment climate and encourage foreign direct investments through greater predictability and transparency
- Reduce import duties on goods and services
- Leverage Japan's expertise to build capacity in areas such as human resource development, environment, education and industry

Regional FTAs[14]

Agreements signed between Brunei and a group of trading partners



1 ASEAN Free Trade Area

- Elimination of tariffs on more than 99% of products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

2 ASEAN-Australia-New Zealand Free Trade Agreement

- Elimination of tariffs on more than 90% of the products with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

3 ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of the products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

4 ASEAN-India Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 80% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

5 ASEAN-Japan Comprehensive Economic Partnership

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

6 ASEAN-(Republic of) Korea Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

7 Trans-Pacific Strategic Economic Partnership

- Elimination of tariffs for 100% of tariff lines among its members, Brunei Darussalam, New Zealand, Chile and Singapore
- Tariff preference given based on exporter's declaration; no application required

Concluded / signed FTAs[15]

- Comprehensive and Progressive Agreement for Trans - Pacific Partnership
- ASEAN - Hong Kong, China Free Trade Agreement

FTA under negotiation[16]

- Regional Comprehensive Economic Partnership

DIVERSIFYING FOR GROWTH

Brunei is among the richest countries in the world and much of its wealth comes primarily from its oil and gas sectors.[17] In the country's tenth national development plan, the government noted that in order to realise its 2035 vision of achieving an average annual economic growth rate of 6%, it has to reduce its reliance on the oil and gas sectors which account for more than 60% of the country's GDP and over 90% of the country's total exports.[18]

Towards this end, the government has set in motion a series of structural reforms that would help drive economic performance and ensure long-term sustainability.[19] At the same time, it is looking to strengthen its pro-business environment through improving the ease of doing business in the country, promoting economic diversification and encouraging private sector development.[20]

Brunei has also identified five areas of investment priority for the country – innovative technology and creative industry, halal industry, business services, tourism, and downstream oil & gas – and is working to position Brunei as the preferred foreign investment destination for life sciences, agri-business, ICT and services.[21]

Endnotes

[1] Permanent Mission of Brunei Darussalam to the United Nations. Retrieved from https://www.un.int/brunei/brunei/country-facts

[2] Ministry of Finance. Retrieved from http://11-216.static.espeed.com.bn/index.php/news/655-brunei-is-a-growing-fdi-destination

[3] Economic outlook for Southeast Asia, China and India 2017, OECD. Retrieved from http://www.depd.gov.bn/SitePages/Competition%20Order.aspx

[4] Embassy of Brunei Darussalam. Retrieved from http://www.bruneiembassy.org/brunei-vision-2035.html

[5] Business Monitor International Ltd

[6] ibid

[7] Brunei Darussalam in Brief, Department of Information, Prime Minister's Office. Retrieved from http://www.information.gov.bn/Media%20Document%20Library/Brunei%20Today/brunei%20in%20brief_FINAL%202.pdf

[8] Education and Workforce Plan. Retrieved from https://www.brunei.gov.bn/SitePages/Education%20and%20Workforce%20Plan.aspx

[9] Brunei Intellectual Property Office. Retrieved from http://www.energy.gov.bn/BruIPO/Home.aspx

[10] Paying Taxes, businessBN. Retrieved from http://www.business.gov.bn/SitePages/Paying%20Taxes.aspx; Investment Opportunities, The Brunei Economic Development Board, Retrieved from http://www.bedb.com.bn/invest-bd

[11] Ministry of Finance. Retrieved from http://www.mof.gov.bn/divisions/avoidance-of-double-taxation-adta.aspx

[12] Brunei Darussalam's FTAs, Ministry of Foreign Affairs and Trade. Retrieved from http://www.mofat.gov.bn/free-trade-agreements

[13] ibid

[14] ibid; ASEAN Free Trade Agreements, ASEAN Secretariat. Retrieved from http://www.jterc.or.jp/koku/koku_semina/pdf/130306_presentation01.pdf; Free Trade Agreements· Asia Regional Integration Center. Retrieved from http://aric.abd.org/fta-country

[15] Free Trade Agreements, Asia Regional Integration Center. Retrieved from http://aric.abd.org/fta-country; The Signing of the ASEAN–Hongkong, China Free Trade Agreement and ASEAN-Hongkong, China Investment Agreement, ASEAN. Retrieved from: http://asean.org/the-signing-of-the-asean-hongkong-china-free-trade-agreement-and-asean-hongkong-china-investment-agreement/

[16] ibid

[17] Brunei Darussalam: Economy, The Commonwealth. Retrieved from http://thecommonwealth.org/our-member-countries/brunei-darussalam/economy

[18] Structural policy country notes: Brunei Darussalam, OECD 2014. Retrieved from https://www.oecd.org/site/seao/Brunei%20Darussalam.pdf

[19] ibid

[20] IMF Executive Board Concludes 2016 Article IV Consultation with Brunei Darussalam. Retrieved from https://www.imf.org/en/News/Articles/2016/09/26/PR16427-Brunei-Darussalam-IMF-Executive-Board-Concludes-2016-Article-IV-Consultation

[21] Invest in Brunei. Retrieved from https://brunei.gov.bn/SitePages/Invest%20In%20Brunei.aspx

Contact Us

Ong Pang Thye
Managing Partner
T: +65 6213 2035
E: pong@kpmg.com.sg

Leong Kok Keong
Partner In Charge
T: +65 6213 2008
E: kokkeongleong@kpmg.com.sg

Shazali Sulaiman
Partner In Charge
T: +67 3 222 6888
E: shazalisulaiman@kpmg.com.sg

Irving Low
Head of Markets
T: +65 6213 2071
E: irvinglow@kpmg.com.sg

KPMG

CAMBODIA

Cambodia has been named a success story in attracting global investors despite its relatively small-scale domestic investment opportunities.

The contributing factors to this success are mainly the country's pro-business policies which have led to an influx of foreign direct investment into infrastructure, real estate and construction, manufacturing (primarily garment and textiles) and tourism.

The country, with its young and vibrant workforce also has competitive advantage in capturing a greater share of global manufacturing, especially from multinationals seeking a lower cost base or simply daunted by the challenges of doing business in China.

Yet, challenges exist as Cambodia looks to maximize the benefits of integration by expanding manufacturing.

The government will need to maintain macroeconomic and political stability, build world-class infrastructure, intensify focus on workforce skills, and improve the lack of transparency in the legal system. Other priorities will involve creating the right set of incentives, loosening foreign investment restrictions, and providing greater access to financing for Small and Medium-sized Enterprises (SMEs), which play an outsized role in the country's economy, to scale up.

Managing these priorities can be highly challenging for an emerging economy like Cambodia. However, the benefits will contribute to a safe and sustainable ecosystem for business entities and cross-border opportunities.

Lim Chew Teng
Managing Partner
KPMG in Cambodia

CAMBODIA

KEY COUNTRY FACTS

Cambodia is a developing market economy with liberal policies that promote trade and foreign investment. Its business climate can remain challenging but opportunities can be found in several sectors, in particular in agriculture, food, garments, tourism, and construction and real estate. The country's economic growth over the next two years is expected to remain strong, driven in part by tourism activity and fiscal expansion[1].

GOVERNMENT

Constitutional Monarchy

POPULATION

16 MILLION (2016)

CURRENCY

Riel (KHR)

LANGUAGES

Khmer (official), English, French, Mandarin

RELIGIONS

Buddhism, Islam, Christianity, Hinduism

Source: Economist Intelligence Unit, Cambodia Ministry of Foreign Affairs & International Cooperation

OPEN MARKET ECONOMY

Cambodia is one of the fastest-growing economies in the region, albeit from a small base. Between 2000 and 2014, it averaged 7% growth due to healthy performance in real estate and construction and garment exports[2].

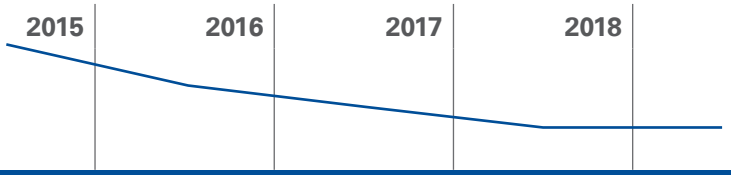
Agriculture remains by far the largest employer, but the country's growing textile industry accounts for the majority of Cambodia's exports. Tourism is also a major industry as visitor numbers rise due to the increased openness of the country and drawn by attractions such as Angkor Wat, a World Heritage Site.

Cambodia is keen to attract higher volumes of foreign investment and has developed liberal trade and investment policies to create an open business environment. There are few restrictions on which sectors foreign investment can be directed towards. As the country is classified as a Least Developed Country, it is eligible for duty free or preferential export access to many developed economies including the EU and US.

To stimulate foreign direct investment (FDI) inflows, 21 Special Economic Zones (SEZ) have been approved, providing benefits including tax holidays, zero rate VAT, and import duty exemption for raw materials, machinery and equipment. The primary authority responsible for SEZs is the Cambodia Special Economic Zone Board (CSEZB).

Economic Performance

GDP constant prices*

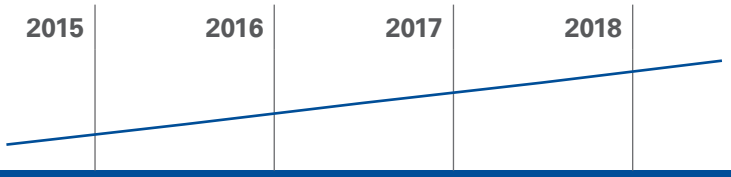


	2015	2016	2017	2018	2019
% CHANGE	7.2	7.0	6.9	6.8	6.8

*2010 market price; percentage change estimates start after 2016

Source: International Monetary Fund, World Economic Outlook Database, October 2017

GDP per capita, current prices (CAGR 8.37%)

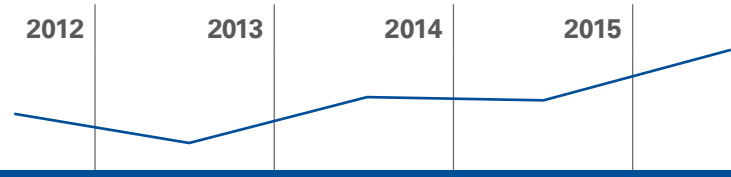


	2015	2016	2017	2018	2019
USD	1,167.7	1,277.7	1,389.6	1,495.6	1,610.4

Figures after 2012 are estimates

Source: International Monetary Fund, World Economic Outlook Database, October 2017

Foreign direct investment inflows



	2012	2013	2014	2015	2016
USD MILLION	1,557.1	1,274.9	1,726.5	1,701.0	2,280.0

Source: ASEAN Secretariat

Main FDI investors

China
USD 501.5 mil

Hong Kong
USD 248.9 mil

Japan
USD 198.7 mil

Vietnam
USD 184.5 mil

Singapore
USD 168.9 mil

Source: ASEAN Secretariat - FDI Database as of 30 June 2017

DRIVING GROWTH

Cambodia has set its sights on becoming a developed nation by 2050 and recognises that economic diversification, strengthening of country competitiveness and enhancing productivity are key to realising this vision[3].

Political stability

- Political stability has improved in recent years, although tensions may rise in the run-up to the 2018 general election.

Good governance

- This is a priority and the government will promote it through legal and judicial reforms, fighting corruption, public administration reforms including decentralisation and deconcentration and reform of the armed forces.[4]

Workforce

- Cambodia has one of the youngest populations in Southeast Asia, with about half of the population under the age of 25. Around 200,000 young people enter the jobs market each year, providing a large pool of potential employees for investors.
- Skilled positions can be hard to fill as workers lack basic skills and the government needs to provide more vocational training. According to some analysts' estimates Cambodia will need an additional 35,000 engineers and 46,000 technicians by 2018 to maintain its current growth rate.

Rankings

Index	Ranking[+]
Ease of Doing Business	**135**
Intellectual Property Protection	**130**
Transparency of Government Policymaking	**120**
Corruption Perceptions Index	**156**
Global Competitiveness Index	**94**
Global Innovation Index	**101**

[+] All rankings are global unless otherwise indicated

Source: The World Bank, Doing Business 2018; Transparency International, Corruption Perceptions Index 2016; World Economic Forum, The Global Competitiveness Report 2017-2018; The Global Innovation Index 2017, Cornell University, INSEAD and WIPO

Tax environment[5]

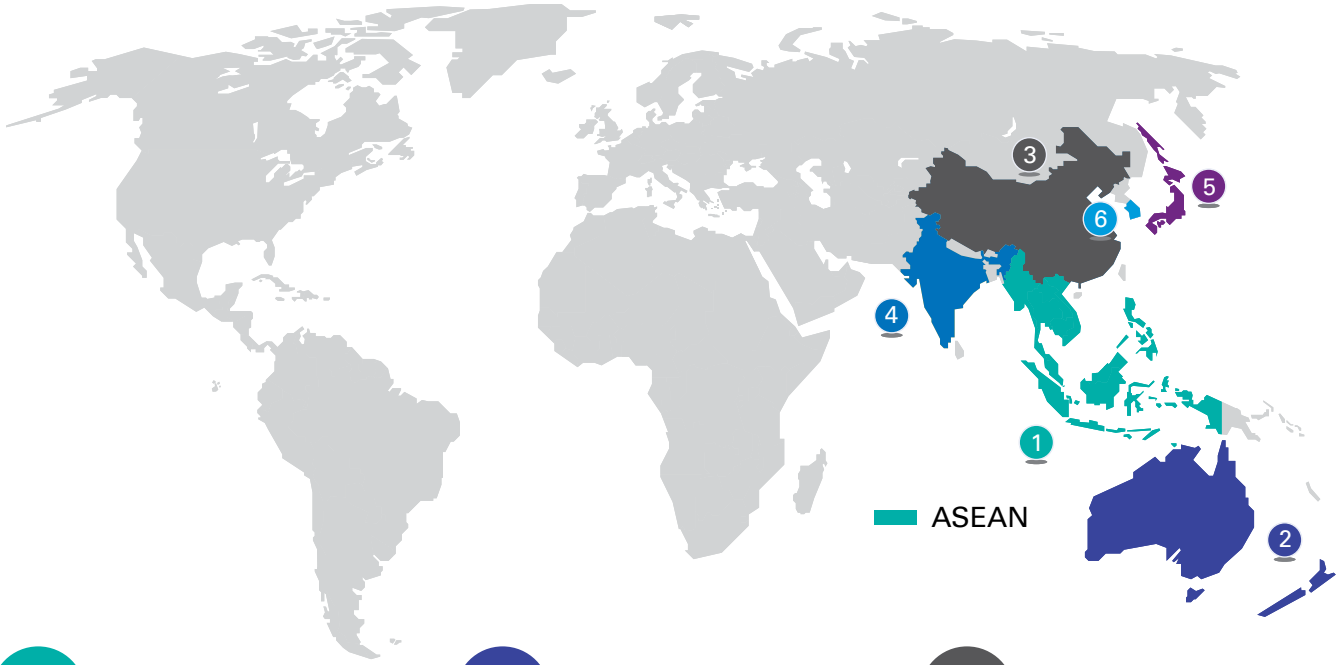
- Income tax:
  - Resident tax rates are progressive and up to 20%
  - Non-residents are taxed at a flat rate of 20%
- Corporate tax: 20%; 30% in oil and gas, and mineral exploitation
- Value added tax: 10% on all supplies other than exports and non-taxabe supplies
- Tax and other incentives include:
  - Investment incentives for Qualified Investment Projects in certain industries
  - Investment incentives for projects in Special Promotion Zones or Export Processing Zone
  - Duty free import of select production equipment and construction materials
  - Tax holidays for certain projects
  - No restrictions on capital repatriation

Trade agreements

- Cambodia became a member of the World Trade Organization in 2004 and is party to several regional free trade agreements (FTA) via its membership of ASEAN.

Regional FTAs[6]

Agreements signed between Cambodia and a group of trading partners



1 ASEAN Free Trade Area

- Elimination of tariffs on more than 99% of products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

2 ASEAN-Australia-New Zealand Free Trade Agreement

- Elimination of tariffs on more than 90% of the products with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

3 ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of the products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

4 ASEAN-India Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 80% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

5 ASEAN-Japan Comprehensive Economic Partnership

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

6 ASEAN-(Republic of) Korea Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

Concluded / signed FTA

- ASEAN - Hong Kong, China Free Trade Agreement[7]

FTA under negotiation

- Regional Comprehensive Economic Partnership[8]

POSITIVE GROWTH[9]

In 2017-20 the projected acceleration in economic growth, to an annual average of 7.6%, will be driven by domestic demand. The economy is based primarily on private consumption, which accounts for around three-quarters of GDP. Incomes will continue to rise rapidly from a low base as productivity rises and the development of higher-value sectors, such as electronics manufacturing, gains traction.

The decline in the level of household indebtedness over the past few years to more moderate levels bodes well for consumption activity. The proportion of indebted households fell to 31.6% in 2014, well below the peak of 38.3% in 2010.

The outlook for investment growth also remains positive. Cambodia's good relations with China suggest that it should be in a strong position to access the capital that China is making available for overseas infrastructure projects under initiatives like its Belt and Road Initiative.

Endnotes

[1] World Bank. Retrieved from http://www.worldbank.org/en/country/cambodia/overview

[2] IMF. Retrieved from https://www.imf.org/en/News/Articles/2015/09/28/04/53/socar111715a

[3] Royal Government of Cambodia. Retrieved from http://cdc-crdb.gov.kh/cdc/documents/NSDP_2014-2018.pdf

[4] ibid

[5] Council for the Development of Cambodia, CIB & CSEZB. Retrieved from http://www.cambodiainvestment.gov.kh/investors-information/taxation-and-accounting.html; Taxes in Brief, General Department of Taxation, Ministry of Economy and Finance. Retrieved from: http://www.tax.gov.kh/en/taxtypes.php

[6] Free Trade Agreements, Asia Regional Integration Center. Retrieved from https://aric.adb.org/fta-country; ASEAN Secretariat. Retrieved from http://www.jterc.or.jp/koku/koku_semina/pdf/130306_presentation01.pdf

[7] The Signing of The ASEAN–Hongkong, China Free Trade Agreement and ASEAN-Hongkong, China Investment Agreement, ASEAN. Retrieved from: http://asean.org/the-signing-of-the-asean-hongkong-china-free-trade-agreement-and-asean-hongkong-china-investment-agreement/

[8] Free Trade Agreements, Asia Regional Integration Center. Retrieved from https://aric.adb.org/fta-country

[9] International Financial Statistics, IMF

Contact Us

Lim Chew Teng
Managing Partner
T: +84 8382 19266
E: chewtenglim@kpmg.com.kh

Mona Tan
Head of Tax
T: +85 5232 16899
E: Tmona@kpmg.com.kh

James Roberts
Head of Markets and Advisory
T: +85 5232 16899
E: jamesroberts1@kpmg.com.kh

Nge Huy
Head of Audit and Assurance
T: +85 5232 16899
E: Ngehuy@kpmg.com.kh

INDONESIA

First established in 1957 as one of the first accounting firms by Drs. Basuki T. Siddharta, the story of our own growth and membership of the KPMG network parallels the growth of Indonesia. We are pleased to share this report which outlines our belief of what makes Indonesia such an attractive investment destination for local and foreign investors.

Strategically located between the Indian and Pacific Oceans, Indonesia is the largest country in Southeast Asia. It is rich in natural resources and agriculture products. With its growing young population, and large middle class with rising levels of disposable income, it also has the biggest consumption base in Southeast Asia.

Since 2000, Indonesia's GDP has steadily increased. The revamped political landscape has also allowed for a more robust government structure, political stability and reforms that are both social and pro-business. As a result, the country significantly improved its ranking in the World Bank's Ease of Doing Business index, up 19 positions to 72.

KPMG in Indonesia works closely with local businesses and potential investors on their investment decisions, and helps them navigate the local environment to build a successful business that also blends well with the local culture.

As part of the KPMG global network, we also have the breadth and depth of experience and expertise to serve the diverse needs of local and global companies in Indonesia.

Tohana Widjaja
Managing Partner
KPMG in Indonesia

INDONESIA

KEY COUNTRY FACTS

Indonesia, the largest country in Southeast Asia, is located between the Indian and Pacific oceans and is bordered by Malaysia, Singapore, East Timor and PNG. Indonesia is rich in natural resources such as coal, minerals (tin, gold, copper, nickel and bauxite), oil and gas, and has fertile land to support agricultural products. Those rich natural resources, together with the archipelago's strategic location, make Indonesia an attractive country for foreign investors.

GOVERNMENT

Republic

POPULATION

258.2

MILLION (2016)

CURRENCY

Indonesian Rupiah (IDR)

LANGUAGES

Bahasa Indonesia (akin to Malay, official), English, Chinese

RELIGIONS

Islam, Christianity, Hinduism, Others

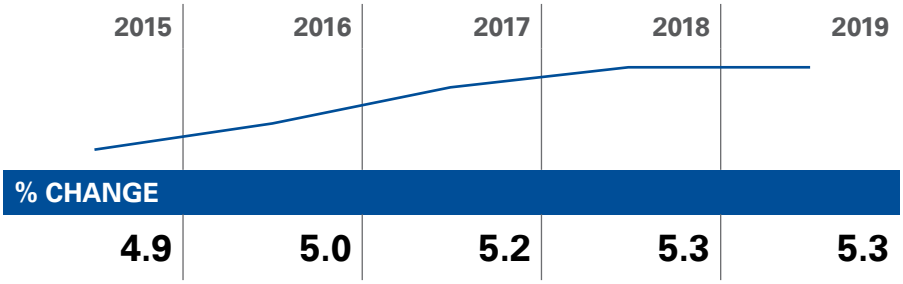
Source: Economist Intelligence Unit, CIA Factbook

RAPIDLY-GROWING ECONOMY

Indonesia has charted impressive economic growth since demonstrating its resilience during the 2008 global financial crisis. The country's gross national income per capita has steadily increased from USD857 in 2000 to USD3,603 in 2016.[1] Indonesia is the world's fourth most populous country, the tenth largest economy by purchasing power parity, and a member of the G-20.[1] Its massive young population and large middle class with rising levels of disposable income provide the platform for the biggest consumption base in Southeast Asia, a major driver of historical economic growth. As an emerging middle-income country, Indonesia has made enormous gains in poverty reduction, cutting the poverty rate by more than half since 1999, to 10.9% in 2016.[1]

Economic Performance

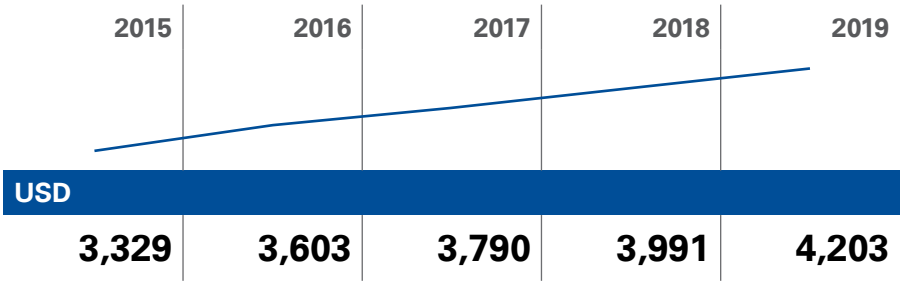
GDP constant prices*



* 2010 market price; percentage change after 2016 are estimates

Source: World Bank. Indonesia Economic Quarterly. March 2017; Ministry of Trade. Produk Domestik Bruto

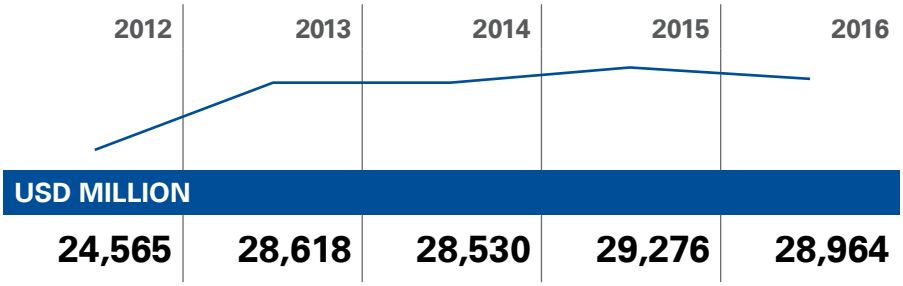
GDP per capita, current prices (CAGR 6.00%)



Figures after 2016 are estimates

Source: World Bank. Indonesia Economic Quarterly. March 2017

Foreign direct investment inflows



Source: Badan Pusat Statistik. Foreign Direct Investment Realization by Economic Sector; Indonesia Investment Coordinating Board. Statistic of Foreign Direct Investment Realization based on Capital Investment Activity Report by Sector, Q4 2016.

