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EMERGING ASIAN ECONOMIES

EXECUTIVE SUMMARY

Over the past 25 years, the global supply chain has shifted from its manufacturing bases in the United States and Europe to an Asian base dominated by China. China's rapid development over this period has not been purely due to government policies, per se. Instead, the country's large and inexpensive supply labor has been the main driver in this phenomenon. However, this is changing as the Chinese population ages and the country transitions from being the world's largest manufacturing base to becoming the world's largest consumer market. As a result, China is becoming more expensive for manufacturing, moving its production line further into high tech, and Chinese consumers are becoming wealthier. This will impact the future dynamics of foreign investment into the country. China will become a significant consumer of products, but it will become increasingly expensive as a low-medium-end manufacturing base.

This development coincides with the emergence of India, the only country that has the potential to match China. Indian workers today work for the same cost that Chinese workers did 15 years ago, and while their numbers are not as large, their availability certainly is significant enough to impact the global supply chain. This demographic shift will see "Made in India" surpass "Made in China" in mass-produced products over the next decade as factories shift part of their global supply chain to India and the country becomes more dominant over the next decade in foreign direct investment as it relates to global consumer demand.

Also in this mix, to a lesser extent, will be Vietnam, Indonesia, Malaysia and Thailand, whose membership in ASEAN and the resulting tax and duty benefits will

result in production leeching away to these countries. And Singapore will continue to develop as an Asian regional hub more than Hong Kong, which is increasingly becoming a China-only play.

In emerging markets such as Cambodia and Myanmar, the lack of infrastructure remains a serious concern, and it will be at least 10 years before these nations are able to offer a competitive advantage to anyone but the most hardy of investors. This means that the global supply chain is emanating outward from China into the rest of Asia. Corporate executives faced with decision-making processes regarding Asia must now, more than ever, be aware of and conversant with the details of Asia's numerous double tax and free trade agreements, including those that do not directly involve the United States and Europe. Meanwhile, tax advisers must keep abreast of potential agreements such as the RCEP and TPP proposals. Investing in Asia is now far more tax sophisticated than it was previously, and as a result, the continent offers more options and interesting solutions than ever before.

EMERGING ASIAN ECONOMIES – WHAT TO KNOW BEFORE ENTERING THE MARKETPLACE

No region on Earth is more defined by the trend of emerging economic markets than Asia. Nearly every country in South Asia, East Asia and Southeast Asia except Japan and Singapore is defined as an emerging economy.

How widespread is the economic development? In a 2013 list compiled by Bloomberg, Asian countries accounted for five of the top 10, and six of the top 20 emerging markets around the world, including a sweep of the top three spots.

The list, based on a formula that took into account macroeconomic forecast data from the International Monetary Fund, as well as data from the World Bank and International Energy Agency, places China as the world's top emerging market, with forecasted GDP growth of 45.9 percent between 2013 and 2017. South Korea and Thailand take the second and third spots respectively. Malaysia ranks sixth, Indonesia is 10th and the Philippines comes in at No. 20.

Sum total, the foreign direct investment for the Asia-Pacific region in 2011 was USD $305 billion, with more than 4,000 projects attracting foreign investment, according to FDI Intelligence

Asia and economic growth have been synonymous for more than half a century. Since emerging from the devastation of World War II, Japan has developed into the world's third-largest economy, a worldwide exporter in a wide range of industries and a model for other Asian nations to follow.

South Korea, although still considered an emerging economy, is a highly developed world player in its own right, with the world's 15th largest economy by GDP. Singapore, another nerve center of Asian business, completes a holy trinity of sorts in setting the pace for the East Asian regional economy.

But the story doesn't end there. Asian governments are taking increasingly bolder steps to stimulate business development and economic growth throughout the region. The establishment of the ASEAN-China Free Trade Area in 2010 encompasses 11 nations (China plus the 10 member states of the Association of Southeast Asian Nations) and a combined population of about 1.87 billion — the largest free-trade region in the world in terms of population.