Main FDI investors

Singapore
USD 9.2 bil

Japan
USD 5.4 bil

China
USD 2.7 bil

Hong Kong
USD 2.2 bil

Netherlands
USD 1.5 bil

Source: Indonesia Investment Coordinating Board. Domestic and Foreign Direct Investment Realization in Quarter IV And January - December 2016

ASEAN'S LARGEST POPULATION

Indonesia's large population and consumption base is a fundamental reason why many multinationals rank this country as the foreign investment destination of choice in Southeast Asia.[2]

Indonesia has shown stable economic growth in recent years, outpacing other countries in Asia.[3] An increase in domestic consumption from 4.7% in 2014 to 4.8% in 2016[4] has been underpinned by healthy labor market outcomes and strong real wage increases.

Indonesia is a promising market given its large, young population; a legal system favorable to business growth; pro-business government; abundant raw materials; and strategic geographical position for trade.[5]

The growth sectors contributing to two-thirds of Indonesia's GDP are manufacturing, construction, wholesale and retail trade, information and communication, financial and insurance activity, and agriculture, forestry and fisheries. In 2017, there were several major foreign investments:

- France's Vinci Construction closed a USD500 million deal to build a tourist complex and motorbike racing circuit in Lombok while Engie Group signed three agreements to develop, co-finance, build, operate and maintain renewable energy projects valued at over USD1.25 billion over the next five years.[6]
- In March 2017 President Joko Widodo and visiting Saudi ruler, King Salman bin Abdulaziz, oversaw the signing of 11 cooperation agreements ranging from trade to aviation. The process started in 2016 with an agreement for a USD6 billion oil refinery between Saudi Aramco and Indonesia's PT Pertamina.[7]
- In May 2017, Go-jek received investment amounting to US1.2 billion from Tencent and several other companies. The deal values the company at $3 billion post money.[8]
- Alibaba invested US$1.1 billion in Tokopedia in August 2017. The investment has strenghtened Tokopedia's position as the start up unicorn alongside Traveloka, Gojek and Bukalapak.[9]

Political stability

- Indonesia has undergone a political transformation since the upheaval of 1998. The country is now a vibrant democracy that is continuing to strengthen its political structures and deepen the enfranchisement of the population.[10]

Good governance and transparency

- Reforms since 2015 include releasing a string of reform packages, expanding investment in public infrastructure, reducing layers of government regulation, leveraging regional trade integration, and opening new areas of the economy to private investment.
- The 2016 tax amnesty and strengthening of tax collection has generated additional revenue to fund infrastructure investment.
- In 2016, the government issued several regulations designed to improve the investment environment in Indonesia. These include regulations on e-commerce, financial technology (fintech), cyber security, electronic information and transactions as well as protection of personal data in electronic systems.[11]

Rankings

+ All rankings are global unless otherwise indicated

Source: Doing Business 2018, World Bank; Corporate Governance Watch 2016, CLSA, Asian Corporate Governance Association (ACGA); Corruption Perceptions Index 2016, Transparency International; Global Competitiveness Index 2017-2018, World Economic Forum; Global Innovation Index 2017, Cornell University, INSEAD and WIPO

Index	Ranking+
Ease of Doing Business	**72**
Corporate Governance Watch (Asia)	**11**
Intellectual Property Protection	**46**
Transparency of Government Policymaking	**51**
Corruption Perceptions Index	**90**
Global Competitiveness Index	**36**
Global Innovation Index	**87**

Sound economy

- Indonesia has continued to achieve strong GDP growth rates since 2008 of around 5% or more per annum which is among the highest in Southeast Asia. However more foreign investment is needed to drive growth higher. Investment historically has comprised around 30% of GDP.[12]

Large population and domestic consumption base

- With an estimated population of around 258.2 million people, Indonesia has a large domestic consumption base, and the country's middle class with increasing levels of disposable income and purchasing power has grown substantially from 7% of the population (15 million) in 2002 to 18% (45 million) in 2014.[13]

Rich in natural resources

- Indonesia is one of the world's leading thermal coal exporters, the second largest tin exporter and home to vast deposits of precious metals such as gold, silver, copper, nickel and bauxite. Indonesia also continues to be a major liquid natural gas (LNG) exporter. Indonesia's climate and highly-fertile soil make it suited to the cultivation of high-value agricultural commodities such as palm oil, rubber, coffee and cocoa.[14]

Young workforce

- Over 50% of the population is below the age of 30 and are highly adaptive to new technology. Reforms that can help narrow recognized skills gap between what employers need and what employees have – such as expanding vocational training opportunities – will help strengthen the economy's productivity.[15]

Guarantee facility for investors

- Indonesia has led the way among developing countries in creating a best practice-based guarantee facility for investors, the Indonesia Investment Guarantee Fund (IIGF). The IIGF, founded with the World Bank, provides guarantees for Public-Private-Partnership infrastructure projects such as toll roads, bridges, railroads, irrigation canals, wastewater infrastructure, telecommunication towers and power generators.[16]

Tax incentives

- The top marginal personal tax rate is 30% which applies to taxable income exceeding IDR500 million.
- A flat corporate tax rate of 25% applies. Listed companies which satisfy the minimum listing requirement of 40% and other conditions are eligible for a 5% reduction in the corporate tax rate. A company with gross turnover of less than IDR50 billion (approximately USD3.8 million) and which meets the required conditions is eligible for a corporate tax rate reduction of up to 50%.
- Withholding tax (WHT) is imposed at 20% on various amounts payable to non-residents, unless the non-resident has a permanent establishment in Indonesia, in which the rates for payments to residents apply.
- The standard rate of VAT in Indonesia is 10% and applies to goods, services and imports.
- There is a wide range of attractive tax incentives:[17]
  - Double tax relief
    - Credit for WHT directly paid on income received or accrued in a foreign country. The credit is limited to the lesser of the tax payable in Indonesia on the foreign income or the amount of the foreign tax paid.
  - Tax holiday
    - Income tax reduction of between 10% and up to 100% are available for 5-15 years (might be extended up to 20 years).
    - Industries eligible for tax holiday:
      - Upstream metal
      - Oil refinery
      - Organic basic chemicals based on oil and natural gas
      - Production of industrial machines
      - Processing based on agriculture, forestry and fisheries
      - Telecommunication, information and communication equipment
      - Maritime transportation
      - Processing industry that is the main industry in a Special Economic Zone
      - Economic infrastructure not included in the Government and Business project (KPBU) scheme.
  - Tax allowance
    - Total net income reduction of 30% of invesment which is prorated at 5% per year for a six-year period
    - Extension of tax loss carry forward period of up to 10 years
    - Reduction of WHT on dividends paid to non-residents to 10% (or a lower rate according to the applicable double taxation agreement)
    - 145 business fields eligible for tax allowance
  - Direct tax incentives for new enterprises
    - Tax exemption on the import of capital goods and raw materials
  - Free trade zones and free port areas
    - No import duties and other taxes on the import of goods

- Mergers and acquisitions
  - Partial relief from 5% transfer of title tax on land and buildings, and full relief from 2.5% income tax on the transfer of land and buildings
- Special economic zones (SEZ)
  - Corporate income tax reduction granted to new taxpayers with new capital invested in the production chain of main activities in a SEZ (reduction ranges from 20% to 100% for a period of 5-25 years)
- Import duty exemptions
  - Import of machines, goods and materials for production exempt from import duty for a period of two years
  - Import duty exemption is granted for two years based on the installed machine capacity for production purposes and can benefit from a one-year extension
  - If the company uses at least 30% of local machines, import duty exemption is available for additional product for four years
  - Imported machines, goods and raw materials can be exempt from import duty if:
    - Not produced locally
    - Local machines are available but do not meet requirements[18]

Trade agreements

- Indonesia has entered into six regional and two bilateral free trade agreements (FTA). It also has preferential tariff arrangements with Malaysia, Bangladesh, Pakistan, Iran, Egypt, Turkey and Nigeria.

Bilateral FTAs[19]

Agreements signed between Indonesia and a single trading partner

Indonesia-Japan Economic Partnership Agreement[20]

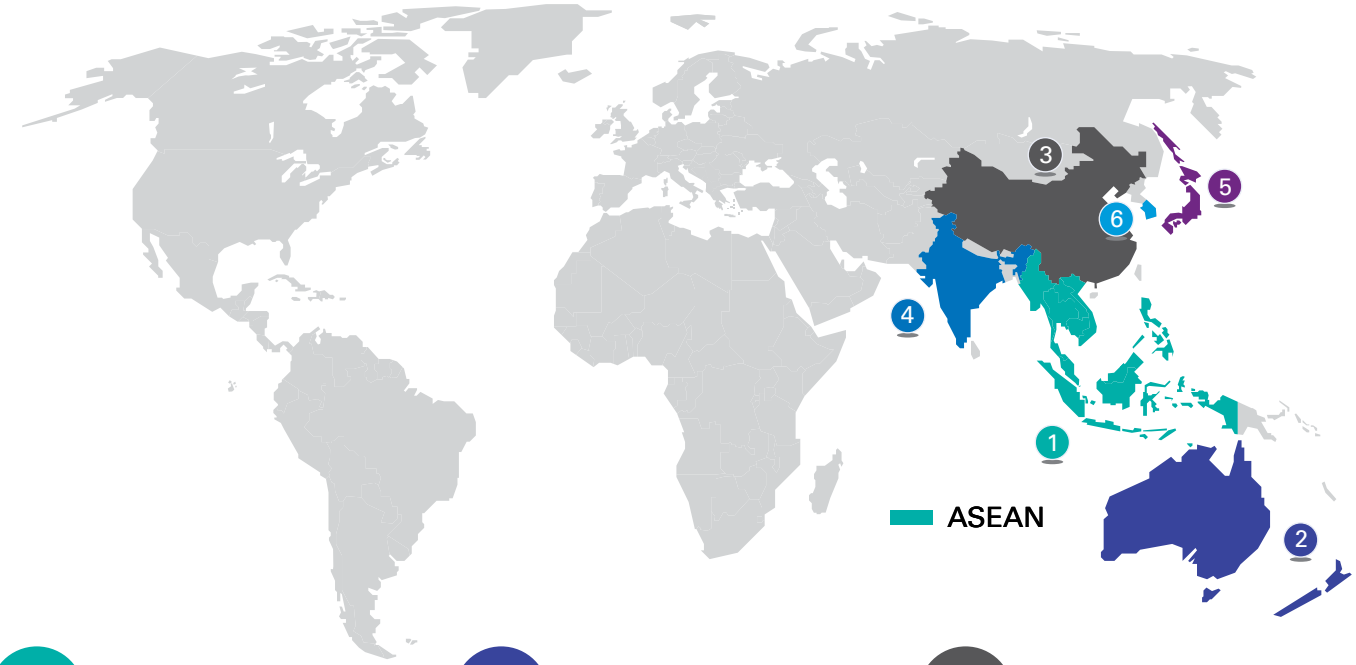
- Covers over 90% of goods (agriculture & industrial products) Indonesia exports to Japan
- Scrapping of import duties for most export products
- Stabilize Japan's FDI in Indonesia

Indonesia-Pakistan Preferential Trade Agreement[21]

- Preferential tariff rates for more than 200 products
- 15% margin of preference over the standard tariff rate of Indonesian palm oil products

Regional FTAs[22]

Agreements signed between Indonesia and a group of trading partners



1 ASEAN Free Trade Area

- Elimination of tariffs on more than 99% of products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

2 ASEAN-Australia-New Zealand Free Trade Agreement

- Elimination of tariffs on more than 90% of the products with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

3 ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of the products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

4 ASEAN-India Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 80% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

5 ASEAN-Japan Comprehensive Economic Partnership

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

6 ASEAN-(Republic of) Korea Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

Concluded / signed FTAs

Completed negotiations

- Trade Preferential System of the Organization of the Islamic Conference. Indonesia signed the Framework Agreement and Protocol on the Preferential Tariff Scheme (PRETAS)
  - PRETAS mainly deals with reducing tariffs on products covered under the scheme as well as para-tariff and non-tariff barriers
- Indonesia-Chile Comprehensive Economic Partnership Agreement (IC CEPA)
- ASEAN-Hong Kong, China Free Trade Agreement (AHKC-FTA)

FTAs under negotiation

- India-Indonesia Comprehensive Economic Cooperation Arrangement
- Indonesia-Australia Comprehensive Economic Partnership Agreement
- Indonesia-Peru Free Trade Agreement
- Indonesia-European Free Trade Association Free Trade Agreement with Switzerland, Lichtenstein, Norway and Iceland
- Regional Comprehensive Economic Partnership (RCEP) with Australia, Cambodia, India, Japan, Laos, Myanmar, Philippines, Thailand, Brunei Darussalam, China, South Korea, Malaysia, New Zealand, Singapore and Vietnam
- [Republic of] Korea-Indonesia Free Trade Agreement
- Indonesia-Sri Lanka Free Trade Agreement

STRENGTHENING FOUNDATION FOR GROWTH

To manage the challenges following the end of the commodity boom and slowdown of the global economy, the Indonesian government expanded investment in public infrastructure across the archipelago, and improved accessibility to Eastern Indonesia to rebalance the fruits of economic growth. Under a stable political climate, these actions are likely to strengthen the foundation for growth in the medium term.

While the Jakarta-Bandung corridor and Surabaya remain the country's largest drivers of growth, economic activities in emerging cities like Medan, Palembang, Batam, Central Java, Balikpapan and Makassar will contribute to this growth.

Indonesia's rising middle class and large domestic consumption base will also continue to play an important role in the country's growth, with consumer related sectors such as food and beverage, information and communication, banking/finance, insurance and retailers, benefitting most.

In major cities, the swift adoption of new technologies by a highly adaptive middle class is likely to change the pattern of consumption, thereby forcing business owners to rethink their business models and operations. In the smaller cities and rural areas, an extensive and effective distribution channel will open doors to the growing consumption base. Institutional reform will continue to be an important government agenda. The effectiveness of the reforms cascading down to the local and regional governments will be central to sustainable economic growth and productivity in Indonesia.

Endnotes

[1] World Bank. Indonesia Overview. Retrieved from http://www.worldbank.org/en/country/indonesia/overview

[2] KPMG Investing in Indonesia 2015

[3] Bankpedia. Retrieved from http://www.bankpedia.org/index.php/en/114-english/m/23933-mint-the-new-emerging-economies-encyclopedia

[4] OECD. Indonesia - Economic forecast summary (November 2016). Retrieved from https://www.oecd.org/eco/outlook/economic-forecast-summary-indonesia-oecd-economic-outlook-november-2016.pdf

[5] Investopedia. Breaking down 'MINTs (Mexico, Indonesia, Nigeria, Turkey)'. Retrieved from https://www.investopedia.com/terms/m/mints-mexico-indonesia-nigeria-turkey.asp

[6] Global Construction Review. Vinci to invest $500m in Indonesian motorsport complex; Netral English. How Big French Contributes Its Investment to Indonesia; PV Tech. Engie partnerships to invest US$1.25 billion in Indonesian renewables, agreements in Singapore; Engie.Press Release 29 March 2017

[7] Bloomberg. Indonesia Lures Middle East as Trump Worries Muslim Nations; Al Arabiya. King Salman's Asia visit: Saudi Arabia, Indonesia sign 11 agreements

[8] Techcrunch. Tencent Leads $1.2 Billion Investment in Indonesia's Rival to Uber. Retrieved from: https://www.barrons.com/articles/tencent-leads-1-2-billion-investment-in-indonesias-rival-to-uber-1493944836

[9] Techcrunch: Alibaba leads $1.1B investment in Indonesia-based e-commerce firm Tokopedia. Retrieved from: https://techcrunch.com/2017/08/17/alibaba-tokopedia/

[10] Global Business Guide. Why Indonesia. Retrieved from http://www.gbgindonesia.com/en/main/why_indonesia/why_indonesia.php

[11] Asia Sentinel. Economic Outlook 2017: Indonesia; IMF. Indonesia: Resilient Economy Can Benefit from Stronger Reforms.

[12] KPMG Investing in Indonesia 2015; OECD. Indonesia - Economic forecast summary (November 2016); World Bank. Indonesia Economic Quarterly. March 2017

[13] KPMG Investing in Indonesia 2015; IMF. Indonesia: Resilient Economy Can Benefit from Stronger Reforms.

[14] Global Business Guide. Why Indonesia; ITRI. 2016 Report on Global Tin Resources & Reserves; World Atlas, The Top 10 Coal Producers Worldwide; World Coal Association, Coal Market and pricing; International Gas Union. 2016 World LNG Report

[15] SEBGroup. Indonesia: A potential economic powerhouse. 2016; IMF. Indonesia: Resilient Economy Can Benefit from Stronger Reforms

[16] IIGF. Guarantee Overview. Retrieved from http://www.iigf.co.id/en/business/overview

[17] Indonesia Investment Coordinating Board. Investment Incentives; KPMG Indonesia. Investing in Indonesia 2015; KPMG Indonesia. Indonesia Tax Profile 2016

[18] Indonesia Investment Coordinating Board. Investment Incentives. Retrieved from http://www.bkpm.go.id/en/investment-procedures/investment-incentives

[19] Asia Regional Integration Centre. Free Trade Agreements; Ministry of Trade Directorate General for National Export Development. Indonesia in FTA; Global Business Guide. Indonesia in Free Trade Agreements

[20] Indonesia Investment. Indonesia-Japan Economic Partnership Agreement (IJEPA); Ministry of Foreign Affairs of Japan. Agreement between Japan and the Republic of Indonesia for an Economic Partnership

[21] Tribune. Trade: Pakistan, Indonesia PTA comes into effect; Organization of Islamic Cooperation. Conventions

[22] Asia Regional Integration Centre. Free Trade Agreements; Ministry of Trade Directorate General for National Export Development. Indonesia in FTA; Global Business Guide. Indonesia in Free Trade Agreements; Organization of Islamic Cooperation. Conventions; Ministry of Foreign Affairs Republic of Indonesia. Indonesia-Chile Signed a Comprehensive Trade Agreement; ASEAN.org. The Signing of The ASEAN–Hongkong, China Free Trade Agreement and ASEAN-Hongkong, China Investment Agreement; Jakarta Globe. Indonesia, Sri Lanka Agree to Start Free Trade Negotiations

Tohana Widjaja
Managing Partner
T: +62 (0) 21 5799 5143
E: Tohana.Widjaja@kpmg.co.id

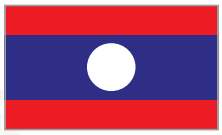
Abraham Pierre
Partner, Head of Tax
T: +62 (0) 21 5799 5150
E: Abraham.Pierre@kpmg.co.id

Susanto
Partner, Head of Markets
T: +62 (0) 21 5799 5328
E: Susanto@kpmg.co.id

Bob Yap
Partner, Head of Advisory
T: +62 (0) 21 574 0877
E: byap@kpmg.com.sg

Kusumaningsih Angkawidjaja
Partner, Head of Audit and Assurance
T: +62 (0) 21 5799 5201
E: Kusumaningsih.Angkawidjaja@kpmg.co.id

KPMG



LAOS

With the establishment of the ASEAN Economic Community in 2015, the country has seen developments and growth in key areas and in 2016, was ranked the second-fastest growing economy, by GDP, in the world. Factors that contributed to this high growth include its rich reserve of resources namely in energy and hydropower, the setting up of trade agreements, China's One Belt One Road initiative, low cost labor, and increased governance and transparency.

In the coming years, Laos' economy is expected to continue to grow at a rapid pace. With the signing of more trade agreements, and more pro-business policies and initiatives that support investment, for example, double taxation agreements, Laos will be an attractive market for foreign investors. The country's rich hydropower potential will also allow it to help meet its neighbors' increasing demand for energy.

KPMG in Lao PDR provides a wide range of Audit, Tax and Advisory services. Integrity, quality and independence are the building blocks of KPMG's audit approach. Our tax practice helps entities and individuals to reduce their tax burden while meeting the highest standards of compliance. Our advisory team helps entities to become more efficient. We provide support in all stages of an organization's lifecycle, helping clients to tackle a minefield of challenges.

Ganesan Kolandevelu

Partner in Charge
KPMG in Laos

LAOS

KEY COUNTRY FACTS

Laos was ranked as the second fastest growing economy in the world in 2016 by The Economist[1] as the country opened up following the launch of the ASEAN Economic Community (AEC) in 2015. The country is a popular tourist destination, boosted by the designation of the city of Luang Prabang as a UNESCO World Heritage site in 1995[2]. Its abundant natural resources and infrastructure investment plans provide opportunities for further growth.

GOVERNMENT

A republic with a democratic government

POPULATION

7 MILLION (2017)

CURRENCY

Kip (LAK)

LANGUAGES

Lao (official), French, English, various ethnic languages

RELIGIONS

Buddhism, Others

Source: Economist Intelligence Unit, Association of Southeast Asian Nations

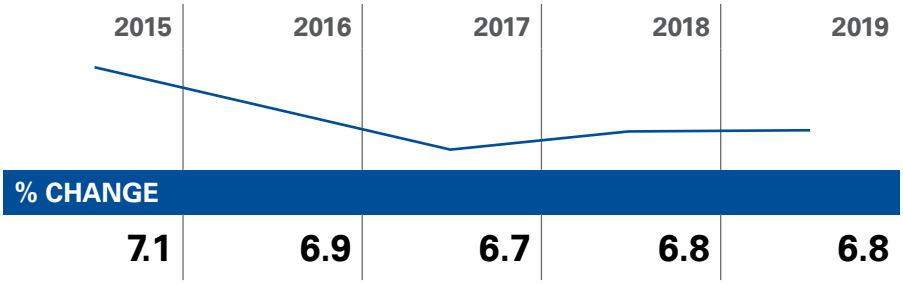
OPEN MARKET ECONOMY

Laos welcomes foreign investment and experience that can fuel infrastructure-led growth, including big projects under China's One Belt One Road (OBOR) policy. Ongoing efforts by the government to attract foreign investment to the energy and tourism sectors have the potential to boost growth further, and the country's vast potential for hydropower offers the opportunity of exporting energy.

In 2016, Laos had a credit rating of BBB+[3], with a market capitalization of USD87.25 million. Although Laos' economic growth rate was slowed due to a general lull in global trade, lower commodity prices, and unfavorable weather affecting its agriculture sector, the country is predicted to maintain momentum over the near future due to its low cost of labor, natural resources and improved governance.

Economic Performance

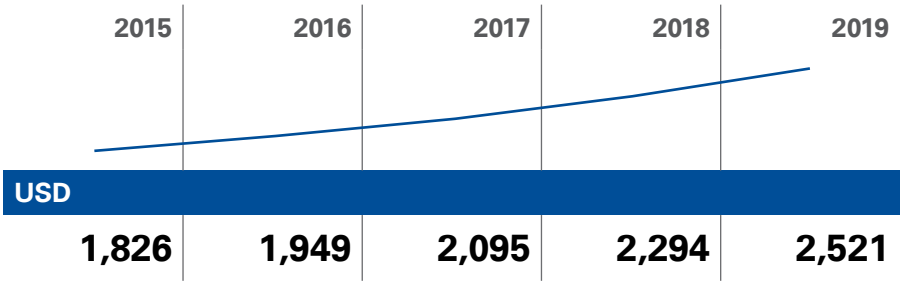
GDP constant prices*



* 2010 market price; percentage change after 2016 are estimates

Source: BMI Research, Laos Country Risk Report, second quarter of 2017

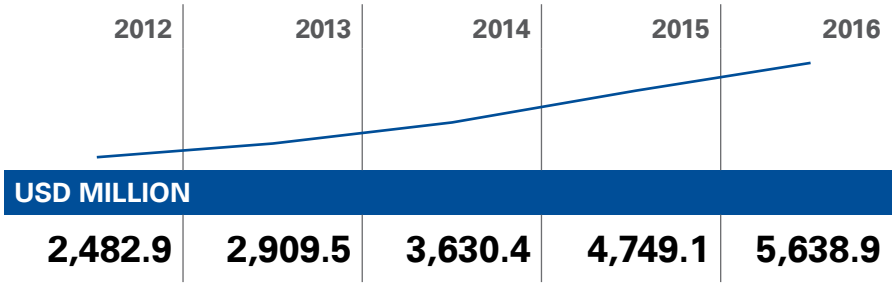
GDP per capita, current prices (CAGR 6.66%)



Figures after 2016 are estimates

Source: BMI Research, Laos Country Risk Report, second quarter of 2017

Foreign direct investment inflows



Source: UNCTAD Statistics

Main FDI investors

Vietnam
USD 466.1 mil

Malaysia
USD 430.3 mil

China
USD 88.9 mil

Hong Kong
USD 18.6 mil

United Kingdom
USD 4 mil

Source: Laos Ministry of Planning and Investment. Figures as of 2015

RICH IN NATURAL RESOURCES

Laos is located in the mountainous, landlocked area which borders Thailand, Vietnam, Cambodia, China and Myanmar. Its geography provides an abundance of water, forests and mineral resources, especially hydropower, timber, gold and copper. Consequently, Laos is an attractive location for investment in mining, hydropower, agriculture, and tourism — all growth sectors following the launch of the AEC.

More political stability

- No party congress or election will be held before 2021, ensuring political and policymaking stability
- Renewed anti-graft efforts by the new administration which took power in January 2016[4]

Improved governance and transparency

- Several landmark reforms such as the Law on Anti-Corruption in 2012, Decree on Asset Declaration in 2013, and the Law on Anti-Money Laundering Act in 2015
- Prime Minister Thongloun Sisoulith is perceived as a reformer following the arrest of 71 officials and 25 others across the country for graft since the beginning of his tenure[5]

Open for business

- The creation of the AEC in 2015 led to major reforms of economic policies and regulations to improve the trade and investment environment
- Hongsa Lignite power project provides opportunities for international agreement with Thailand, Myanmar, and Malaysia to import electricity from Laos
- Closer economic ties with China support regional integration with the Greater Mekong region as part of the One Belt One Road initiative introduced by Chinese President, Xi Jinping[6]
- Infrastructure projects between Vietnam and Laos — 707km highway connecting Vientiane and Hanoi[7] and railway connecting Vientiane and Jung Ang

Rankings

Index	Ranking[+]
Ease of Doing Business	**141**
Intellectual Property Protection	**85**
Transparency of Government Policymaking	**88**
Corruption Perceptions Index	**123**
Global Competitiveness Index	**98**

[+] All rankings are global unless otherwise indicated

Source: Doing Business 2018, World Bank; Global Competitiveness Index 2017 - 2018, World Economic Forum; Corruption Perceptions Index 2016, Transparency International

Low-cost labor

- Competitively low minimum wage
- Low labor tax relative to regional peers
- Attractive for labor-intensive industries such as garment-making[8]

Natural resources

- Rapid economic growth mostly driven by the exploitation of natural resources and development of hydropower with state and foreign investors
- Rich in mineral resources, river network, ample arable land, cultural and natural sites which offer attractive opportunities for investment in mining, hydropower, agriculture and tourism[9]

Tax environment[10]

- Personal income is subject to tax at progressive rates ranging from 0% to 24%
- Corporate tax rate is 24%. A registered company at the stock market is granted profit tax reduction of 5% from normal rate for a period of four years from the date of registration
- Corporate tax rate is 26% for legal entities which produce, import and supply tobacco products, of which 2% is contributed to a cigarette control fund
- VAT rate is 10%. A 10% rate is applied to import of raw materials, chemicals, equipment and machinery for production, and 0% is applied to export of finished goods
- Tax and other incentives available:
  - Profits tax exempt for 4-10 years based on promotion zone and business activities
  - Import VAT and customs duty exemption may be possible, subject to approval on a case-by-case basis
  - Exemption of rental or land concession for 5-10 years, subject to conditions
  - Laos has signed double taxation agreements with Brunei, China, Korea, Malaysia, Myanmar, Thailand, Vietnam, Singapore and Russia. It also has an agreement with Luxembourg which is not yet in force.

Trade agreements

- Laos has signed seven regional and one bilateral free trade agreements (FTA).[11]

Bilateral FTA

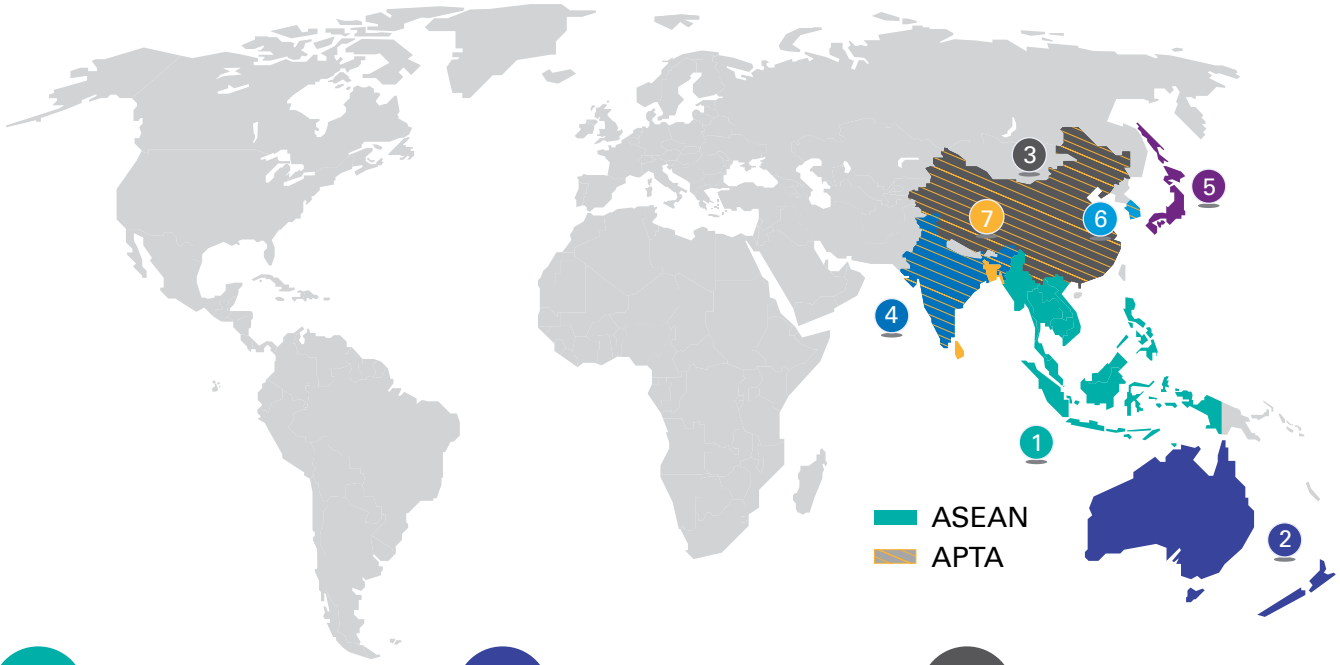
Agreement signed between Laos and a single trading partner

Laos-Vietnam Trade Agreement[12]

- Reduces rate on 32 tariff lines by 50% and all others by 100%, except for 155 tariff lines which fall under the General Exception List of Vietnam.

Regional FTAs[13]

Agreements signed between Laos and a group of trading partners



1 ASEAN Free Trade Area

- Elimination of tariffs on more than 99% of products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

2 ASEAN-Australia-New Zealand Free Trade Agreement

- Elimination of tariffs on more than 90% of the products with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

3 ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of the products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

4 ASEAN-India Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 80% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

5 ASEAN-Japan Comprehensive Economic Partnership

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

6 ASEAN-(Republic of) Korea Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

7 Asia Pacific Trade Agreement

- Tariff exemption or reduction under this trade agreement with Bangladesh, China, India, Korea and Sri Lanka

Concluded / signed FTA

Completed negotiations

- ASEAN-Hong Kong, China Free Trade Agreement

FTA under negotiation

- Regional Comprehensive Economic Partnership

NEW PHASE OF GROWTH

Laos' strong GDP growth over the last ten years has been driven largely by its rich reserve of mineral resources as well as infrastructure projects including cross-border developments under China's One Belt One Road initiative.

Efficient management of national resources is key to unlocking Laos' development potential. With rich mining resources, a river network, ample arable land, cultural as well as natural sites, Laos offers attractive investment opportunities in the mining, hydropower, agriculture and tourism sectors.[14]

Laos' 2017 GDP is forecast to grow at 6.7%, supported by on-going efforts by the Laotian government to attract foreign direct investment to emerging sectors such as transport infrastructure and hydropower projects for which the government has introduced aggressive capital expenditure plans. Also contributing to this growth are rising commodity prices and improved tax revenue administration.[15]

Emerging industries[16]

Mining

- Room for growth given the country's mineral resources potential
- Government support for domestic and foreign investment in the mining sector

Hydropower

- Develop hydropower to meet the region's growing demand for power
- Provide significant economic support for communities living in the Mekong Basin

Agriculture

- Expected to grow at a fast pace in the coming years supported by favorable weather, large water and land resources
- Strategic location – crossroads of Southeast Asia and China – puts Laos in the middle of agricultural trade

Tourism

- Tourist arrivals on a steady rise in the past decade, especially tourists from Asia Pacific with most visiting more developed border towns

Endnotes

[1] World Bank. Retrieved from http://documents.worldbank.org/curated/en/515521468197368035/pdf/AUS17628-WP-OUO-9-Lao-Economic-Monitor-May-2016-has-been-approved-P157829.pdf

[2] Town of Luang Prabang, UNESCO. Retrieved from http://whc.unesco.org/en/list/479

[3] Tris Rating (as of June 2016). Retrieved from http://www.trisrating.com/news/press-release/4205-mofl090616.html

[4] BMI View – Cambodia, Laos, Myanmar Country Risk Report, BMI Research. Retrieved from https://bmo.bmiresearch.com/reports/view?productid=2543&issue=20170401&archive=1&iso=MM&active_pillar=Reports%20Subtab

[5] BMI View – Cambodia, Laos, Myanmar Country Risk Report, BMI Research. Retrieved from https://bmo.bmiresearch.com/reports/view?productid=2543&issue=20170401&archive=1&iso=MM&active_pillar=Reports%20Subtab

[6] Laos Trade and Investment Risk Report Q2 2017, BMI Research. Retrieved from https://bmo.bmiresearch.com/reports/view?productid=3956&issue=20170401&archive=1&iso=LA&active_pillar=Reports%20Subtab

[7] Laos/Vietnam economy: Quick View - Infrastructure plans will help regional interconnectedness, The Economist Intelligence Unit. Retrieved from http://viewswire.eiu.com/index.asp?layout=VWArticleVW3&article_id=1615243945&region_id=&country_id=310000031&channel_id=190004019&category_id=&refm=vwCh&page_title=Article

[8] Labor Costs Analysis - Myanmar - Q2 2017, BMI Research. Retrieved from https://bmo.bmiresearch.com/article/view?article=1254309& advanced_search=1&matches=1639&page=1&position=1&keyword=myanmar%20workforce

[9] Facts and Details. Retrieved from http://factsanddetails.com/southeast-asia/Laos/sub5_3d/entry-2989.html

[10] http://laotradeportal.gov.la/index.php?r=site/display&id=483

[11] http://laotradeportal.gov.la/index.php?r=site/display&id=483

[12] http://laotradeportal.gov.la/index.php?r=site/display&id=483

[13] ASEAN Free Trade Agreements, ASEAN Secretariat. Retrieved from http://www.jterc.or.jp/koku/koku_semina/pdf/130306_presentation01.pdf; The Signing of the ASEAN–Hongkong, China Free Trade Agreement and ASEANHongkong, China Investment Agreement, ASEAN. Retrieved from: http://asean.org/the-signing-of-the-asean-hongkong-china-free-trade-agreement-and-asean-hongkong-china-investment-agreement/

[14] Laos Trade and Investment Risk Report Q2 2017, BMI Research. Retrieved from https://bmo.bmiresearch.com/reports/view?productid=3956&issue=20170401&archive=1&iso=LA&active_pillar=Reports%20Subtab

[15] Laos: Significant Growth Ahead, BMI Research. Retrieved from https://bmo.bmiresearch.com/article/view?article=1265297&advanced_search=1&matches=4001&page=1&position=1&keyword=laos%20significant%20growth

[16] U.S. Geological Minerals Yearbook 2013, Department of Mines, Lao PDR, Ministry of Energy & Mines, Lao PDR, Vientiane Times, UN International Trade Center, Xinhuanet, Chinadaily, Asianews, Lao National Tourism Administration

Contact Us

Winid Silamongkol
Chief Executive Officer
KPMG in Thailand, Myanmar and Laos
T: +66 26772000
E: winid@kpmg.co.th

Ganesan Kolandevelu
Partner in Charge
T: +85 621454240-7
E: ganesan@kpmg.co.th

Sean Severn
Partner, Head of Markets
T: +66 26772000
E: ssevern@kpmg.co.th

MALAYSIA

KPMG's history in Malaysia can be traced back to 1928 when our first office opened in Ipoh, Malaysia (then known as Malaya). Since then, we've had the privilege of contributing towards the country's economic progress and are proud to witness the realization of the ASEAN influence today.

As one of the five founding members of ASEAN, the Malaysian government had the foresight to see the Southeast Asian region as a contending power that is able to compete with larger economies. The region is prized for its massive economic potential, attributed with a growing consumer market as well as a production base for a variety of manufacturers, including components for high technology and defense equipment. For this and many more reasons, Southeast Asia has become a region the world's major powers feel they must have a stake in.

Malaysia's exports to ASEAN account for almost 30 percent of the country's total exports, making ASEAN Malaysia's single largest regional export destination. Malaysia's total trade with ASEAN was valued at approximately USD112 billion in the period of January to November 2017, an expansion of 22.9 percent compared to the same period in 2016. The region's potential has translated to business opportunities that many companies in Malaysia have been able to seize.

For many decades, KPMG in Malaysia has been working shoulder-to-shoulder with our clients to address their biggest challenges, deliver deep expertise, timely insights and transformative strategies and execution that help to drive clarity and success in their business.

We are honored to have our clients' confidence and trust, and we remain committed to support businesses in their pursuit of growth, enhanced performance, sound governance and compliance objectives. Ultimately, we seek to ensure our clients continue to see us as their trusted business adviser.

Datuk Johan Idris

Managing Partner
KPMG in Malaysia

MALAYSIA

KEY COUNTRY FACTS

Malaysia is a multi-ethnic and multi-cultural federation of 13 states and three federal territories strategically located in the centre of Southeast Asia. Geographically, it comprises two regions separated by the South China Sea and is home to lush rainforests and futuristic city skylines. Malaysia has a conducive and pro-business environment, bolstered by its political stability, a robust legal system, well-developed infrastructure and dynamic workforce.

GOVERNMENT

Federal constitutional monarchy

POPULATION

32 MILLION (2017)

CURRENCY

Ringgit Malaysia (RM) / Malaysian Ringgit (MYR)

LANGUAGES

Bahasa Malaysia (Official), English, Chinese, Tamil

RELIGIONS

Islam, Christianity, Buddhism, Hinduism

Source: Department of Statistics, Malaysia, Malaysian Administrative Modernization and Management Planning Unit

OPEN AND WELL-DIVERSIFIED ECONOMY

The Malaysian economy has transformed from its historical commodities-focus into one which is open and well-diversified. Malaysia's multi-sector economy boasts liberal, market-orientated policies targeted at promoting trade, foreign investment and economic development. Malaysia aims to become a high-income, developed nation by 2020, fuelled by an increased focus on innovation and knowledge-based activities. Malaysia's progression is evidenced by its improved rankings across various international indices measuring socio-economic development.

Economic Performance

GDP constant prices*

	2015	2016	2017	2018	2019
% CHANGE	5.0	4.2	5.4	4.8	4.8

*2010 market price; percentage change after 2016 are estimates

Source: International Monetary Fund, World Economic Outlook Database, October 2017

GDP per capita, current prices (CAGR 3.78%)

	2015	2016	2017	2018	2019
USD	9,505.3	9,374.1	9,659.9	10,489.7	11,441.8

Figures after 2016 are estimates

Source: International Monetary Fund, World Economic Outlook Database, October 2017

Foreign direct investment inflows

	2012	2013	2014	2015	2016
USD MILLION	132,656.1	136,028.4	135,798.0	117,643.8	121,621.1

Source: UNCTAD & BMI

Main FDI investors

Singapore
USD 25.8 bil

Japan
USD 15.7 bil

The Netherlands
USD 10.7 bil

Hong Kong
USD 9.8 bil

United States of America
USD 8.1 bil

Source: Malaysian Investment Development Authority (MIDA), 2016

CENTRAL LOCATION WITH GLOBAL CONNECTIVITY

Strategically located in the heart of Southeast Asia, Malaysia is an ideal springboard into the Asia Pacific region and provides global connectivity to investors. It is internationally regarded as a cost-competitive and investment-friendly destination, supported by its well-developed infrastructure, significant natural resources, pro-business policies, dynamic workforce and robust legal and regulatory systems. Malaysia is one of the most technologically-advanced countries in the Southeast Asian region and offers investors a wide spectrum of investment opportunities including attractive tax rates and other incentives.