The free-trade area contains some of Asia's fastest-growing economies. In addition to China, Thailand, Indonesia, Malaysia and Singapore, the area includes the remainder of Southeast Asia — Vietnam, Laos, Cambodia, Burma and Brunei — along with the Philippines. It's an unprecedented collection of emerging economic power, concentrated within one trade area.

Western investors are increasingly finding Asia to be essential to the development and progression of their businesses as it becomes an economic region that can no longer be ignored. As a result, any Western investor considering entering the region needs a solid background on the risks, challenges and roadblocks to doing business in Asia — and the potential rewards of making a successful venture into the marketplace.

The implications of the China-ASEAN free trade agreement are key to understand for investors that have been eying the Chinese domestic consumer market yet have been deterred by rising China labor costs. With increasing wealth in China, the country's number of middle-class consumers is expected to reach 600 million by 2020. However, the key to understanding how to access this lies within the China-ASEAN FTA. This has reduced tariffs to zero on 90 percent of all products trading between ASEAN nations and China. This is giving a specific boost to manufacturing capacity being placed in lower-cost ASEAN nations such as Vietnam, Indonesia and the Philippines, where the average labor cost is now 30 percent of the China equivalent. China's future manufacturing capacity to service that huge middle class consumer base is being developed in ASEAN.

THE ASEAN REGION

The idea of economic growth in Southeast Asia is decades old, beginning with the 1961 formation of the Association of Southeast Asia, formed by the Philippines, Malaysia and Thailand. The organization became the Association of Southeast Asian Nations in 1967 when the ASA countries joined forces with Indonesia and Singapore and remained a quintet until the addition of Brunei in 1984. In the 1990s, Vietnam, Laos, Cambodia and Burma joined, bringing total membership to its current 10 nations. In addition, Papua New Guinea and Timor-Leste have been granted candidate/observer status within ASEAN, allowing them certain trade benefits without granting them full membership.

The ASEAN Free Trade Area, or AFTA, was established by ASEAN's member states in 1992. The free trade area was established with the goal of promoting economic growth through reduced or eliminated tariffs among member states and attracting more foreign investment in the region.

In 2010, ASEAN established a series of expanded free trade agreements with some of the largest neighboring economies. The ASEAN-China Free Trade Area was, in terms of economic impact, the largest of four expanded free trade agreements the association negotiated. The ASEAN-India, ASEAN-Korea and ASEAN-Australia-New Zealand free trade areas were also established. In addition, the member nations of the ASEAN region will form the ASEAN Economic Community in 2015, extending the member relationships to include human resources development, capacity building, consultation on macroeconomic and financial policies and trade financing, among other areas, with the goal of increasing business opportunities in the future.

The ASEAN region continues to see growth in FDI, or foreign direct investment, particularly the five largest ASEAN countries, often referred to as the ASEAN Five. Indonesia, Malaysia, Singapore, Thailand and the Philippines saw a combined 7 percent increase in FDI from 2012 to 2013, according to the International Business Times. The ASEAN Five had a combined FDI of $120 billion USD in 2012, which rose to USD $128.4 billion in 2013.

What else has made the ASEAN region an attractive trade partner for outside nations, in Asia and beyond? Here are some things to consider.

- **Overall population.** According to a 2013 report in the International Business Times, the 10 countries that make up ASEAN and the concurrent AFTA region are home to an estimated 600 million people. Combined with the fact that ASEAN countries possess some of the youngest mean populations in the world, countries such as Vietnam, Indonesia, Laos and Malaysia will have some of the world's largest populations of working-age adults in the coming decades.

  The ASEAN region will have a great need for job creation and economic expansion as its employable population increases and, as the median age of Southeast Asian countries ascends, the number of dependent residents will decrease. Children and the aged require investment in sectors such as education and health care but generally aren't employed and don't pay into the system. A country with a majority population of prime working age — identified as between 25 and 54 in the IBT report — has residents that pay into the system while taking comparatively less out than those younger or older.