Political stability

- Malaysia is a democratic federal constitutional monarchy modelled on the Westminster system
- It is regarded as a politically stable country with an independent judiciary and strong international relations

Robust regulatory framework

- Comprehensive and robust regulatory system
- With an overall global ranking of 23 in the World Bank's "Doing Business Report 2017", Malaysia is hailed as one of the top performing economies in the Asia Pacific region in terms of the efficiency and quality of business regulations[1]

Talented workforce

- Multilingual, educated and productive workforce with a high literacy rate of 95%
- Harmonious industrial relations with minimal trade disputes
- Attractive incentives to encourage Malaysian talent to return from overseas, and to draw foreign talent to Malaysia

Rankings

+ All rankings are global unless otherwise indicated

Source: Doing Business 2018, World Bank; Corruption Perceptions Index 2016, Transparency International; Global Competitiveness Index 2017-2018, World Economic Forum; Corporate Governance Watch 2016 CLSA, Asian Corporate Governance Association (ACGA); Global Innovation Index 2017, Cornell University, INSEAD and WIPO

Index	Ranking+
Ease of Doing Business	**24**
Corporate Governance Watch (Asia)	**6**
Intellectual Property Protection	**26**
Transparency of Government Policymaking	**23**
Corruption Perceptions Index	**55**
Global Competitiveness Index	**23**
Global Innovation Index	**37**

Sophisticated infrastructure and technology

- Network of well-maintained highways and railways and well-equipped seaports and airports
- Technologically-advanced telecommunications network and digital infrastructure including the Multimedia Super Corridor and the world's first Digital Free Trade Zone
- Major mega-infrastructure plans such as the High-Speed Rail, East Coast Rail Link and China's Belt and Road Initiative
- Over 500 industrial parks and 18 Free Industrial Zones

Government policies

- Wide range of attractive tax and other incentives to promote investment in selected industries or geographical areas
- Standard corporate tax rates for resident companies range from 20-24%, depending on the percentage increase in chargeable income compared to the immediate preceding Year of Assessment
- Resident individual income tax rates are progressive with 28% being the highest rate[2]
- Non-resident individuals are taxed at 28%[3] on income from business, employment and property rental
- Withholding taxes are applicable on various payments to non-residents including, amongst others, interest (15%), royalties (10%), rental of moveable property (10%), technical or management service fees (10%) and contract payments (10% + 3%)[4]
- Goods and services tax standard rate is 6%[5]
- Corporate tax and incentives[6]
  - Tax incentives available for various industries including:
    - Manufacturing
    - Education and Healthcare
    - High Technology and Multimedia
    - Agriculture
    - Principal Hub
    - Research and Development
    - Approved Service Projects
    - Islamic Finance
    - Hotels and Tourism
    - Shipping
  - Major tax incentives include:
    - Pioneer Status (a form of tax exemption for companies involved in promoted activities or producing promoted products for a period of five to ten years)
    - Investment Tax Allowance (based on qualifying capital expenditure for a period of five to ten years)

- Other incentives and factors include:
  - Tax incentives for employees
  - Double/special tax deductions on qualifying expenses
  - Preferential tax treatment within various Economic Corridors
  - Additional/accelerated capital allowances
  - Exemption of import duty and excise duty
  - 60 comprehensive Avoidance of Double Taxation Agreements (DTA) and seven limited DTAs[7]
- Other factors:
  - Liberal equity policy
  - Labuan's preferential tax regime
  - No withholding tax on dividends paid by Malaysian companies
  - Free Zones

Trade agreements

- Malaysia has implemented seven bilateral and six regional free trade agreements (FTA).[8]

Bilateral FTAs[9]

Agreements signed between Malaysia and a single trading partner

Malaysia-Turkey Free Trade Agreement

- Progressive reduction or elimination of tariffs on substantial number of products traded between both countries

Malaysia-Chile Free Trade Agreement

- Progressive reduction or elimination of tariffs on industrial and agricultural products

Malaysia-New Zealand Free Trade Agreement

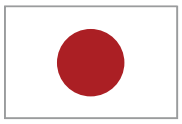
- 0% duty on all goods entering New Zealand
- Liberalization of trade in services covers market access and movement of natural persons

Malaysia-Australia Free Trade Agreement

- 0% duty on all goods entering Australia if they fulfil Rules of Origin criteria under this agreement
- Liberalization of trade in services covering market access, movement of natural persons, mutual recognition arrangement, telecommunications, financial services

Malaysia-India Comprehensive Economic Cooperation Agreement

- Progressive reduction or elimination of tariffs on industrial and agricultural products
- Foreign equity shareholding from 49-100% in 84 services sub-sectors, including professional services, healthcare, telecommunications, retail and environmental services
- Temporary entry of installers and servicers, contractual service suppliers, independent professionals, and business visitors (including potential investors)



Malaysia-Japan Economic Partnership Agreement

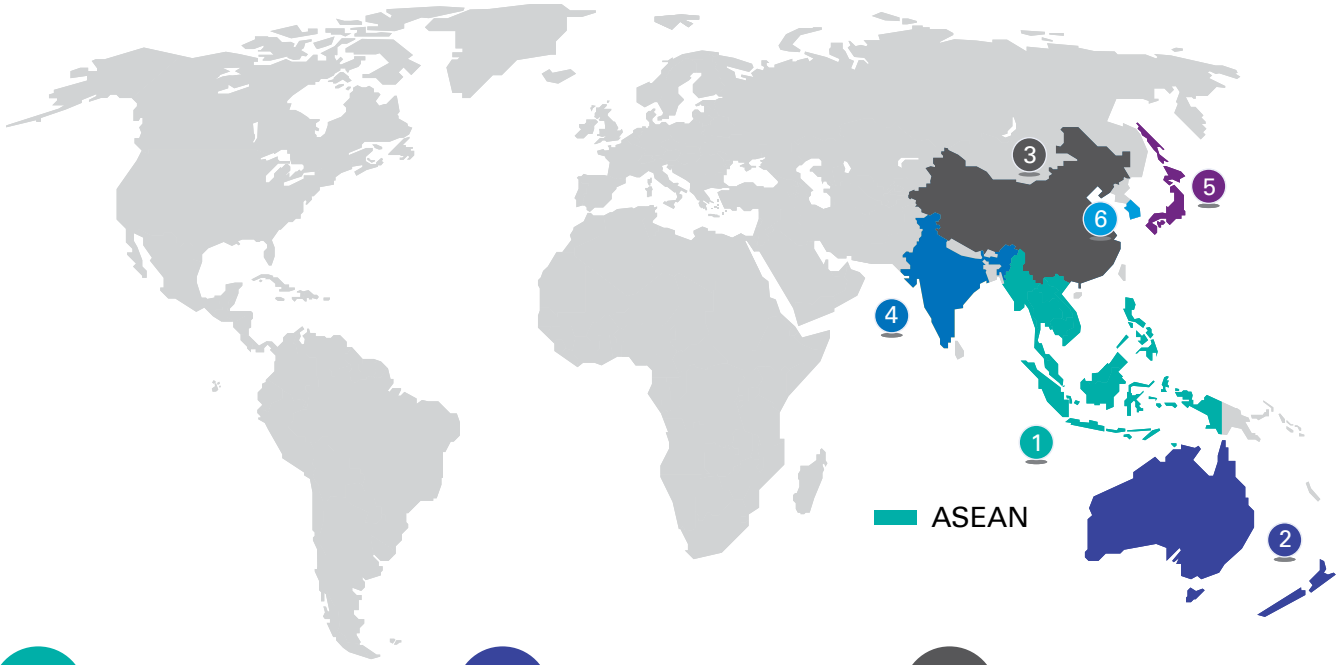
- Progressive reduction or elimination of tariffs on their respective industrial and agricultural products
- Expansion of trade through commitments in: national treatment, most-favored nation treatment and enhanced protection of investors and investment; excludes investment in services
- Economic cooperation in development of the automotive industry, agriculture, information and communications technology, education and human resource development, science and technology, SMEs, tourism, and environment

Malaysia-Pakistan Closer Economic Partnership Agreement

- Progressive reduction or elimination of tariffs on their respective industrial and agricultural products
- Maximum foreign equity participation of 60% in all sectors
- No limitations on the number of Malaysian employees

Regional FTAs[10]

Agreements signed between Malaysia and a group of trading partners



1 ASEAN Free Trade Area

- Malaysia has eliminated duties on 98.74% of its tariff lines
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

2 ASEAN-Australia-New Zealand Free Trade Agreement

- Elimination of tariffs on more than 90% of the products with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

3 ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of the products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

4 ASEAN-India Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 80% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

5 ASEAN-Japan Comprehensive Economic Partnership

- Progressive elimination of tariff and non-tariff barriers
- Malaysia has eliminated duties for 93.57% of products in the normal track
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

6 ASEAN-(Republic of) Korea Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

Concluded / signed FTAs[11]

- Trans-Pacific Partnership
- Trade preferential system of the organization of the Islamic conference
- ASEAN-Hong Kong, China Free Trade Agreement

FTAs under negotiation[12]

- Malaysia-European Free Trade Association Free Trade Agreement
- Malaysia-European Union Free Trade Agreement
- United States-Malaysia Free Trade Agreement
- Regional Comprehensive Economic Partnership

AMBITIOUS GROWTH

Malaysia's transformation story is a case study for adversity, ambition and tenacity. In just 60 years, the country has transformed itself from an economy dominated by the production of raw natural resources to a diversified economy. Malaysia is hailed by the World Bank as one of the top performing economies in the Asia Pacific region especially in the areas of efficiency and quality of business regulations.

The country has become a leading exporter of electronic appliances, electronic parts and components, palm oil and natural gas. Services have also contributed significantly to the country's recent economic progress and is now the largest sector of the economy.

Another aspect of Malaysia that makes it rise above the rest is its involvement in a multitude of trade agreements. To date, Malaysia has signed and implemented seven bilateral FTAs and six regional FTAs, with the Regional Comprehensive Economic Partnership (RCEP) currently in the works. RCEP is aimed at lowering trade barriers and securing improved market access for goods and services for businesses in the region.

The outlook for Malaysia remains broadly favorable, reflecting a well-diversified economy despite a number of risks. The nation has not wavered in its ambition to become a high-income, technology-based and knowledge-intensive society by the year 2020.

KPMG in Malaysia has strong confidence in the progress of the country and its ability to amplify the ASEAN economic influence. It is with this confidence that KPMG in Malaysia collaborated with member firms in Singapore, Thailand and Indonesia to establish the KPMG ASEAN Scholarship Program in 2015.

This regional scholarship program gives ASEAN scholars the opportunity to experience working in different countries when they are in universities and early in their careers. It is KPMG's way of investing in a future that promises opportunities and growth.

Taking the propects and challenges in stride, we can expect that the path ahead for ASEAN may be bumpy as some political and financial risks could materialize. However, as demonstrated by Malaysia's transformation, these can be overcome with ambition mixed with some tenacity.

Emerging industries

Aerospace

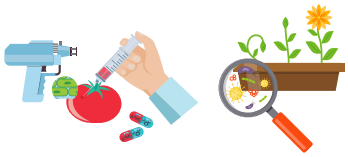
- Develop regional aerospace centres such as Asia Aerospace City and KLIA Aeropolis
- Global aerospace supply chain activities: original equipment manufacturing, avionics and systems integration, and maintenance, repair and overhaul/operations

eCommerce[13]

- Develop 'Virtual Mall' project to grow the internet-based retail market
- Appointed Alibaba founder, Jack Ma, as Malaysia's digital economy advisor
- Developed world's first 'digital free trade zone'

Services

- Moving from commodities and natural resources towards a services-dominated economy
- Aim to unlock the potential of the sector and transform it to become more knowledge-intensive and innovation-led[14]



Biotechnology

- Focus on developing three economic sectors: agriculture biotechnology, healthcare, biotechnology and industrial biotechnology

Endnotes

[1] Malaysia maintains its strong regulatory framework, The World Bank. Retrieved from http://www.worldbank.org/en/news/press-release/2016/10/26/malaysia-maintains-its-strong-regulatory-framework-says-doing-business-report

[2] Income Tax Rates, Malaysian Inland Revenue Board. Retrieved from http://www.hasil.gov.my/bt_goindex.php?bt_kump=5&bt_skum=1&bt_posi=2&bt_unit=5000&bt_sequ=11&bt_lgv=2

[3] Non-Resident Tax Rate, Malaysian Inland Revenue Board. Retrieved from http://www.hasil.gov.my/bt_goindex.php?bt_kump=5&bt_skum=1&bt_posi=2&bt_unit=1&bt_sequ=1

[4] Withholding Tax, Malaysian Inland Revenue Board. Retrieved from http://www.hasil.gov.my/bt_goindex.php?bt_kump=2&bt_skum=6&bt_posi=1&bt_unit=5&bt_sequ=1&bt_lgv=2

[5] Standard Rated Supplies, Malaysian Royal Customs Department. Retrieved from http://gst.customs.gov.my/en/gst/Pages/gst_sr.aspx

[6] Supportive Government Policies and Invest in Malaysia, Malaysian Investment Development Authority. Retrieved from http://www.mida.gov.my/home/supportive-government-policies/posts/ and http://www.mida.gov.my/home/invest-in-malaysia/posts/

[7] Double Taxation Agreement, Malaysian Inland Revenue Board. Retrieved from http://www.hasil.gov.my/bt_goindex.php?bt_kump=5&bt_skum=5&bt_posi=4&bt_unit=1&bt_sequ=1&bt_lgv=2

[8] Malaysia's Free Trade Agreements. Retrieved from http://fta.miti.gov.my/

[9] ibid

[10] ASEAN Free Trade Agreements, ASEAN Secretariat. Retrieved from http://www.jterc.or.jp/koku/koku_semina/pdf/130306_presentation01.pdf; Free Trade Agreements, Asia Regional Integration Center. Retrieved from http://aric.adb.org/fta-country

[11] Free Trade Agreements, Asia Regional Integration Center. Retrieved from https://aric.adb.org/fta-country
The Signing of the ASEAN–Hongkong, China Free Trade Agreement and ASEAN-Hongkong, China Investment Agreement, ASEAN. Retrieved from: http://asean.org/the-signing-of-the-asean-hongkong-china-free-trade-agreement-and-asean-hongkong-china-investment-agreement/

[12] ibid

[13] An introduction to e-Commerce in Malaysia, ASEAN Briefing. Retrieved from http://www.aseanbriefing.com/news/2016/12/16/an-introduction-to-e-commerce-in-malaysia.html

[14] Service Sector, Malaysian Investment Development Authority. Retrieved from http://www.mida.gov.my/home/services-sector/posts/

Contact Us

Datuk Johan Idris
Managing Partner
T: +603-7721 3018
E: jidris@kpmg.com.my

Adbullah Abu Samah
Head of Markets
T: +603-7721 3019
E: munkongfoong@kpmg.com.my

Foong Mun Kong
Head of Audit
T: +603-7721 3019
E: munkongfoong@kpmg.com.my

Tai Lai Kok
Head of Tax
T: +603-7721 7020
E: ltai1@kpmg.com.my

Chan Siew Mei
Head of Advisory
T: +603-7721 7063
E: siewmeichan@kpmg.com.my

MYANMAR

Myanmar has quickly risen to become one of the fastest-growing economies in the world. Its GDP growth rate currently outpaces most major economies in East and Southeast Asia. As a developing country, Myanmar holds economic potential due to its rich abundance of natural resources, large and increasing workforce, and government initiatives to support trade and industries with new investment laws, infrastructure projects and the removal of structural impediments to growth.

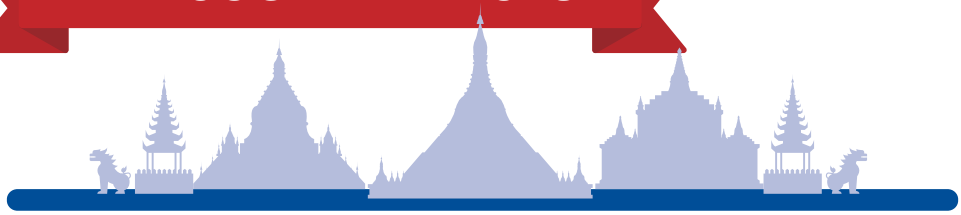
While Myanmar is becoming an investment ground because of recent moves to support political stability and drive foreign direct investments through improved relationships with other nations, it also needs to continuously develop itself in terms of infrastructure, easing legal restrictions, and building a strong education foundation for its workforce.

With our expertise in various industries, along with a network of global support, KPMG in Myanmar is here to help foreign and local businesses build a strong foundation in Myanmar as well as navigate the complexities of doing business within the country.

Sie Sie Htun
Partner in Charge
KPMG in Myanmar

MYANMAR

KEY COUNTRY FACTS



In 2016, Myanmar recorded the fastest economic growth in the world[1], following political progress and a successful national election in 2015 which led to the easing of most sanctions against the country. This will further accelerate economic growth and help Myanmar achieve its goal of becoming a modern and developed nation. Myanmar has many attributes that will attract foreign investors including natural resources, a large and young population, rich culture and strategic location. The new Myanmar Investment Law is also positive for the overall business environment, foreign investment and infrastructure development as the government looks to build roads, electricity and ports over the coming years.

GOVERNMENT

A republic with a democratic government

POPULATION

56.8
MILLION (2017)

CURRENCY

Kyat (MMK)

LANGUAGES

Myanmar (official)

RELIGIONS

Buddhism, Christianity, Islam, Other

Source: Economist Intelligence Unit, Association of Southeast Asian Nations

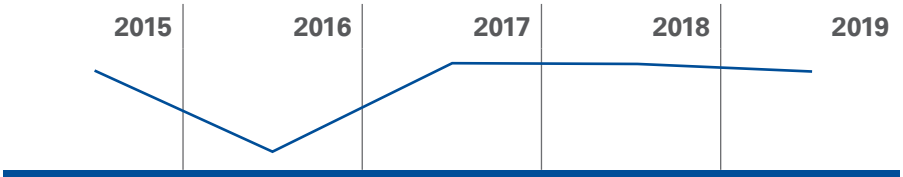
GROWING ECONOMY

The relaxation of sanctions as well as a peaceful election have helped Myanmar open up to international markets, facilitating trade, driving foreign direct investment (FDI) and helping remove structural impediments to growth.

It has continued to post growth and attract foreign investment. Moreover, the development of special economic zones (SEZs) also helps to attract FDI, including spurring developments in transport infrastructure. Three SEZs are currently being developed at Thilawa, Dawei and Kyaukpyu[2].

Economic Performance

GDP constant prices*



	2015	2016	2017	2018	2019
% CHANGE	7.3	5.4	7.5	7.5	7.3

*2010 market price; percentage change after 2016 are estimates

Source: BMI Research; UN Statistics Division

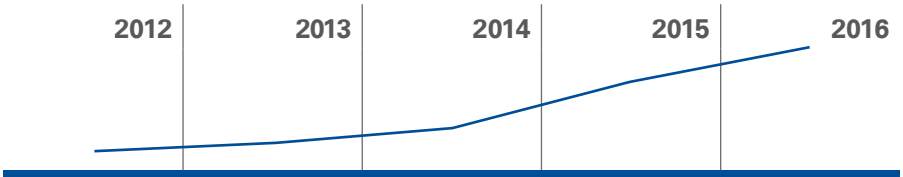
GDP per capita, current prices (CAGR 5.75%)

	2015	2016	2017	2018	2019
USD	1,309	1,137	1,353	1,540	1,731

Figures after 2016 are estimates

Source: BMI Research, second quarter of 2017

Foreign direct investment inflows



	2012	2013	2014	2015	2016
USD MILLION	16,121.4	16,705.7	17,651.9	20,475.9	22,665.9

Source: BMI Research; UNCTAD Statistics

Main FDI investors

Singapore
USD 4.25 bil

China
USD 3.32 bil

Netherlands
USD 0.44 bil

Malaysia
USD 0.26 bil

Thailand
USD 0.24 bil

Source: Central Statistical Organization, Myanmar Ministry of Planning and Finance. Figures are for FY2015-2016

ECONOMIC POTENTIAL AS A REGIONAL TRANSIT HUB

Myanmar is rich in natural resources, which makes it a promising location for hydrocarbons, mining, agriculture and forestry. The products from the natural resources industry constitute Myanmar's largest export with strong growth in manufacturing and tourism as well. Consequently, economic growth is expected to remain robust over the medium term as investment continues to pour in and the operating environment improves under the new civilian government. Myanmar is gradually embracing wide-ranging reforms including politics, economic openness, and intellectual property laws. The reforms together with its low-cost of labor allow investors to tap into its strong potential for growth.

More economic openness

- Improved engagement with the West and the lifting of remaining US sanctions in October 2016
- New Myanmar Investment Law (MIL) represents a positive sign that the government is seeking to improve the business environment
- Simpler new Myanmar Investment Commission (MIC) endorsement of investments for faster project approvals[3]
- Expected major investment from China, the US, Japan, India and Singapore in light of ongoing efforts to improve bilateral ties with these countries[4]

New intellectual property laws

- New intellectual property laws in accordance with the Association of Southeast Asian Nations Framework Agreement on Intellectual Property Cooperation. This law is likely to be enacted before the deadline of 2021 stipulated by the World Trade Organization[5]

Rankings

Index	Ranking[+]
Ease of Doing Business	**171**
Intellectual Property Protection	**134**
Transparency of Government Policymaking	**136**
Corruption Perceptions Index	**136**
Global Competitiveness Index	**131**
Global Innovation Index	**138**

[+] All rankings are global unless otherwise indicated

Source: Doing Business 2018, World Bank; Global Competitiveness Index 2015-2016, World Economic Forum; Corruption Perceptions Index 2016, Transparency International; Global Innovation Index 2015, Cornell University, INSEAD and WIPO

Growing economy

- Real GDP growth underpinned primarily by large projects funded by foreign investors in a number of areas, notably critical infrastructure, manufacturing and energy including oil and gas development
- SEZ, particularly the Thilawa SEZ, attract foreign interests and help address infrastructure issues within the SEZ
- Fast growth in telecommunications with efficiency gains across many industries[6]

Low-cost and flexible workforce

- Regionally competitive minimum wage with low additional labor costs
- Low-cost and flexible labor force which is a key asset to grow its manufacturing base.[7]

Tax regime

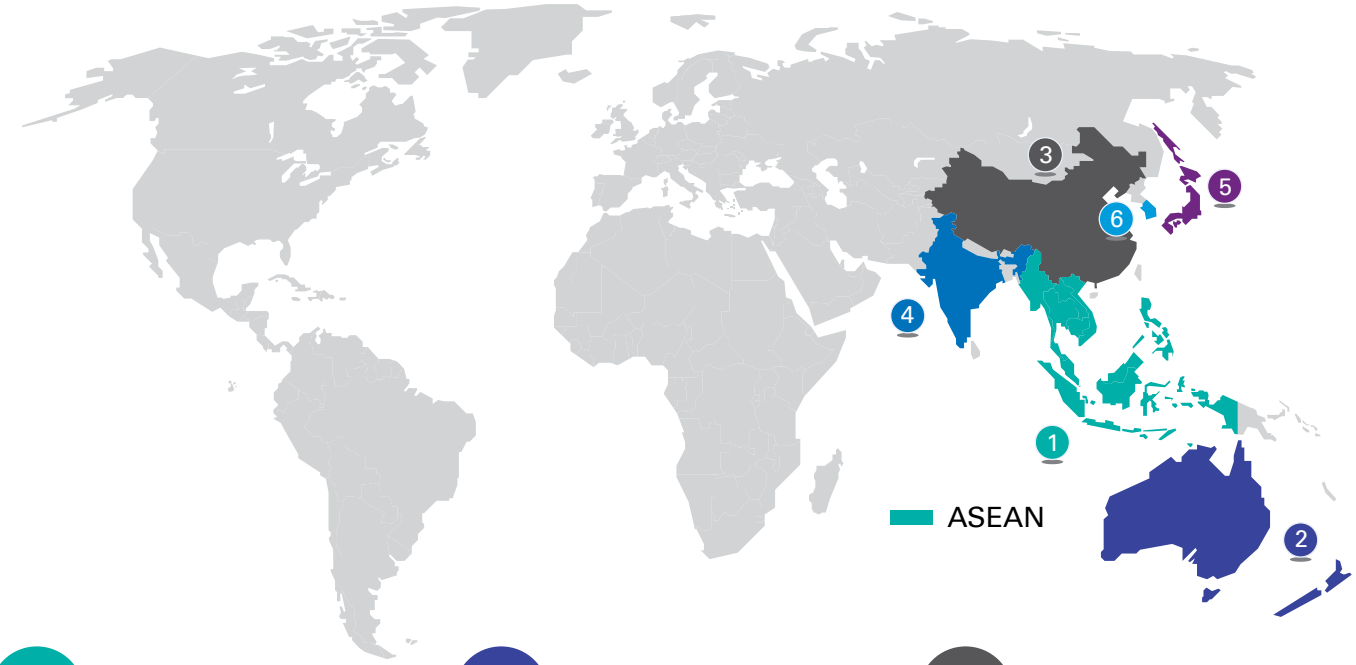
- Resident and non-resident individuals taxed at progressive rate of up to 25%
- Corporate tax starts at 25%[8]
- Corporate tax and incentives
  - Incentives available under MIL[9]
  - Incentives available under SEZ law[10]
  - Corporate income tax holidays or reductions
  - Research and development tax deduction
  - Accelerated tax depreciation on asset
  - No withholding tax on dividends
  - 10% capital gains tax except for oil and gas related investments[11]
  - Double taxation agreements with Korea, Thailand, Laos, Singapore, India, Malaysia, United Kingdom and Vietnam

Trade agreements

- Economic agreements with China, Cuba, Kuwait and Singapore
- Trade agreements with Bangladesh, China, India, Israel, Korea, Laos, Malaysia, Pakistan, The Philippines, Sri Lanka, Thailand and Vietnam
- Economic and trade agreements with Australia, Cambodia, Indonesia, New Zealand and Turkey

Regional FTAs[13]

Agreements signed between Myanmar and a group of trading partners



1 ASEAN Free Trade Area

- Elimination of tariffs on more than 99% of products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

2 ASEAN-Australia-New Zealand Free Trade Agreement

- Elimination of tariffs on more than 90% of the products with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

3 ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of the products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

4 ASEAN-India Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 80% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

5 ASEAN-Japan Comprehensive Economic Partnership

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

6 ASEAN-(Republic of) Korea Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

Concluded / signed FTA

Completed negotiations

- ASEAN-Hong Kong, China Free Trade Agreement

FTA under negotiation

- Regional Comprehensive Economic Partnership

INVESTING IN GROWTH

Myanmar expects to achieve its goal to become a modern, developed and democratic nation by 2030. The country's improved relationships with developed nations should be positive for FDI. There are incentives for foreign corporations investing in SEZs and for foreign investors, the incentives include an increasingly pro-business environment, its endowment of natural resources, large labor force, rich culture and strategic location.[13]

Myanmar's GDP growth in 2018 is expected to reach 7.5%[14], driven by the relaxation of sanctions, increasing openness to international markets, efforts to facilitate trade, drive for FDI and removal of structural impediments to growth.[15]

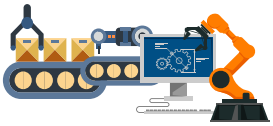
Emerging industries

Agriculture[16]

- Agricultural production prospects are bright over the long term based on the country's resource endowment, strategic location and encouraging foreign investment regulation
- The country enjoys a diversified agricultural sector with varied sub-segments
- Production and exports of rice and corn will remain on an ascent in the coming years

Infrastructure[17]

- Myanmar's infrastructure sector is more attractive for foreign investors and contractors especially in the Asia Pacific region which receives Asian development funds
- Robust tourist arrivals and rising urbanization levels are driving demand for infrastructure



Manufacturing[18]

- Investment in SEZs will be positive for its fledging manufacturing sector
- The country's low-cost and flexible labor force is a key asset to growing its manufacturing base

Endnotes

[1] World Economic Forum. Retrieved from https://www.weforum.org/agenda/2016/04/worlds-fastest-growing-economies

[2] Industry Forecast - Infrastructure & Construction - Q2 2017, BMI Research. Retrieved from http://www.ibtimes.com/myanmars-market-capitalization-reach-15-billion-2020-first-it-must-launch-its-stock-1403766

[3] Lexology. Retrieved from http://www.lexology.com/library/detail.aspx?g=cbde9d27-01fb-4b44-9aa5-c5f949f48935

[4] BMI View – Cambodia, Laos, Myanmar Country RIsk, BMI Research. Retrieved from https://bmo.bmiresearch.com/reports/viw?productid=2543&issue=20170401&archive=1&iso=MM&active_pillar=Reports%20Subtab

[5] BMI View –Myanmar Trade and Investment Risk Report, BMI Research. Retrieved from https://bmo.bmiresearch.com/reports_view?productid=3950&issue=20170401&archive=1&iso=MM&active_pillar=Reports%20Subtab

[6] Myanmar: Country outlook, The Economist Intelligence Unit. Retrieved from http://viewswire.eiu.com/index.asp?layout=VWArticleVW3&article_id=1535283737&region_id=&country_id=1080000308&channel_id=190004019&category_id=&refm=vwCh&page_title=Article

[7] Myanmar Labor Costs Analysis Q2 2017, BMI Research

[8] Union Tax Law 2017, effective from 1 April 2017

[9] Myanmar Investment Law, promulgated on 18 October 2016

[10] Special Economic Zone Law, promulgated on 21 July 2013

[11] Union Tax Law 2017, effective from 1 April 2017

[12] ASEAN Free Trade Agreements, ASEA Secretariat. Retrieved from http://www.jterc.or.jp/koku/koku_semina/pdf/130306_presentation01.pdf; The Signing of the ASEAN–Hongkong, China Free Trade Agreement and ASEANHongkong, China Investment Agreement, ASEAN. Retrieved from: http://asean.org/the-signing-of-the-asean-hongkong-china-free-trade-agreement-and-asean-hongkong-china-investment-agreement/

[13] BMI View –Myanmar Trade and Investment Risk Report, BMI Research. Retrieved from https://bmo.bmiresearch.com/reports/view?productid=3950&issue=20170401&archive=1&iso=MM&active_pillar=Reports%20Subtab

[14] BMI Research. Retrieved from: https://bmo.bmiresearch.com/data/datatool

[15] Myanmar: Country outlook, The Economist Intelligence Unit. Retrieved from http://viewswire.eiu.com/index.asp?layout=VWArticleVW3&article_id=1535283737&region_id=&country_id=1080000308&channel_id=190004019&category_id=&refm=vwCh&page_title=Article

[16] Myanmar: Limited Improvement For Now, But Bright Prospects Ahead, BMI Research. Retrieved from: https://bmo.bmiresearch.com/article/view?article=1263690&advanced_search=1&matches=1834&page=1&position=8&keyword=myanmar%20agriculture

[17] BMI Research. Retrieved from: https://bmo.bmiresearch.com/reports/view?productid=4027&issue=20180401&archive=1&iso=MM&active_pillar=Reports%20Subtab

[18] 10 Years Forecast - Much Potential, But Many Challenges Remain, BMI Research. Retrieved from: https://bmo.bmiresearch.com/article/view?article=1265582&advanced_search=1&matches=3856&page=1&position=10&keyword=myanmar%20manufacturing

Contact Us

Winid Silamongkol
Chief Executive Officer
KPMG in Thailand, Myanmar and Laos
T: +66 26772000
E: winid@kpmg.co.th

Sean Severn
Partner, Head of Markets
T: +66 26772000
E: ssevern@kpmg.co.th

Sie Sie Htun
Partner in Charge
T: +95 1 8603361-3
E: shtun@kpmg.com

Thomas Chan
Partner, Head of Tax & Regulatory Services
T: +95 1 8603361-3
E: tchan8@kpmg.com

PHILIPPINES

The new administration of President Rodrigo Duterte inherited a robust economy with good economic fundamentals. At the start of his term, President Duterte was quick to present his 10-point economic agenda with a focus on reducing government bureaucracy, improving infrastructure development and enhancing human capital investments, while undertaking a careful review of the current tax system and introducing a tax reform program. With these, most Filipinos have remained hopeful and positive about the country's economic growth.

In recent years, the country has grown into one of the strongest economies in Asia. The World Bank indicated that the Philippine economy will continue to lead growth among East Asia economies because of robust domestic consumption, government spending and improved transparency of building regulations.[1] Furthermore, according to the World Bank, the government's commitment to further increase public infrastructure investment is expected to sustain the country's growth momentum through 2018, thereby reinforcing business and consumer confidence.[2]

With domestic consumption on the rise and business confidence among the highest in emerging markets in the Southeast Asian region, the consumer markets sector is a positive growth story in the Philippines today. Nielsen's 2016 Global Consumer Confidence report stated that the country is one of the four strong member states in the Asia Pacific region, along with India, Indonesia and Vietnam, which have seen "increased foreign direct investment combined with strong domestic demand."

These are very exciting times for the country as it moves to the next phase of its growth. We at KPMG in the Philippines are very optimistic that the effective implementation of the government's development plans and initiatives can create a more conducive business environment, foster inclusive economic growth and further enhance our country's competitiveness.

Sharon G. Dayoan

Chairman and CEO
KPMG in the Philippines

PHILIPPINES

KEY COUNTRY FACTS

The Philippines is an archipelago of more than 7,000 islands, rich in natural resources such as copper and fruit. English language skills as well as the cultural ties from more than 10 million Filipinos living overseas, one of the world's largest diasporas, make the Philippines a popular choice for international businesses and investors.

Although the agricultural sector remains the largest employer, the Philippines is also home to a rapidly-growing electronics industry and its economy is increasingly dominated by services and manufacturing.

GOVERNMENT

A republic with a presidential form of government wherein power is equally divided among its three branches: executive, legislative and judicial

POPULATION

103.4
MILLION (2017)

CURRENCY

Philippine Peso (PHP)

LANGUAGES

Filipino (official), English

RELIGIONS

Christianity, Islam

Source: Official Gazette (n.d.). Philippine Government, Worldometers (n.d.). Philippines Population, National government portal, Republic of the Philippines

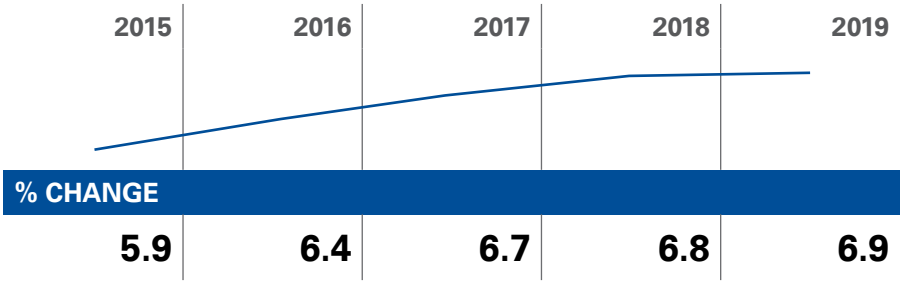
CONSUMPTION-DRIVEN ECONOMY

The Philippines' sustained economic growth in the past five years is testament to the country's resilience amid challenges in the global economy. The World Bank's country director has dubbed the Philippines as Asia's rising tiger.[3] Most measures of the macroeconomy have shown considerable progress: from a pick-up in economic growth to lower unemployment and benign inflation. The country also maintains a stable economic outlook affirmed by Moody's investment-grade credit score of Baa2[4] and Standard & Poor's BBB.[5]

The remarkable turnaround in the Philippines' economic fortunes in recent times has led to increased optimism by both local and foreign observers. Steady economic expansion, with GDP growth outpacing population growth, has led to rising household incomes. Better employment figures and steady inflow of remittances, as well as low and stable inflation, have supported sustained growth in household consumption. As a result, consumption spending has been the main driver of economic expansion.

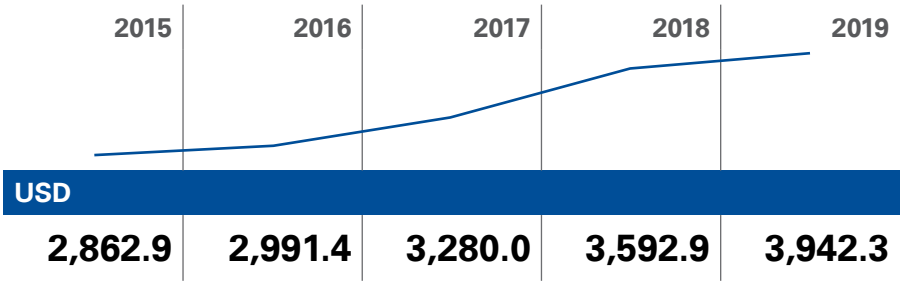
Economic Performance

GDP constant prices*



Source: International Monetary Fund, World Economic Outlook Database

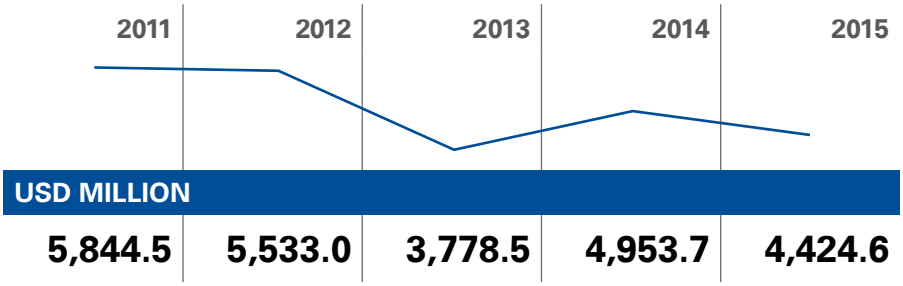
GDP per capita, current prices (CAGR 8.33%)



Figures after 2016 are estimates

Source: International Monetary Fund, World Economic Outlook Database

Foreign direct investment inflows



Source: Philippine Statistics Authority

Main FDI investors

Netherlands
USD 985.3 mil

Australia
USD 645.5 mil

United States of America
USD 626.3 mil

Japan
USD 539.5 mil

Singapore
USD 479.5 mil

Source: Philippine Statistics Authority. Foreign Investments: Fourth Quarter 2016

EMERGING GLOBAL MARKET

The Philippines is one of the fastest-growing economies in the region. Located in the heart of Asia, it is accessible within a couple of hours from major capitals and serves as an important entry point to Southeast Asian countries. The Philippines also takes pride in its skilled and well-educated workforce. With its high literacy rate and mastery of the English language, the country continues to produce globally competitive professionals and has transformed into a predominantly service-based economy.[6] These, combined with a favorable regulatory environment and inclusive growth, are helping transform the country into an investment hub in the region.

The economy is experiencing nascent structural transformation as growth becomes increasingly driven by investment against a background of greater regional integration and economic liberalization.

Political stability

- The 10-point socioeconomic agenda of this administration highlights continuity in macroeconomic policies, push for tax reforms, relaxation of constitutional restrictions on foreign ownership and infrastructure spending, among others

Regulatory environment

- The Department of Trade and Industry (DTI) has eased some trade restrictions and regulatory requirements to boost foreign direct investment
- Foreign investments have been liberalized through reforms which include updating Foreign Investment Negative List and reviewing corporate and personal tax rates[7]
- Currently reviewing proposed amendments to Foreign Investment Act including expansion of foreign ownership[8]
- The new administration has signaled openness to reforming the income tax system that would lower tax rates and adjust them to inflation[9]

Diversified economy

- The new administration has promised sweeping changes, with a priority on:
  - Promoting the emergence of new growth centers beyond the primate city through public investments in infrastructure
  - Diversifying sources of growth, plugging gaps in infrastructure and increasing industrial production
  - Decongesting the capital city and spreading out economic activity across the nation as well as investing in the provinces
  - Managing metropolitan areas in an efficient and coordinated manner to produce better outcomes following the rapidly growing urban areas

Rankings

Index	Ranking+
Ease of Doing Business	**113**
Corporate Governance Watch (Asia)	**10**
Intellectual Property Protection	**71**
Transparency of Government Policymaking	**81**
Corruption Perceptions Index	**101**
Global Competitiveness Index	**56**
Global Innovation Index	**73**

+ All rankings are global unless otherwise indicated

Source: Doing Business 2018, The World Bank; CG Watch 2016, CLSA, Asian Corporate Governance Association; Corruption Perceptions Index 2016, Transparency International; Global Competitiveness Index 2017-2018, World Economic Forum; Global Innovation Index 2017, Cornell University, INSEAD and WIPO

Opportunity for disuptive growth

- Widespread use of digital technology among individual consumers is an opportunity for businesses to improve their market presence
- Online shopping and e-commerce platforms are poised to overtake brick-and-mortar retailers
- Signs of a significant shift in consumer behavior arise with the increasing number of tech-savvy consumers

Globally competitive workforce

- The country boasts a highly skilled and productive workforce with high English proficiency and a globally recognized education
- The country's young, growing population provides a large talent pool
- The Philippines is one of the five best-educated ASEAN countries, according to the United Nations Development Programme (UNDP)[10]

Tax regime

- Personal income is taxed at progressive rates from 5% to 32%
- Corporate tax rate is 30%
  Exemptions from corporate tax are available for preferred areas or activities duly registered with the Board of Investments (four to six years), and for certain renewable energy projects (seven years)
- Value added tax is 12%
- Tax and other incentives include:
  - 5% modified gross income on corporations registered with the Philippine Economic Zone Authority (PEZA) or the Bases Conversion Development Authority (BCDA)
  - Duty free importation of equipment and materials for training and conferences
  - Reduced personal tax rate for expatriates
  - Multiple Entry Special Visa for foreign personnel
- More than 40 avoidance of double taxation treaties

Trade agreements

- The Philippines has signed one bilateral and seven regional free trade agreements (FTA).[11]

Bilateral FTA

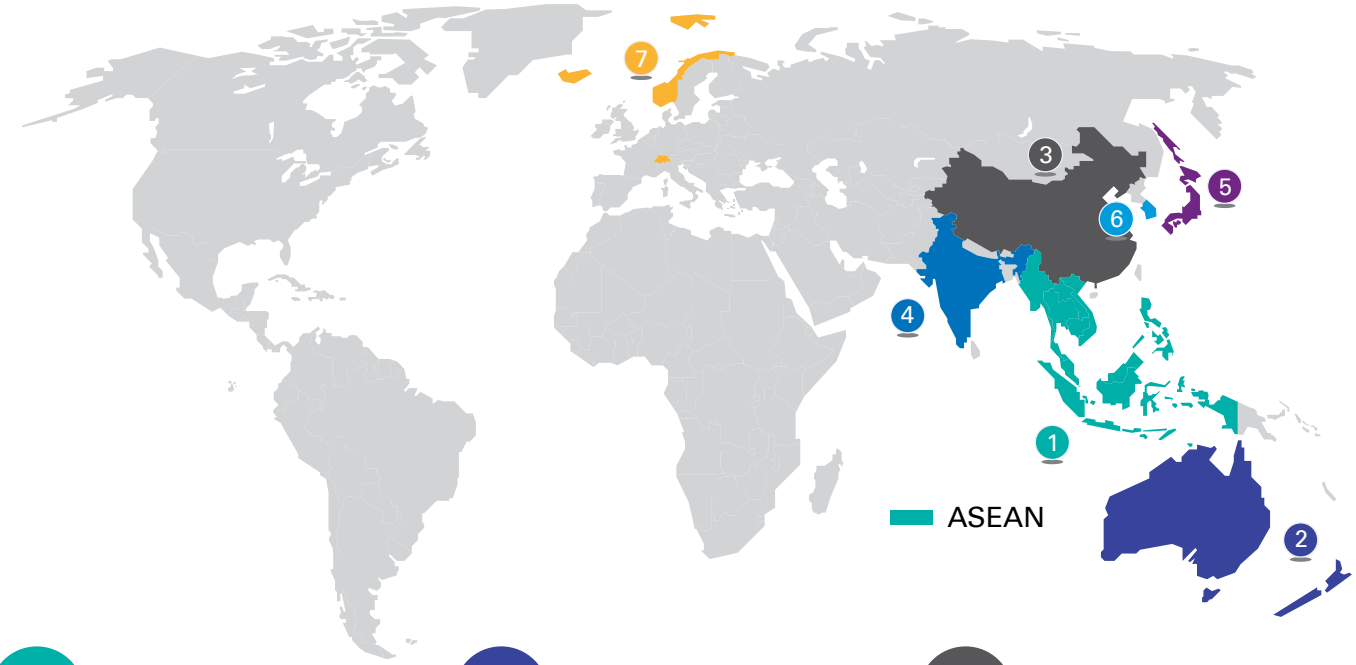
Agreement signed between the Philippines and a single trading partner

Philippines-Japan Economic Partnership Agreement[12]

- Covers tariffs elimination or reduction for 95% of industrial and agricultural products
- Provides bilateral economic assistance in ten fields within the context of Official Development Assistance

Regional FTAs[13]

Agreements signed between the Philippines and a group of trading partners



1 ASEAN Free Trade Area

- Elimination of tariffs on more than 99% of products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

2 ASEAN-Australia-New Zealand Free Trade Agreement

- Elimination of tariffs on more than 90% of the products with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

3 ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of the products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

4 ASEAN-India Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 80% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

5 ASEAN-Japan Comprehensive Economic Partnership

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

6 ASEAN-(Republic of) Korea Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

7 Philippines-European Free Trade Association (EFTA) Free Trade Agreement[14]

- Covers trade in goods and services, investment, competition, protection of intellectual property rights, government procurement, and trade and sustainable development
- Elimination of all customs duties on industrial products by EFTA
- Gradual lowering and elimination of duties on the vast majority of such products by the Philippines

Concluded / signed FTA[15]

- ASEAN - Hong Kong, China Free Trade Agreement

FTAs under negotiation[16]

- Philippines-European Union Free Trade Agreement
- Regional Comprehensive Economic Partnership

A GROWTH STORY

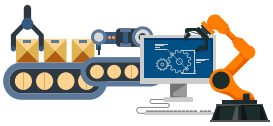
The Philippine economy, as measured by its GDP, has performed remarkably well on a number of fronts. Despite external headwinds, bouts of fiscal underspending and natural calamities, the country has consistently grown in the past several years.

Domestic liquidity growth was driven largely by the Overseas Filipino Workers (OFW) phenomenon. Remittance inflows from OFW helped relieve unemployment, boost household incomes and spending, and stabilized the country's external finances.

On the demand side, remittances have long been a driver of consumption and the economy's growth. On the supply side, the services sector is supported by the information technology-business process outsourcing, finance, real estate and tourism industries. These, and the advantages brought by trends in demographics and urbanization, provide new stabilizers for the country's economy amid possible external shocks and global economic uncertainty.

In 2015, increased investments in public construction and durable equipment led to a 14-percent expansion of fixed capital formation. The new administration, through the Department of Budget and Management (DBM), has promised to bring the country to the "Golden Age of Philippine construction" in the next six years.[17] The agriculture and manufacturing industries are also showing promising outlooks. According to the Department of Agriculture, the government is closing the agriculture gap through increased support of agricultural research and development.[18] Efforts are also being directed at expanding the manufacturing industry and pushing the Philippines to top the global shipbuilding market.[19]

Emerging industries



Manufacturing

- Promising industries include aerospace, shipbuilding and automotive
- Competitive advantage of readily available skilled workers, areas to set up shipyards and liberalized imports of raw materials
- The Philippines, according to the DTI, is the fourth largest shipbuilder in the world after Korea, China and Japan

Construction

- The new administration, through DBM, has promised a "Golden Age of Philippine construction"
- The government has placed a renewed focus on infrastructure development complemented by public-private partnerships and sustained expansion in residential and commercial developments

Agriculture

- Increased government support for agricultural research and development
- Refocusing on agriculture and industry as well as generating new sources of growth through massive construction activity in the provinces

Services - Business Process Outsourcing

- Healthcare outsourcing, finance and accounting, software development and legal outsourcing are the fastest growing sectors in the industry

Endnotes

[1] Doing Business 2017: Equal Opportunity for All. October 2016.