  For business investors interested in where and how to invest in the ASEAN marketplace, this means that many of the region's countries have a high potential for an advancing economy in the coming decades, with an increasing percentage of the population paying into the system instead of drawing from it. As a byproduct, the generation of jobs for an expanding work force also means the generation of more disposable income that can be spent on luxuries such as electronics and automobiles.
- **The need for all kinds of investment.** Even with the overall upward trend of economic expansion and the growth of a workforce pool, the ability of ASEAN economies to sustain and accelerate continued economic growth varies widely from country to country.

  Some ASEAN countries, such as Thailand and Indonesia, have had the capital and proactive mindset necessary to invest in the essential building blocks of economic growth, such as infrastructure improvements and workforce training. Other nations, as noted in the IBT report, have not been as proactive, for a variety of reasons. For example, the Philippines will have a favorable demographic transition as its population matures into a largely employable one. But a variety of factors, including monetary management and an inability to make the right capital investments to keep up with the shifting demographics of the population, have caused it to lag behind other ASEAN countries in some key statistical indicators, including income per capita.

  All ASEAN nations can benefit from outside investment dollars, but countries such as the Philippines are in line to have their potential unlocked if an influx of business from Europe, the Americas, Australia and elsewhere in Asia can give it the financial engine necessary to keep up with a population that is growing and shifting at a high rate.
- **Proactive policies.** A number of ASEAN nations have taken steps to remove political and financial roadblocks to investment. Indonesia — the largest ASEAN member state both in terms of GDP and population — was able to grow and capitalize

on its own demographic shift to an employable population through policy reforms over the past 40 years. The reforms helped improve the efficiency and effectiveness of the manufacturing and banking sectors, improving the health of the Indonesian economy and making it easier for outside businesses and investors to establish themselves in the country.

ASEAN AT A GLANCE:

- **Brunei:** A small, Islamic monarchy, Brunei is essentially an oil play, with most of the world's largest players in this industry already in place for many years.
- **Cambodia:** Cambodia is small, but does have one large port. China has invested into the country, although it is somewhat conservative in reaching out to foreign trade. It has not yet come fully into ASEAN Economic Community (AEC) compliance, meaning many tariffs and bilateral agreements are not in line yet with ASEAN's directives. Consequently, investment opportunities are relatively limited.
- **Indonesia:** Indonesia is the world's fourth-largest nation by population (270 million) and is about to become a trillion-dollar economy. It is a huge country, running right across the top of Australia to the south and is close to China to the north. Consequently, it has rapidly developed as an alternative export manufacturing base to China. Foxconn, the maker of Apple products, is in the process of relocating its entire manufacturing base from China to Indonesia to take advantage of lower labor and tax costs. Indonesia is becoming an increasingly important Asian manufacturing base, after China and India.
- **Laos:** Laos is landlocked and mountainous. Like Cambodia, it is not yet in full AEC compliance. China and Thailand are its largest trade partners.
- **Malaysia:** Malaysia has experienced rapid growth and has good infrastructure, a well planned foreign investment program and a long coast line that is home to numerous free trade and export processing zones, some jointly operated with China and Singapore. The country stands to benefit from manufacturing capacity demands rising from a growing Chinese consumer base.
- **Myanmar:** Although a relatively large country, the infrastructure in Myanmar is highly outdated and much needs to be done. Much of the country has seen no development since the end of World War II. It also, like Cambodia and Laos, is not yet in AEC compliance. Myanmar remains a destination for the foreseeable future for big-ticket infrastructure projects and has hardly any middle market to speak of.
- **The Philippines:** The Philippines has been booming recently, especially with BPO services, English is widely spoken, and the country is the fastest-growing destination for BPO services in the world. It is also developing a significant tourism industry, targeted at Asians (and especially China), with casinos and other related attractions, and is developing a god reputation for light manufacturing. The capital city, Manila, is undergoing a significant redevelopment, and it, too, is likely to be a beneficiary of manufacturing capacity being added to service the nearby Chinese consumer market.
- **Singapore:** Singapore is the de facto financial and services hub for ASEAN. Among the member states, it is the only one to have a fully convertible currency, meaning it is a suitable base for intra-ASEAN and international trade financing. It is also a significant hub for RMB trading. The city-state offers a low tax regime and no taxes on dividends realized externally from its borders. Consequently, it is very popular as a regional investment hub for reaching out into ASEAN, as well as, through the ASEAN-China and ASEAN-India free trade agreements, into these markets, as well.
- **Thailand:** Thailand is currently facing some political problems. It is a monarchy with an aging and unwell king, with an unpopular heir apparent, and is a politically divided nation. It is currently being run by the military, which will want to see a period of national consolidation and a less confrontational position being taken by its political parties before arranging elections and standing down in favor of a democratically elected government. On the previous occasion that the military was in power, it took 12 months to install an elected government; current problems dictate it may take longer this time. Nonetheless, it remains an Asian tiger, with a large and wealthy middle class, and has been a dynamic recipient of foreign investment over the years. Volkswagen has indicated it expects to set up its manufacturing plant to service ASEAN car buyers in Thailand, while other MNCs have indicated they will do the same. Once the country's political future is determined, Thailand is expected to recover and regain its position as a dynamic Asian market.
- **Vietnam:** Vietnam is the fourth member of ASEAN not yet into AEC compliance, yet it is expected to be so by the end of 2015. This, coupled with a decrease in corporate income tax rates to 20 percent, down from 25 percent, is expected to make the country a