[2] Philippines Economic Update April 2017, The World Bank. Retrieved from http://www.worldbank.org/en/news/feature/2017/05/04/philippines-economic-update-april-2017

[3] World Bank. (2013) Press statement of Motoo Konishi, Co-Chair Philippines Development Forum. Retrieved from http://www.worldbank.org/en/news/speech/2013/02/06/Press-Statement

[4] Moody's. (2016). Retrieved from https://www.moodys.com/research/Moodys-Philippines-Baa2-rating-reflects-sound-economic-and-fiscal-fundamentals--PR_356577

[5] Department of Finance. (2016). S&P Affirms Investment Grade Rating of Philippines. Retrieved from http://www.dof.gov.ph/index.php/sp-affirms-investment-grade-rating-of-philippines/

[6] Philippine Embassy. (n.d.). Doing Business and Investing in the Philippines. Retrieved from http://viennape.dfa.gov.ph/2014-06-03-02-54-39/investing-in-the-philippines/2014-06-02-07-59-39

[7] Oxford Business Group (2016, August 5). Philippines in bid to boost FDI. BusinessWorld. Retrieved from http://www.bworldonline.com/content.php?section=Economy&title=philippines-in-bid-to-boost-fdi&id=131466

[8] Tubadeza, K.M., Monzon, A. [2016, January 20]. Congress moves forward on foreign ownership liberalization measures. BusinessWorld Online. Retrieved from: http://www.bworldonline.com/content.php?section=Economy&title=congress-moves-forward-on-foreign-ownership-liberalization-measures&id=121728

[9] Demystifying Duterte's Eight Points. (n.d.). Retrieved July 07, 2016, from: http://www.bworldonline.com/content.php?section=Opinion&title=demystifying-duterte&8217s-eight-points&id=128280

[10] UNDP. (2013). Education index. Retrieved from http://hdr.undp.org/en/content/education-index

[11] Free Trade Agreements. Asia Regional Integration Center. (n.d.). Retrieved from https://aric.adb.org/fta-country

[12] Medalla and Ledda. (2013). Philippines-Japan Economic Partnership Agreement (PJEPA): An Initial Ex-post Review. Retrieved from http://dirp3.pids.gov.ph/ris/dps/pidsdps1312.pdf

[13] ASEAN Free Trade Agreements, ASEAN Secretariat. Retrieved from http://www.jterc.or.jp/koku/koku_semina/pdf/130306_presentation01.pdf

[14] European Free Trade Association. (n.d.). Philippines. Retrieved from http://www.efta.int/free-trade/free-trade-agreements/philippines

[15] The Signing of the ASEAN–Hongkong, China Free Trade Agreement and ASEAN-Hongkong, China Investment Agreement, ASEAN. Retrieved from: http://asean.org/the-signing-of-the-asean-hongkong-china-free-trade-agreement-and-asean-hongkong-china-investment-agreement/

[16] Free Trade Agreements, Asia Regional Integration Center. Retrieved from https://aric.adb.org/fta-country

[17] Caraballo, M. (2016, July 20). Construction to see 'Golden Age' under Duterte. The Manila Times. Retrieved from http://www.manilatimesnet/construction-to-see-golden-age-under-duterte/274980

[18] Simeon, L. M. (2016, February 2). DA seeks more government support for agriculture development. PhilStar. Retrieved from http://www.philstar.com/business/2016/02/02/1548629/da-seeks-more-government-support-agriculture-development

[19] Board of Investments. Shipbuilding. Retrieved from http://investphilippines.gov.ph/industries/manufacturing/shipbuilding/

Contact Us

Sharon G. Dayoan
Chairman and CEO and Head of Audit
T: +63 835 4603
E: sdayoan@kpmg.com

Emmanuel P. Bonoan
Vice Chairman, COO and Head of Markets
T: +63 835 4601
E: ebonoan@kpmg.com

Henry D. Antonio
Vice Chairman and Head of Advisory
T: +63 835 4602
E: hantonio@kpmg.com

Ma. Carmela M. Peralta
Head of Tax
T: +63 835 4626
E: mperalta@kpmg.com

SINGAPORE

Singapore's economic achievements since independence – transitioning from a center of entreport trade in the 1960s to an export-led newly industrialised economy in the 1990s – has taken it from third world to first in just 50 years.

The country's sound macroeconomic policies and pro-business initiatives, world-class infrastructure, and robust intellectual property and regulatory regime are among the nation state's greatest draws. Today, some 4,200 international firms have set up regional headquarters with decision-making responsibilities in Singapore.

To remain competitive and relevant, Singapore will need to transform itself and technology will be central to this journey. Combining its strong business fundamentals with growing investments in innovation and higher value-added activities such as research and development will strengthen Singapore's attractiveness as the ideal home for regional and global companies looking to expand their business in Asia and capture the potential that Southeast Asia offers.

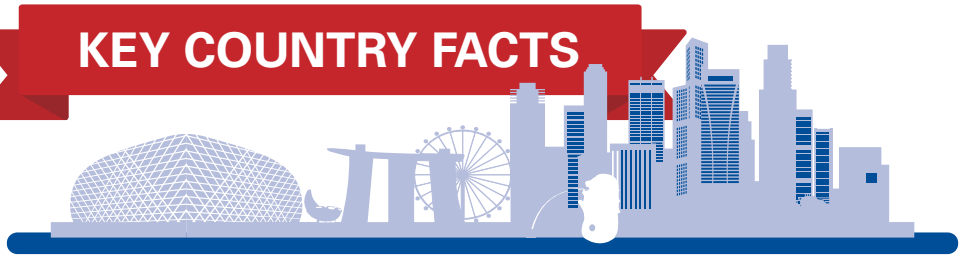
In the coming years, we expect to see more businesses and industries disrupted in significant ways by emerging technologies, even as these same technologies create new opportunities – particularly in fintech 2.0 and insurtech, along with logistics, healthcare and real estate.

Combining KPMG in Singapore's experience and expertise with continued investment in the digital and innovation space, including data & analytics and cyber security, we have been able to help our clients position themselves for the opportunities Singapore and the Southeast Asian region have to offer.

Ong Pang Thye
Managing Partner
KPMG in Singapore

SINGAPORE

KEY COUNTRY FACTS



A vibrant, cosmopolitan city nestled in the heart of Southeast Asia, Singapore is one of the most liveable cities in the world.[1] The country's unique heritage – a harmonious blending of different cultures, lifestyles and religions from across Asia and the world – and safe, orderly state provide a welcoming environment for all. The ease of access to quality healthcare services and education, and efficient public transport system add to Singapore's attractiveness as a place to live, work and play.

GOVERNMENT

A republic with a parliamentary system of government

POPULATION

5.6
MILLION (2017)

CURRENCY

Singapore Dollar (SGD)

LANGUAGES

English (official), Mandarin, Malay, Tamil

RELIGIONS

Buddhism, Islam, Christianity, Taoism, Hinduism

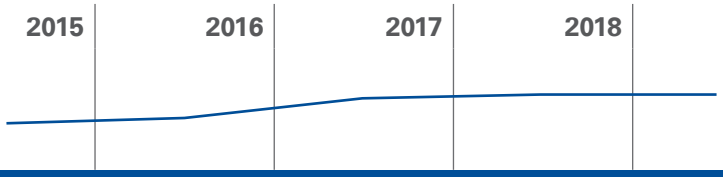
Source: Singapore Economic Development Board, Singapore Department of Statistics

OPEN MARKET ECONOMY

Singapore has a well-developed market economy and its strong economic performance over the years is testimony to the nation's open, outward-oriented development strategy.[2] The country, which is Triple-A rated[3], has more than USD1.9 trillion[4] in assets under management and a market capitalization of USD751 billion[5]. It has continued to post growth and attract foreign investment, despite global economic challenges. This is largely due to its stable political environment, robust and transparent legal and judicial system, market responsive regulatory framework and policies, and developed business ecosystem.

Economic Performance

GDP constant prices*

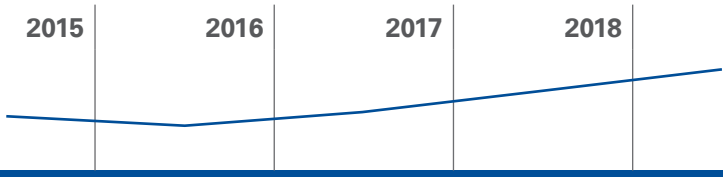


	2015	2016	2017	2018	2019
% CHANGE	1.9	2.0	2.5	2.6	2.6

* 2010 market price; percentage change after 2016 are estimates

Source: International Monetary Fund, World Economic Outlook Database, October 2017

GDP per capita, current prices (CAGR 1.39%)

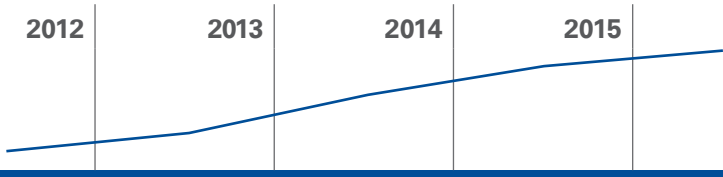


	2015	2016	2017	2018	2019
USD	53,628.8	52,960.6	53,880.1	55,231.4	56,679.2

Figures after 2016 are estimates

Source: International Monetary Fund, World Economic Outlook Database, October 2017

Foreign direct investment inflows



	2012	2013	2014	2015	2016
USD MILLION	577,472.4	646,588.3	794,518.0	905,075.2	971,054.9

Source: Singapore Department of Statistics

Main FDI investors

United States of America
USD 200 bil

British Virgin Islands
USD 85 bil

Cayman Islands
USD 76 bil

Netherlands
USD 72.9 bil

Japan
USD 67.1 bil

Source: Singapore Department of Statistics. Figures as at end 2016

TRUSTED HUB IN THE REGION

Singapore's geographically strategic location places it at the crossroad between the East and the West.

Many global companies have come to consider Singapore their trusted hub in the region because of its excellent transport and communications infrastructure, skilled talent pool, efficient tax regime and pro-business policies. The country's strong domestic institutions with good corporate governance practices, stable competent government, and robust legal and regulatory framework also adds to its attractiveness.

International institutions have also consistently ranked Singapore as a first-class business environment, bolstering Singapore's reputation as a key regional and global hub for companies to do business. It is an ideal base for companies seeking access to new and emerging markets in Asia, as well as capital and investment for growth in Asia.

Political stability

- Sovereign republic
- Political stability since independence in 1965 provides businesses and investors a sense of assurance and signals continuity in its policies while responding promptly to market changes

Good governance and transparency

- Government places great emphasis on rule of law
- Zero tolerance for bribery
- Robust and transparent legal and judiciary forms foundation for trust and confidence which are central to Singapore's economic growth and to attracting foreign investments into the country

Rankings

+ All rankings are global unless otherwise indicated

Source: Doing Business 2018, World Bank; Corporate Governance Watch 2016 CLSA, Asian Corporate Governance Association; Corruption Perceptions Index 2016, Transparency International; Global Competitiveness Index 2017-2018, World Economic Forum; Global Innovation Index 2017, Cornell University, INSEAD and WIPO

Index	Ranking+
Ease of Doing Business	2
Corporate Governance Watch (Asia)	1
Intellectual Property Protection	4
Transparency of Government Policymaking	2
Corruption Perceptions Index	7
Global Competitiveness Index	3
Global Innovation Index	7

Diversified and globalized economy

- Transitioned from labour-intensive exports to high value-added products and services such as pharmaceuticals and financial and business services
- Pursuing new sectors of growth in areas such as natural resources, robotics and safety and security
- Built an environment that fosters entrepreneurship
- Created ecosystems that support start-ups, with the most active being in the tech space. Some of the hottest verticals are eCommerce, transport and logistics, marketplaces and platforms, real estate and Fintech[6]

Robust intellectual property rights regime

- Rigorous policies designed to protect intellectual property (IP): patents, trademarks, copyright, registered designs, plant varieties protection, geographical indications, trade secrets and layout-design of integrated circuits[7]
- IP rights regime complies with Trade Related Aspects of Intellectual Property Rights (TRIPS)
- Ranked fourth in the World and top in Asia in the World Economic Forum Global Competitiveness Report 2017 - 2018
- Ranked among the top 10 in key IP and innovation indices such as the International Property Rights Index 2017, U.S. Global Intellectual Property Center's International IP Index 2018, Global Innovation Index 2017 and Bloomberg 2018 Innovation Index[8]

Stable growth

- Consistently posted growth that is sustained through sound macroeconomic policies, open, market-oriented development strategies and pro-business regulatory environment

Talented workforce

- Multi-cultural workforce recognized for productivity, attitude and technical skills[9]
- Harmonious labour-management relations
- More than half of the work force are tertiary educated and over 55% are professionals, managers, executives and technicians
- Immigration policy open to foreign manpower where it complements economic and population needs
- Government investment in skills acquisition and continuing education to ensure workforce stays relevant to market needs

Attractive tax environment

- Personal income and corporate tax rates in Singapore are among the lowest in the world
- Resident tax rates: progressive and up to 22%
- Non-residents tax rates: employment income is taxed at a flat rate of 15% or the progressive resident tax rate, whichever is a higher tax amount
- Corporate tax rate: 17%
- Tax incentives available for:
  - Regional headquarter activities
  - Research and development activities
  - Development and expansion
  - Finance and treasury center
  - Trading and procurement activities
- Other incentives available:
  - Exemptions for withholding taxes
  - Training and skills qualification
  - Warehousing and exporter schemes
  - Merger & acquisitions incentive
  - Research and development grants
- Other factors
  - No withholding tax on dividends
  - Foreign dividends exempted subject to conditions
  - No capital gains tax
  - 60 comprehensive Avoidance of Double Taxation Agreements (DTA) and seven limited DTAs[11]

Trade agreements

- Singapore has implemented 21 free trade agreements (FTA) with 32 trading partners[12]

Bilateral FTAs[13]

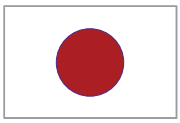
Agreements signed between Singapore and a single trading partner

China-Singapore Free Trade Agreement

- Tariff elimination of 95% of exports from Singapore to China
- Allows for third-party invoicing of goods

India-Singapore Comprehensive Economic Cooperation Agreement

- Tariff reduction/elimination for 82% of domestic exports from Singapore



Japan-Singapore Economic Partnership Agreement

- Tariff elimination of 92.1% of Japan's tariff lines

Korea-Singapore Free Trade Agreement

- Tariff reduction/elimination of 91.6% of all tariff lines

New Zealand-Singapore Comprehensive Economic Partnership

- Elimination of all tariffs on exports from Singapore to New Zealand
- Tariff preference granted based on exporter's declaration; no application required

Panama-Singapore Free Trade Agreement

- Tariff elimination of up to 98% for exports from Singapore to Panama
- Tariff preference granted based on importer's declaration; no application required

Peru-Singapore Free Trade Agreement

- Reduction in tariffs for over 87% of total exports from Singapore to Peru

Singapore-Australia Free Trade Agreement

- Elimination in tariffs for 100% of tariff lines
- Application for Preferential Certificate of Origin for the same classification of goods can be submitted biennially

Singapore-Costa Rica Free Trade Agreement

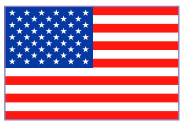
- Immediate tariff elimination on more than 95% of exports from Singapore to Costa Rica
- Tariff preference granted based on exporter's declaration; no application required

Singapore-Jordan Free Trade Agreement

- Tariff removal on almost 100% of exports from Singapore to Jordan

Turkey-Singapore Free Trade Agreement

- Tariff elimination for more than 95% of all Turkey's tariff line

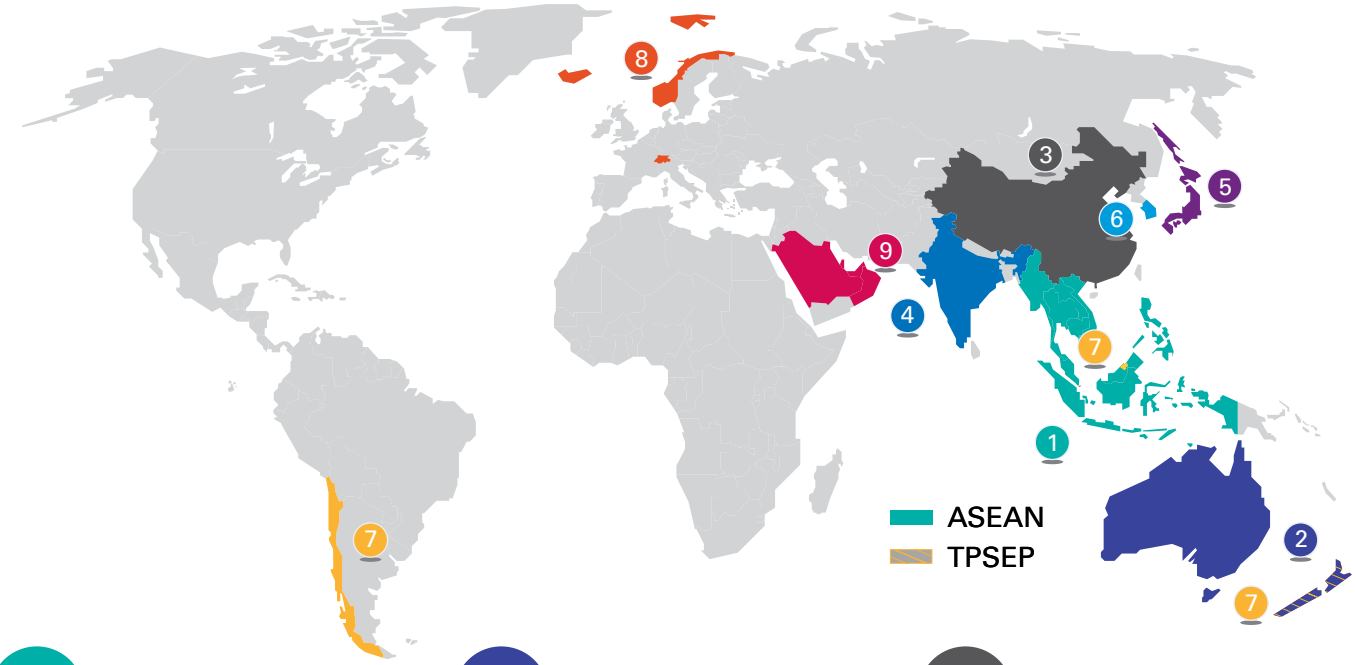


United States-Singapore Free Trade Agreement

- Elmination of tariffs on 100% of tariff lines
- Waiver of Merchandise Processing Fee for Singapore originating products
- Tariff preference granted based on importer's declaration; no application required

Regional FTAs[14]

Agreements signed between Singapore and a group of trading partners



1 ASEAN Free Trade Area

- Elimination of tariffs on more than 99% of products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

2 ASEAN-Australia-New Zealand Free Trade Agreement

- Elimination of tariffs on more than 90% of the products with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

3 ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of the products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

4 ASEAN-India Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 80% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

5 ASEAN-Japan Comprehensive Economic Partnership

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

6 ASEAN-(Republic of) Korea Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

7 Trans-Pacific Strategic Economic Partnership

- Elimination of tariffs for 100% of tariff lines among its members, Brunei Darussalam, New Zealand, Chile and Singapore
- Tariff preference given based on exporter's declaration; no application required

8 European Free Trade Association (EFTA) -Singapore Free Trade Agreement

- Eliminations on most tariffs (99.8%) on Singapore's domestic exports to the EFTA which comprise Iceland, Liechtenstein, Norway, Switzerland
- Tariff preference given based on exporter's declaration; no application required

9 Gulf Cooperation Council (GCC) -Singapore Free Trade Agreement

- Elimination of most tariffs (99%) of Singapore's exports to the with GCC members, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates

Concluded / signed FTAs[15]

- European Union - Singapore Free Trade Agreement
- Comprehensive and Progressive Agreement for Trans - Pacific Partnership
- ASEAN - Hong Kong, China Free Trade Agreement

FTAs under negotiation[16]

- ASEAN - India (Services & Investment)
- ASEAN - Japan (Services & Investment)
- Canada
- Eurasian Economic Union - Singapore Free Trade Agreement
- Mexico
- Pacific Alliance - Singapore Free Trade Agreement
- Pakistan
- Regional Comprehensive Economic Partnership
- Sri Lanka - Singapore Free Trade Agreement
- Ukraine

SUSTAINING GROWTH

Singapore has transitioned swiftly from third to first world economy by continuously restructuring its economy to adapt to changing global and local circumstances. Following its last major restructuring in 2010, Singapore's overall real productivity grew by 2.5% per annum (p.a.) between 2009 and 2016.[17] Its resident unemployment rate was a low 3% while real median wage grew at a rate of 2.6% p.a.[18] over the same period.[19]

This strategy of adapting through economic restructuring has worked well for this thriving city-state. It has made Singapore one of the world's most competitive economies with the most business-friendly regulatory environment.[20]

In 2017, Singapore's Committee on the Future Economy (CFE) presented a report on Singapore's next phase of growth over the next decade.[21] The country will need to:

1. deepen and diversify Singapore's connections to the global economy, international partners, innovation and technology networks, and strengthen economic cooperation
2. encourage and help workers to develop deep skills to create value
3. build new networks to facilitate innovation
4. deepen digital capabilities
5. partner to develop promising industries
6. tailor industry transformation plans to focus on where potential can be best realized and synergies across industries, maximized
7. build on the robust regulatory environment to remain pro-business and to support innovation and risk-taking

These recommendations, amongst others outlined by the 30-member CFE, will influence how Singapore approaches business and trade in the coming years.

Traditional industries such as manufacturing and services remain key contributors to the Singapore economy while the country steps up investments in high value-added activities and focus on more sophisticated high-technology industries requiring specialist skills.

Emerging industries[22]

Lifestyle products and services

- Sophisticated lifestyle products and services – arts, collectibles, performing arts, sports

Natural resources

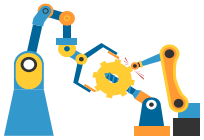
- Center for commodities trading, marketing, trade financing, shipping and shared services operations
- Development of technologies for future sustainability

Automotive

- Ideal location for a regional headquarter hub for spares distribution, production of high-value products, and research and development

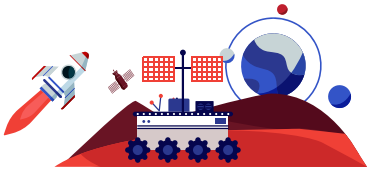
Safety and security

- Research and development of cutting edge technologies in safety and security and public-private partnerships to test bed solutions in a live environment



Robotics

- Research and development of upstream robotics technologies
- Solutions for manufacturing, logistics, healthcare, transport, environmental services and security industries
- Advanced manufacturing and engineering of complex and sophisticated robotics systems



Space

- Ecosystem to develop, test bed and commercialize satellite solutions
- Access to technologies and complimentary expertise
- Access to funding given Singapore's position as a financial hub and its tax efficient environment

Endnotes

[1] Singapore still among world's liveable cities, The Straits Times. Retrieved from http://www.straitstimes.com/singapore/housing/spore-still-among-worlds-liveable-cities

[2] The Singapore Economy, Monetary Authority of Singapore. Retrieved from http://www.sgs.gov.sg/The-SGS-Market/The-Singapore-Economy.aspx

[3] S&P, Moody's and Fitch

[4] Monetary Authority of Singapore Annual Report 2016/2017. Retrieved from http://www.mas.gov.sg/annual_reports/annual20162017/MAS_AR_201617_Editorial.pdf

[5] Monetary Authority of Singapore. Figure as at end December 2017. SGX-ST: Price Index, Number of Listed Companies, Turnover and Capitalisation), Monetary Authority of Singapore. Figure as at end December 2017.

[6] How Singapore's startup ecosystem has grown up in the last 5 years, Tech in Asia. Retrieved from https://webcache.googleusercontent.com/search?q=cache:Ci8dFnDcGaUJ:https://www.techinasia.com/singapore-startup-ecosystem-growth-infographic+&cd=5&hl=en&ct=clnk&gl=sg

[7] Minlaws. Retrieved from https://www.mlaw.gov.sg/our-work/intellectual-property-policy.html

[8] Intellectual Property Office of Singapore. Retrieved from https://www.ipos.gov.sg/MediaEvents/SingaporesIPRanking.aspx

[9] Singapore Economic Development Board. Retrieved from https://www.edb.gov.sg/content/dam/edb/en/resources/singapore-business-environment/frequently-asked-questions-manpower-faqs.pdf

[10] Inland Revenue Authority of Singapore. Retrieved from https://www.iras.gov.sg/irashome/default.aspx

[11] Tax treaties (Double taxation agreements). Retrieved from http://www.mof.gov.sg/MOF-For/Individuals/Tax-Treaties-Double-Taxation-Agreements and https://www.iras.gov.sg/irashome/Quick-Links/International-Tax/

[12] Singapore Free Trade Agreements. Retrieved from https://www.iesingapore.gov.sg/Trade-From-Singapore/International-Agreements/free-trade-agreements/Singapore-FTA; ASEAN Free Trade Agreements, ASEAN Secretariat. Retrieved from http://www.jterc.or.jp/koku/koku_semina/pdf/130306_presentation01.pdf

[13] ibid

[14] ibid; The European Free Trade Association. Retrieved from http://www.efta.int/free-trade/free-trade-agreements/singapore

[15] ibid
The Signing of the ASEAN–Hongkong, China Free Trade Agreement and ASEAN-Hongkong, China Investment Agreement, ASEAN. Retrieved from: http://asean.org/the-signing-of-the-asean-hongkong-china-free-trade-agreement-and-asean-hongkong-china-investment-agreement/

[16] ibid

[17] This is measured as real growth in gross monthly income from work (including employer Central Provident Fund contributions) of full-time employed residents. Ministry of Manpower. Retrieved from https://www.gov.sg/microsites/future-economy/the-cfe-report/read-the-full-report

[18] This is measured as real value-added per actual hour worked. For 2016, based on advance gross domestic product estimates and preliminary estimates on hours worked. Ministry of Trade and Industry. Retrieved from https://www.gov.sg/microsites/future-economy/the-cfe-report/read-the-full-report

[19] For OECD countries, the unemployment rate averaged 7.7% and growth in real wages was 0.4% between 2009 and 2015. Unemployment is measured as harmonised unemployment rate. Wages are measured as average annual wages per full-time and full-time equivalent employee. OECD. Retrieved from https://www.gov.sg/microsites/future-economy/the-cfe-report/read-the-full-report

[20] Singapore Overview, World Bank. Retrieved from http://www.worldbank.org/en/country/singapore/overview

[21] Report of the Committee on the Future Economy, Committee of the Future Economy. Retrieved from https://www.gov.sg/microsites/future-economy/the-cfe-report/read-the-full-report

[22] Singapore Economic Development Board. Retrieved from https://www.edb.gov.sg/content/edb/en/industries/emerging-businesses/emerging-businesses.html

Contact Us

Ong Pang Thye
Managing Partner
T: +65 6213 2035
E: pong@kpmg.com.sg

Irving Low
Head of Markets
T: +65 6213 2071
E: irvinglow@kpmg.com.sg

Roger Tay
Head of Audit
T: +65 6213 2680
E: rtay@kpmg.com.sg

Chiu Wu Hong
Head of Tax
T: +65 6213 2569
E: wchiu@kpmg.com.sg

Bob Yap
Head of Advisory
T: +65 6213 2677
E: byap@kpmg.com.sg

THAILAND

Despite challenges, the Thai economy continues to expand, with support from public investment and the tourism industry. Currently, the country is undergoing developments that would position it as an investment hub for the region, and is employing strategies to make starting business in Thailand easier and more attractive.

The government launched the Thailand 4.0 strategy to allow the country to overcome several economic challenges by using new growth engines to build economic prosperity, social security and sustainability. Economic and social reforms are taking place to ensure sustainable development and political stability. Moreover, numerous infrastructure developments are in the pipeline to make the country more investment friendly.

As part of Thailand 4.0, the government earmarked the Eastern Economic Corridor (EEC) as a pilot area-based development zone to attract investors. Within the EEC, certain previous restrictions for foreign investors are lifted, including the reduction of certain tax and regulatory requirements. The EEC targets 10 key industries including digital, medical services, logistics and aviation and smart electronics.

We expect continuous growth as Thailand continues to develop and promote investments.

In Thailand, KPMG has a long tradition of professionalism and integrity. Combined with our dynamic approach to serving clients in a digitally driven world, our expertise in Audit, Tax, and Advisory services has seen us work with renowned companies to help them solve complex challenges, disrupt sectors and grow. Collaboration and innovation are ingrained in our approach, with our people aiming to provide genuine, sustainable value for our clients.

Winid Silamongkol

Chief Executive Officer
KPMG in Thailand, Myanmar and Laos

THAILAND

KEY COUNTRY FACTS

Thailand is located in the center of the Greater Mekong Subregion (GMS) and has become a regional logistics and trading hub thanks to its well-connected road network.[1]

The Thai economy expanded continuously throughout 2016, supported by public investment and the tourism industry, despite facing numerous challenges. Thailand has undertaken economic and social reforms to ensure sustainable development, and is actively seeking to strengthen relationships with trading partners, including ASEAN countries, in order to remain competitive.

This combination of good transport connections, national reforms and strong relationships with ASEAN countries means Thailand continues to be an attractive regional hub.

GOVERNMENT
Constitutional monarchy

POPULATION
68.1
MILLION (2016)

CURRENCY
Thai Baht (THB)

LANGUAGES
Thai (official), English, ethnic and regional dialects

RELIGIONS
Buddhism, Islam, Christianity, Hinduism, Taoism, Confucianism

Source: Economist Intelligence Unit, Association of Southeast Asian Nations

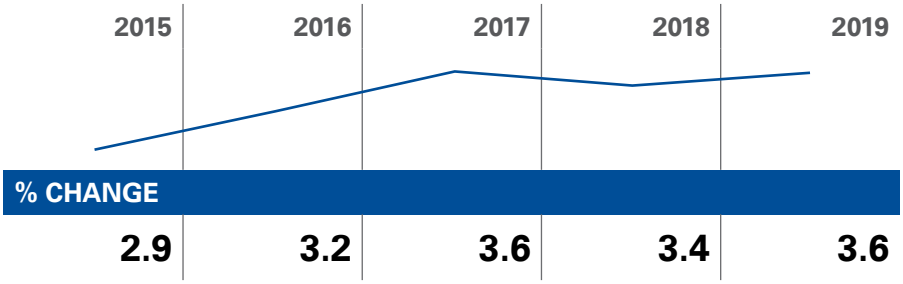
GROWING ECONOMY

In 2018, Thailand was ranked 26th out of 190 economies on ease of doing business, retaining its spot in the top 50. Thailand has made it easier to start a business, including the creation of a single window for registration payment, reducing the time taken to obtain a company seal as well as streamlining legal provisions for company liquidation.[2]

Thailand is rated as a BBB+ country[3], with more than USD121 billion in assets under management and a market capitalization of USD349 billion.

Economic Performance

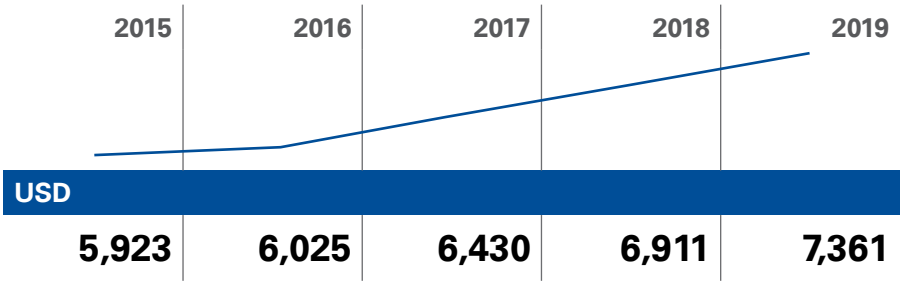
GDP constant prices*



* 2010 market price; percentage change after 2016 are estimates

Source: National Economic and Social Development Board (NESDB) Thailand; BMI Research, Thailand Country Risk Report, second quarter of 2017

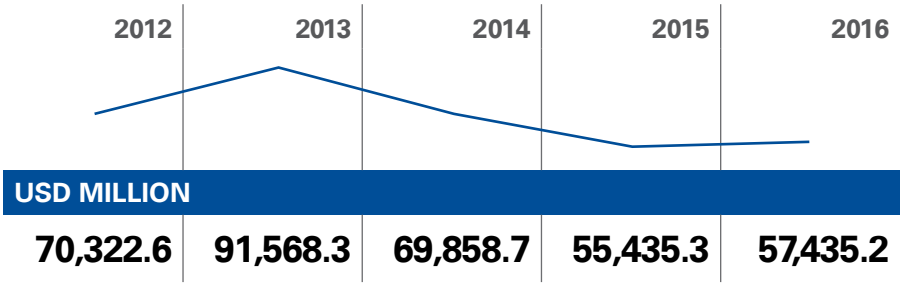
GDP per capita, current prices (CAGR 4.44%)



Figures after 2016 are estimates

Source: BMI Research, second quarter of 2017

Foreign direct investment inflows



Source: Bank of Thailand

Main FDI investors

Japan
USD 10.4 bil

China
USD 9.0 bil

Hong Kong
USD 5.0 bil

Singapore
USD 3.7 bil

Germany
USD 3.4 bil

Source: Bank of Thailand. Figures as of 2016.

MOVING TO THAILAND 4.0

The government is implementing a number of measures to shift the country from a production-based to a service-based economy, promoting technology, creativity and innovation in the industries under focus. Successful implementation of the Thailand 4.0 policies could support the country's development as a regional hub.

Due to its abundance of agricultural products, decent infrastructure and road network, combined with investment promotion incentives, Thailand offers attractive investment opportunities.

Regulatory reform

- The 20-year National Strategy acts as a mandatory guide for policy-making with the aim of creating a stable development path over the next two decades
- Targets in the 2012-2016 iteration included a score of at least 5 in the Transparency International Corruption Perceptions Index as well as placing priority on national security and public adminstration reform[4]

Better intellectual property rights regime

- Enacted amendments to the Trade Secret Act to cover online copyright infringement; and the Copyright Act which substantially reduced the penalties for trade secret disclosure by officers
- Amended the Trademarks Act and introduced a new trademark filing system to enable Thailand to accede to the Madrid Protocol in 2017. The amendments include streamlining the trademark registration process and prohibiting illegal refiling, in order to bring the country's regulatory regime up to date with technological changes[5]

Rankings

+ All rankings are global unless otherwise indicated

Source: Doing Business 2018, World Bank; Corporate Governance Watch 2016, CLSA, Asian Corporate Governance Association (ACGA); Corruption Perceptions Index 2016, Transparency International; Global Competitiveness Index 2017-2018, World Economic Forum; Global Innovation Index 2017, Cornell University, INSEAD and WIPO

Index	Ranking+
Ease of Doing Business	**26**
Corporate Governance Watch (Asia)	**5**
Intellectual Property Protection	**106**
Transparency of Government Policymaking	**83**
Corruption Perceptions Index	**101**
Global Competitiveness Index	**32**
Global Innovation Index	**51**

Sustained growth

- Mainly supported by strong external demand, a growing population and government policies aimed at boosting consumption and investment, including ramping up public spending on infrastructure[6]

Digital economy

- Thailand aims to reform five key industries – automotive, electronics, affluent medical and wellness tourism, agriculture, and biotechnology – as part of its 'S-Curve' economic strategy, and is now working on five more including robotics, aviation and logistics, biofuels and biochemicals, digital industry and medical services
- The government has created new digital innovation-based services and digital infrastructure to boost GDP with the goal of becoming an innovation-driven economy by 2036[7]

Low unemployment rate

- Predominantly youthful workforce with basic literacy and numeracy skills
- Has a primary education enrolment rate of 96.6% with positive outlook for basic skills[8]
- Human resource development to serve next-generation industries according to Thailand 4.0 policy. This will include up-skilling labor and recruiting more foreign workers to help develop Thailand's existing and new industries such as robotics, aviation and logistics, biofuels and biochemical, digital, and medicine[9]

Tax incentives

- Parliament passed an amendment to the Revenue Code permanently reducing the corporate income tax rate to 20%. The initial rate was reduced from 30% to 23% in 2012, and to 20% in 2013, helping to support Thailand to remain competitive in the ASEAN region
- To stimulate the Thai economy, a temporary reduction of VAT from 10% to 7% has been extended
- A similar trend has been seen in respect to personal taxation
- Tax incentives available for:
  - Board of investment incentives
  - International headquarter and international trade center incentives
  - Small Medium Enterprises
  - Accelerated depreciation on newly acquired equipment
- Other factors:
  - No controlled foreign corporation rules
  - Foreign and domestic dividends exemption subject to conditions
  - 60 double tax agreements in place
  - No indirect transfer rules

Trade agreements

- Thailand has signed more than ten trade agreements (including both bilateral and multilateral)

Bilateral FTAs

Agreements signed between Thailand and a single trading partner

Thailand-Australia Free Trade Agreement

- Eliminates Australia's 5% import tax on automotive vehicles and parts
- Australian investors can have majority ownership in certain sectors including telecommunications, computers, construction, education, distribution, tourism, and mining[10]

Thailand-Bahrain Framework Agreement

- Due to difficulties in implementation, Bahrain has advised Thailand to negotiate at the level of the Gulf Cooperation Council (GCC), of which Bahrain is a member[11]

Thailand-India Framework Agreement

- Reduction of tariffs on 82 agricultural and industrial items by 50% including various fruits, wheat, sardines, salmon, mackerel, and processed crab
- It also covers other major Thai exports such as gems and jewelry, household electrical appliances, integrated circuits, furniture and auto parts[12]

Japan-Thailand Economic Partnership Agreement

- Provides preferential tariff reductions and cooperation programs[13]

Thailand-New Zealand Free Trade Agreement

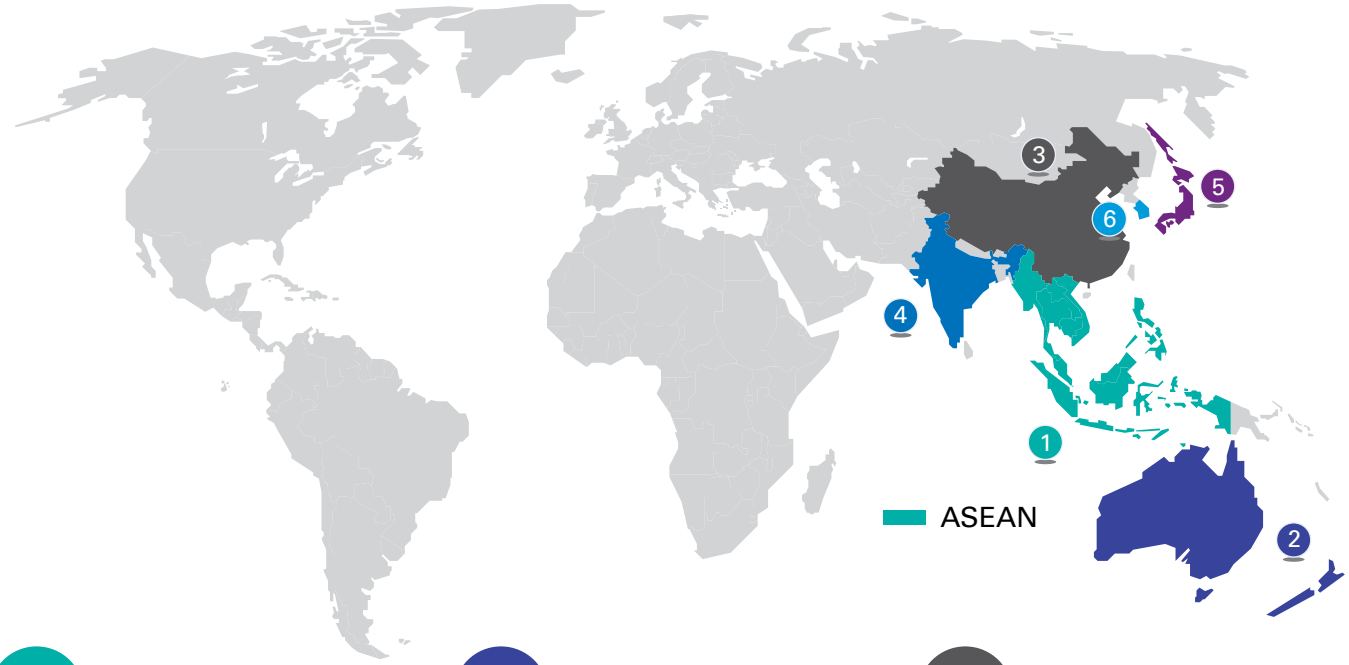
- Tariffs and quotas on all New Zealand's exports will be progressively eliminated by 2025
- More relaxed rules around temporary entry into Thailand for New Zealand business travelers[14]

Thailand-Peru Free Trade Agreement

- Tariff reduction on 70% of the total tariff lines[15]

Regional FTAs[16]

Agreements signed between Thailand and a group of trading partners



1 ASEAN Free Trade Area

- Elimination of tariffs on more than 99% of products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

2 ASEAN-Australia-New Zealand Free Trade Agreement

- Elimination of tariffs on more than 90% of the products with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

3 ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of the products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

4 ASEAN-India Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 80% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

5 ASEAN-Japan Comprehensive Economic Partnership

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

6 ASEAN-(Republic of) Korea Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

Concluded / signed FTAs

Completed negotiations

- BIMSTEC (Bangladesh, India, Myanmar, Sri Lanka, Nepal, Bhutan, and Thailand)
  - The framework agreement on the BIMSTEC FTA was signed in 2004, but is not yet fully operational[17]
- ASEAN-Hong Kong, China Free Trade Agreement[18]

FTA under negotiation

- Regional Comprehensive Economic Partnership

DRIVING GROWTH THROUGH INNOVATION

For Thailand to become an innovation-driven economy by 2036, the Thai government initiated the "Thailand 4.0" policy for sustainable growth. The economy is currently in a good position, with gradual economic improvements supported by a domestic infrastructure spending drive, and the political outlook in the near-term is stable.[19]

Driven by recovering exports, an improving farm sector and rising private consumption, Thailand's GDP growth in the first quarter of 2017 was at 3.3%, the fastest in three quarters. Consequently, the forecast for 2017 and 2018 GDP growth is revised up from 3.0% to 3.6% and 3.4%, respectively. This is mainly supported by an improved tourism sector, continued government spending and higher household purchasing power.[20]

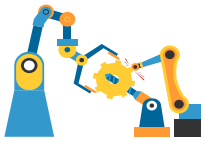
Emerging industries

Food, Agriculture and Bio-Technology[21]

- Smart farming systems are a key development of agricultural startups
- Technology-driven farming startups will create economic drivers to support the country's digital ecosystem

Health and Medical Technology[22]

- Develop biomedical vaccines, Thai herb industry, as well as industry for aging population
- To be the 'Medical Hub' of ASEAN by 2025



Robotics and Smart Devices and Mechatronics[23]

- Transform industries requiring high-skilled labor and service sectors through robotics technology

Digital Industries[24]

- Focus on Internet of Things, digital analytics and cybersecurity
- Apply digital technologies in smart cities in key provinces such as Chiang Mai, Phuket and Nakorn Nayok

Infrastructure and supported industries[25]

- Develop new growth hubs such as EEC which covers Rayong, Chonburi and Chachoengsao provinces
- Offer incentives to support EEC as an important center for trade, investment, regional transportation and a strategic gateway to Asia

Endnotes

[1] Asian Development Bank. Retrieved from https://www.adb.org/sites/default/files/publication/159839/adbi-wp520.pdf

[2] World Bank. Retrieved from http://www.worldbank.org/en/news/press-release/2017/11/01/thailand-moves-up-in-global-doing-business-ranks

[3] Country Economy, Fitch (as of 22 July 2016). Retrieved from http://countryeconomy.com/ratings/thailand

[4] The Economist Intelligence Unit, Thailand politics: Future policymaking and the junta's master plan. Retrieved from http://viewswire.eiu.com/index.asp?layout=VWArticleVW3&article_id=255253609&region_id=&country_id=1830000183&channel_id=210004021&category_id=&refm=vwCh&page_title=Article

[5] The Economist Intelligence Unit, Thailand: Licensing and intellectual property. Retrieved from http://viewswire.eiu.com/index.asp?layout=VWArticleVW3&article_id=34956987&region_id=&country_id=1830000183&channel_id=220004022&category_id=&refm=vwCh&page_title=Article

[6] The Economist Intelligence Unit, Thailand: Country outlook. Retrieved from http://viewswire.eiu.com/index.asp?layout=VWArticleVW3&article_id=1535312137&region_id=&country_id=1830000183&channel_id=190004019&category_id=&refm=vwCh&page_title=Article

[7] National Science and Technology Development Agency (NSTDA).

[8] BMI Research, Thailand: Education Analysis - Thailand - Q1 2017. Retrieved from https://bmo.bmiresearch.com/article/view?article=1236629&advanced_search=1&matches=10000+&page=1&position=14&keyword=thailand%20country%20risk

[9] BMI Research, Thailand: Availabilty of Labor Analysis. Retrieved from https://bmo.bmiresearch.com/article/view?article=1236632&advanced_search=1&matches=10000+&page=1&position=15&keyword=thailand%20country%20risk

[10] http://dfat.gov.au/trade/agreements/tafta/pages/thailand-australia-fta.aspx

[11] http://www.boi.go.th/tir/issue/200808_18_8/cover.htm

[12] http://www.boi.go.th/tir/issue/200507_17_6/17.htm

[13] http://www.thaitradefair.com/about-ditp/

[14] https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/thailand/

[15] http://www.thaifta.com/engfta/Home/FT-AbyCountry/tabid/53/ctl/detail/id/69/mid/480/usemastercontainer/true/Default.aspx

[16] ASEAN Free Trade Agreements, ASEAN Secretariat. Retrieved from http://www.jterc.or.jp/koku/koku_semina/pdf/130306_presentation01.pdf

[17] http://www.ditp.go.th/ditp_pdf.php?filename=contents_attach/82274/82274.pdf&title=82274

[18] The Signing of the ASEAN–Hongkong, China Free Trade Agreement and ASEAN-Hongkong, China Investment Agreement, ASEAN. Retrieved from: http://asean.org/the-signing-of-the-asean-hongkong-china-free-trade-agreement-and-asean-hongkong-china-investment-agreement/

[19] Political Outlook - Thailand - Q3 2017, BMI Research. Retrieved from https://bmo.bmiresearch.com/article/view?article=1266083&advanced_search=1&matches=10000+&page=1&position=1&keyword=thailand%20political

[20] BMI Research. Retrieved from: https://bmo.bmiresearch.com/data/datatool

[21] Innovation in farming for 4.0 era, Bangkok Post. Retrieved from https://www.pressreader.com/thailand/bangkok-post/20170223/282084866572903

[22] Thailand 4.0 model, Thailand Planning Division. Retrieved from: http://planning2.mju.ac.th/goverment/20111119104835_planning/Doc_25591128110914_828816.pdf

[23] ibid

[24] ibid

[25] Opportunity Thailand, Board of Investment. Retrieved from: http://www.boi.go.th/upload/content/BOI-brochure_2017-opportunity_thailand-EN-20170210_30843.pdf

Contact Us

Winid Silamongkol
Chief Executive Officer
KPMG in Thailand,
Myanmar and Laos
T: +66 26772000
E: winid@kpmg.co.th

Sean Severn
Partner, Head of Markets
T: +66 26772000
E: ssevern@kpmg.co.th

Charoen Phosamritlert
Partner, Head of Audit
T: +66 26772000
E: charoen@kpmg.co.th

Benjamas Kullakattimas
Partner, Head of Tax & Legal
T: +66 26772000
E: benjamas@kpmg.co.th

KPMG

VIETNAM

Vietnam offers extreme opportunities and challenges. On one hand, it is one of the fastest growing economies in ASEAN, with rising urbanization, an emerging middle class, and a young, dynamic, English-speaking labor force. On the other hand, Vietnam still ranks low for ease of doing business because of its bureaucratic regulatory environment.

Recent participation in over 40 bilateral and multilateral trade agreements has attracted a large amount of foreign direct investment (FDI) into Vietnam and it is one of the main drivers of the economy. Besides the existing framework of tax incentives, an improving record on transparency, external commitments with international trading partners have been a powerful influencer in keeping Vietnam's domestic reform programs on track.

The government is committed to pushing on with market liberalization and other reforms such as reforms to the State-Owned Enterprise (SOE) sector, government procurement, labor representation, intellectual property rights, e-commerce and the digital economy.

Apart from anything else, Vietnam recognizes that reform is essential to maintaining its economic competitiveness in the region as an attractive investment destination.

Lastly, as China's economy slows and labor becomes more expensive, Vietnam is considered the go-to-place for manufacturing, particularly in textile and electronics. It is also possible that we will see some import-substitution in Vietnam, with what might have been "Made in China" being produced in Vietnam's already booming industrial zones.

With an optimistic view of the Vietnam economy, in spite of the uncertain economic situation in 2017, we are looking forward to steady growth in investment in the upcoming 12 months.

Warrick Cleine
Chairman and CEO
KPMG in Vietnam

VIETNAM

KEY COUNTRY FACTS

The Socialist Republic of Vietnam is a Southeast Asian country with a rich history and, in recent decades, a strong track record of political, civil and commercial achievement. In 1986 the government sought to end the nation's isolation through a series of economic and political reforms, known as Doi Moi, which opened the country to the global economy.

In 2007 this was rewarded by Vietnam's accession to the World Trade Organization, followed by its participation in the ASEAN Economic Community in December 2015.

Today Vietnam has the one of the world's fastest-growing economies, proving a popular draw for both tourists and investor

GOVERNMENT

Socialist Republic, one party state

POPULATION

91.1
MILLION (2015)

CURRENCY

Vietnam Dong (VND)

LANGUAGES

Vietnamese (official), English, French, Chinese, Khmer

RELIGIONS

Buddhism, Christianity, Cao Dai, Islam

Source: World Economic Forum, CIA Factbook

GROWING ECONOMY

Vietnam has one of the fastest-growing economies in the world, weathering the global financial crisis smoothly and emerging with encouraging macroeconomic indicators in 2009 and 2010.

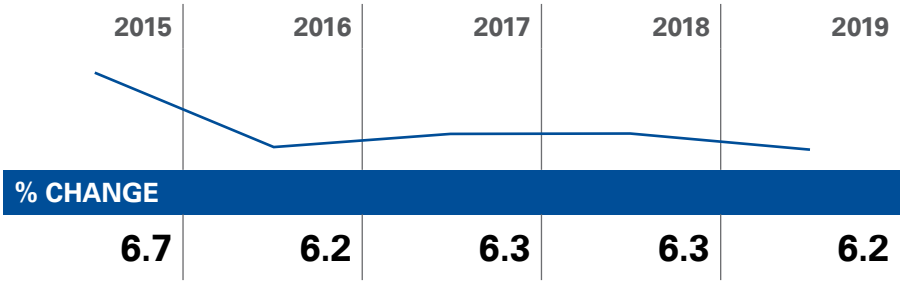
The government has continued its policy of economic openness and integration through a number of free trade agreements and relaxed domestic regulations which have led to significant year-on-year growth in foreign direct investment (FDI).

In addition to an improved regulatory environment, the country also benefits from its proximity to China, rich natural resources and a large and cost-effective workforce.

In 2016 the government cut corporate tax to 20% demonstrating its ongoing commitment to encourage growth in the private sector. Business forums and other forms of communication between government and business – unheard of a few decades ago – are now commonplace.

Economic Performance

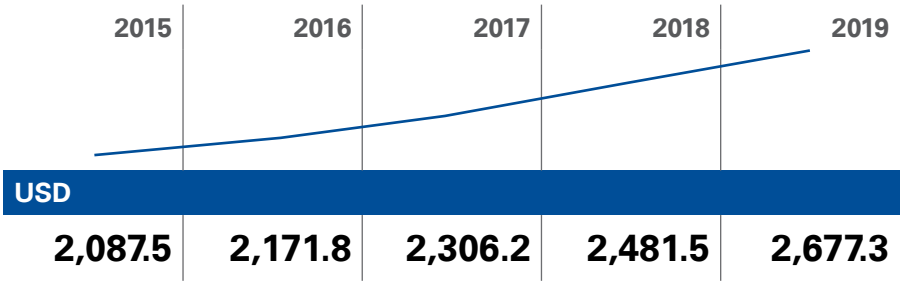
GDP constant prices*



*2010 market price; percentage change after 2016 are estimates

Source: International Monetary Fund, World Economic Outlook Database, October 2017

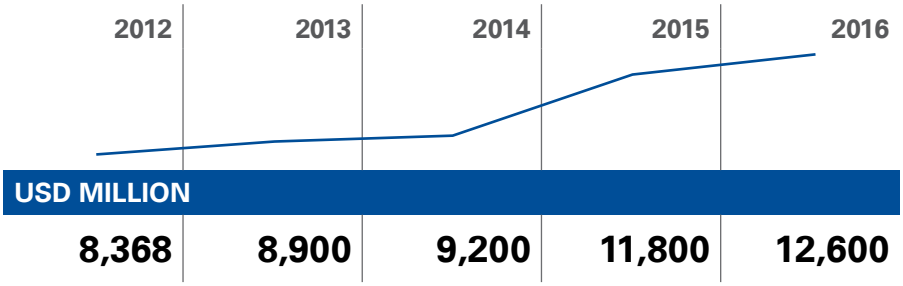
GDP per capita, current prices (CAGR 6.42%)



Figures after 2015 are estimates

Source: International Monetary Fund, World Economic Outlook Database, October 2017

Foreign direct investment inflows



Source: World Bank database

Main FDI investors

South Korea
USD 3,637.6 mil

Japan
USD 1,338.9 mil

Singapore
USD 1,250.6 mil

China
USD 969.4 mil

Taiwan
USD 961.7 mil

Source: ASEAN Secretariat - FDI Database as of 30 Jun 2017

THRIVING ECONOMY

Vietnam's growth was slowed but not stopped by the financial crisis, falling from an average of 7.3% between 2005 and 2008 to 5.3% in 2009. The country bounced back strongly with growth reaching 6% in 2014 and 6.8% in 2016. Growth remains coupled to inflows of foreign investment and exports, but rising domestic consumption is helping rebalance the economy.

Political stability

- Vietnam, as a single-party state, enjoys political stability that supports investment decisions. The World Bank gave the country an average political stability index of 0.15 for the period 2010-2014.

Regulatory environment

- Policy has been focused on further economic liberalization. During preparations for World Trade Organization (WTO) membership, Vietnam revamped much of its legal system, in particular the Labor Code and Land, Competition, Enterprise, Investment and Tax Laws, in order to foster a more transparent investment environment.
- Further entry into the global economy since then – in particular a desire to attract multinational corporations into the market – has led to continuous improvement of the legal framework to meet international standards.
- Recent changes to the property and stock markets allow foreigners to purchase land, houses and apartments, and to hold up to 100% of listed companies in most industries. Although some restrictions remain, the new laws provide a more welcoming environment for both foreign and domestic investors.
- A particular policy focus is strengthening the banking sector, with progress made on restructuring non-performing loans, transparency in reporting, and consolidation of lenders towards international standards.

Rankings

Index	Ranking[+]
Ease of Doing Business	**68**
Intellectual Property Protection	**99**
Transparency of Government Policymaking	**82**
Corruption Perceptions Index	**113**
Global Competitiveness Index	**55**
Global Innovation Index	**47**

[+] All rankings are global unless otherwise indicated

Source: Doing Business 2018, The World Bank; Global Competitiveness Index 2017 - 2018, World Economic Forum; Global Innovation Index 2017, Cornell University, INSEAD and WIPO; Corruption Perceptions Index 2016, Transparency International

Young well-educated workforce

- The country's young, well-educated workforce provides a competitive advantage. The workforce continues to grow, increasing by 1.7% in 2015, as more young people enter the labor market. Although the education system produces a high level of literacy, additional training of workers may be required for particularly sophisticated requirements.

Attractive tax environment[1]

- Income tax:
  - Resident tax rates are progressive and up to 35%
  - Non-residents are taxed at a flat rate of 20%
- Corporate tax: 20%
  - Certain sectors of the oil and gas industry are subject to higher taxes
- Value added tax: 10%
- Investment incentives:
  - Corporate income tax (CIT)
    - Preferential CIT rate for a definite period or for the entire duration of the investment project
    - Exemption from CIT and reduction of CIT for a definite period (see table below)

Investment projects engaging in socialised businesses and located in areas with difficult or especially difficult socio-economic conditions	Tax rate of 10% for the whole project life Exemption: 4 years Reduction: 9 years
Investment projects engaging in socialised businesses and located in areas with normal socio-economic conditions	Tax rate of 10% for the whole project life Exemption: 4 years Reduction: 5 years
- Investment projects in economic zones, high-tech zones and especially difficult locations - Investment projects in large-scale manufacturing; - Investment projects engaged in manufacturing or processing agricultural products in areas with difficult socio-economic conditions; - Investment projects engaged in manufacturing supporting industry products of prioritised development	Tax rate of 10% for 15 years Exemption: 4 years Reduction: 9 years
Investment projects of manufacturing or processing agricultural products located in areas with normal socio-economic conditions	Tax rate of 15% for the whole life
- Investment projects located in areas with normal socio-economic conditions - Investment projects in steel industry, energy, machinery for agriculture	Tax rate of 20% (17% from 2016) for 10 years Exemption: 2 years Reduction: 4 years
Investment projects located in industrial zones/ export processing zones (except for those in with favorable socio economy conditions)	Exemption: 2 years Reduction: 4 years No preferential tax rate is given

- Exemption from import duty in respect of goods imported to form fixed assets, raw materials and components for implementation of an investment project
- Exemption or reduction of land rental and land use tax

Trade agreements

- Vietnam has ten free trade agreements (FTA) in force

Bilateral FTAs

Agreements signed between Vietnam and a single trading partner

Vietnam-Japan Economic Partnership Agreement[2]

- Exemption from import tariff for over 94.5% of Vietnam's export revenues and over 87.6% of Japan's export revenues within the next 10 years
- At least 86% of agro-forestry-aquatic products and 97% of Vietnamese industrial products exported to Japan will benefit from preferential tariff rates
- Aquatic, farm products, apparel, steel, chemicals, electronic appliances will benefit most from this commitment to trade liberalization.

Vietnam-Chile Free Trade Agreement[3]

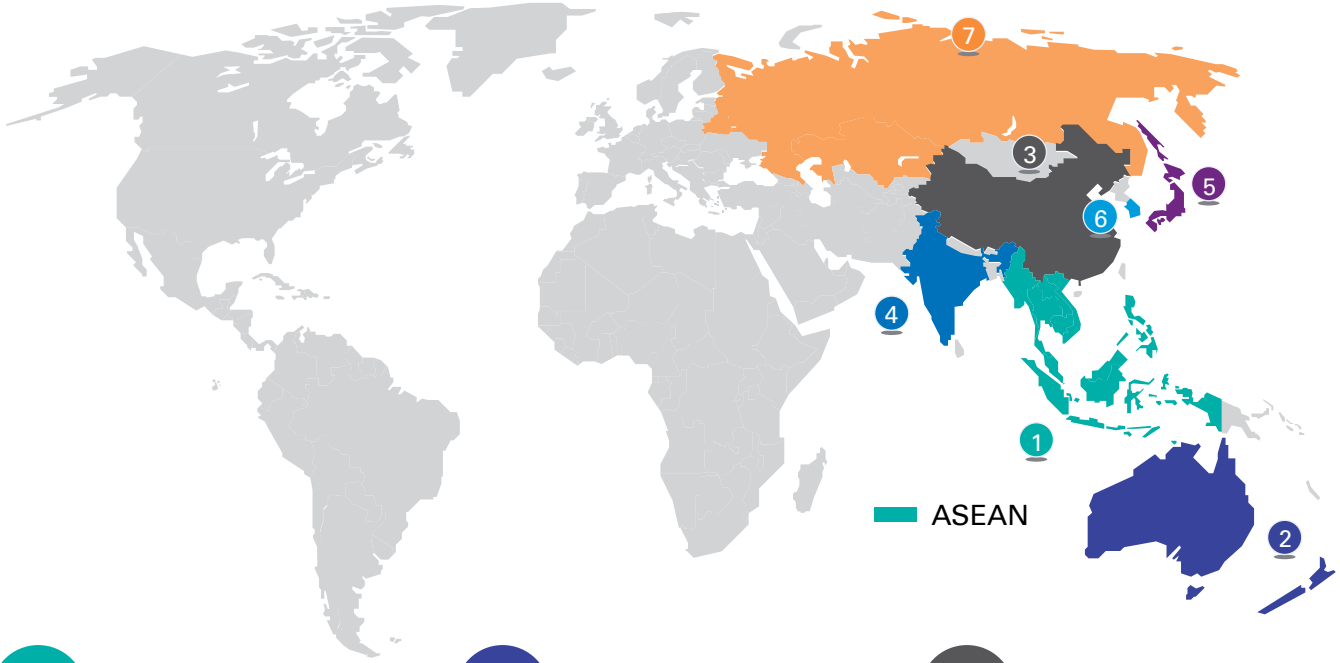
- Vietnam to eliminate 87.8% of tariff rate for Chile for 15 years
- Chile to eliminate tariffs for goods accounting for 99.2% of export value of Vietnam for 10 years from 2007

Vietnam-Korea Free Trade Agreement[4]

- Tariff elimination of 95.4% and 89.7% for all tariff lines by Korea and Vietnam, respectively
- Concessions for selected categories of Korean industrial products including garment materials and accessories, plastic materials, electronic accessories, car-parts, electrical home appliances, steel products and cables
- Opportunity for Vietnam's important exports such as agro-products, fish, tropical fruits, industrial products, mechanical instruments

Regional FTAs[6]

Agreements signed between Vietnam and a group of trading partners



1 ASEAN Free Trade Area

- Elimination of tariffs on more than 99% of products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

2 ASEAN-Australia-New Zealand Free Trade Agreement[7]

- Elimination of tariffs on more than 90% of the products with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

3 ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of the products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

4 ASEAN-India Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 80% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

5 ASEAN-Japan Comprehensive Economic Partnership

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

6 ASEAN-(Republic of) Korea Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

7 Vietnam-Eurasian Economic Union Free Trade Agreement[5]

- Reduction and/or elimination of customs duties on 87% of goods originating in the other party

Concluded / signed FTAs[8]

- Comprehensive and Progressive Agreement for Trans-Pacific Partnership
- ASEAN - Hong Kong, China Free Trade Agreement

FTAs under negotiation[9]

- Regional Comprehensive Economic Partnership
- Vietnam - European Free Trade Association Free Trade Agreement
- Vietnam - European Union Free Trade Agreement
- Vietnam - Israel Free Trade Agreement

Endnotes

[1] Ease of doing business in Vietnam, The World Bank. Retrieved from: http://www.doingbusiness.org/data/exploreeconomies/vietnam#paying-taxes; Investment & Trade Promotion Centre of Ho Chi Minh City, Vietnam. Retrieved from http://www.itpc.gov.vn/investors/how_to_invest/Tax/index_html/mldocument_view/?set_language=en; Investing in Vietnam 2017; KPMG. Retrieved from: https://home.kpmg.com/content/dam/kpmg/vn/pdf/publication/2017/Investing-in-VN-2017.pdf

[2] Vietnam Trade Promotion Agency. Retrieved from http://www.vietrade.gov.vn/en/index.php?option=com_content&view=article&id=1034:overview-of-vietnam-japan-relationship&catid=20:su-kien-xuc-tien-thuong-mai&Itemid=64; Vietnam-Japan trade expected to surge in 2017, Retrieved from http://english.vietnamnet.vn/fms/business/171577/vietnam-japan-trade-expected-to-surge-in-2017.html

[3] WTO. Retrieved from http://wtocenter.vn/other-agreement/vietnam-chile-free-trade-agreement-vcfta

[4] WTO. Retrieved from http://wtocenter.vn/fta/negotiations/vietnam-korea

[5] WTO. Retrieved from http://wtocenter.vn/other-agreement/russia-completes-ratification-eaeu-vietnam-fta

[6] Vietnam Trade Promotion Agency.Retrieved from http://en.vietrade.gov.vn; 10 free trade agreements - necessary review for incentives, KPMG Vietnam; ASEAN Free Trade Agreements, ASEAN Secretariat. Retrieved from http://www.jterc.or.jp/koku/koku_semina/pdf/130306_presentation01.pdf

[7] AANZFTA. Retrieved from http://aanzfta.asean.org/index.php?page=about-aanzfta

[8] Free Trade Agreements, Asia Regional Integration Center. Retrieved from http://aric.adb.org/fta-country; The Signing of The ASEAN–Hongkong, China Free Trade Agreement and ASEAN-Hongkong, China Investment Agreement, ASEAN. Retrieved from: http://asean.org/the-signing-of-the-asean-hongkong-china-free-trade-agreement-and-asean-hongkong-china-investment-agreement/

[9] ibid

Contact Us

Warrick Cleine
Chairman & CEO and Head of Tax
T: +84 28 3821 9266
E: warrickcleine@kpmg.com.vn

Chong Kwang Puay
Head of Audit and Assurance
T: +84 28 3821 9266
E: cpuay@kpmg.com.cv

Tran Thanh Tam
Head of Markets
T: +84 28 3821 9266
E: tamttran@kpmg.com.vn

John Ditty
Head of Advisory
T: +84 28 3821 9266
E: JDitty@kpmg.com.vn

KPMG HAS A PRESENCE IN EVERY ASEAN NATION

25
Offices

over 8,000
Staff

more than 300
Partners

BRUNEI
1 office

CAMBODIA
1 office

INDONESIA
1 office

LAOS
1 office

MALAYSIA
9 offices

MYANMAR
1 office

PHILIPPINES
5 offices

SINGAPORE
1 office

THAILAND
1 office

VIETNAM
4 offices

KPMG SERVICES

Audit

- Fundamental to a risk-based audit approach is understanding the way our clients run their businesses and drive performance.
- KPMG focuses on the areas which are critical to our clients in delivering their strategies and meeting goals.
- KPMG's extensive experience and proprietary tools have enabled us to provide seamless services to clients across industry sectors and geographical boundaries.

Tax

- Against a backdrop of increasing complexity in the business and tax landscapes, clients will need to weigh its tax options against many factors, such as tax ramifications against the financials, increased information sharing between tax authorities, evolving regulations, global competitions and new economies.
- Through two main service lines: tax consulting and tax planning and compliance, KPMG's tax practice consistently provides proactive advice and quality service. Our tax consulting service lines cover mergers & acquisitions & government incentives, global transfer pricing services, global indirect tax services, financial services tax and international tax. Our multi-national clients enjoy this single point of contact in Asia Pacific for all regional tax issues.
- In addition, our tax planning & compliance services include global mobility services, global immigration services network, global compliance management services, dispute resolution & controversy, tax management consulting and property tax / stamp duty advisory. With KPMG's vast network, clients' business commitments and tax needs will be best served by KPMG member firms in the region.

Advisory

- KPMG's Advisory team works with a range of clients, helping them meet challenges associated with growth, performance and governance.
- Our professionals can cover both operational and transactional activities.
- Our Advisory practice assembles skilled and experienced professionals in multi-disciplinary groups tailored to the needs of individual clients and their unique circumstances.
- In our clients' interests, we also draw on the capabilities and knowledge resources of KPMG's global network.
- We offer our clients a single point of contact to help streamline the relationship and enhance its productivity and usefulness to them.
- We understand and respect clients' needs and aspirations. Clients can draw from a range of management and risk consulting services covering a broad spectrum of business activity.

Contributors to the research, analysis, and development of this paper:
Managing Partners, Head of Markets and teams from KPMG member firms in ASEAN, Sreetama Ray, Chris Zaharatos

kpmg.com

For further information about this guide and how KPMG member firms can help your business, please contact asean@kpmg.com.sg

kpmg.com/socialmedia

kpmg.com/app

© 2018 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.