significant light manufacturing competitor to China from 2016 onward. With wages about 30 percent of those in South China, a shift in manufacturing capacity to service the Chinese market, with production physically based in Vietnam, has been under way for five years.

The growth and maturation of the population in ASEAN countries, coupled with policy shifts enacted by member governments, have helped make the region a hub for a wide range of industries. Two of the biggest sectors growing within the ASEAN footprint are manufacturing and technology.

Shanker Iyer, chairman of Iyer Practice, a Singaporean accounting and financial-services firm, says most ASEAN countries are trying to grow their economies with a blend of investment in multiple industries, but some in the region are gravitating toward certain industries.

Iyer notes Thailand, with numerous large ports, including Laem Chabang, the country's main deep-water port on the Gulf of Thailand, has developed an extensive shipping infrastructure, ideal for the growth of manufacturing. According to IndustryWeek, Thailand is the 17th-largest global manufacturer, the second-largest global producer of light pickup trucks and the 14th-largest auto manufacturer worldwide. Other major manufacturing sectors in Thailand include hard disk drives (No. 2 globally), and both natural and synthetic rubber. Thailand is the world's top producer of both kinds of rubber.

By contrast, Iyer says, Singapore has gravitated toward technology and energy, building an economy based on white-collar business sectors. The Singapore Economic Development Board (SEDB) lists aerospace engineering, alternative energy, electronics and health care among the established or emerging industries in the country.

In the aerospace field, Singapore is the No. 1 market in Asia for maintenance, repair and overhaul (MRO) operations, with more than a quarter of the Asian marketplace. Singapore houses the operations of more than 100 aerospace companies and is the leading aviation hub in the Asia-Pacific region.

The SEDB considers the electronics industry to be the nation's economic backbone and the primary driver for its economic growth. Contributing 25 percent of the total manufacturing value-add, the electronics industry in Singapore employs 80,000 people, or about 19 percent of the nation's total manufacturing jobs. Of USD $16 billion in fixed-asset investments made during 2012, the electronics space accounted for nearly 40 percent.

Singapore has fast become one of the most important producers of electronics on Earth and is responsible for one out of every 10 wafer starts worldwide and manufactures 40 percent of the world's global hard-disk media.

However, much of Singapore's appeal lies in its position as a gateway to Asia. As David Lee, of Dezan Shira & Associates Singapore, explains, the nations membership of ASEAN means zero tariffs on all products traded between ASEAN members, while the ASEAN-China and ASEAN-India free trade agreements provide considerable leverage in lowering import-export duties in trade between these countries. Meanwhile, Singapore's plethora of applicable double tax agreements can lower trade costs with companies worldwide through the imposition of withholding tax allowances in place of higher local profits taxes. Singapore is also the only ASEAN member with a fully convertible currency, making it an ideal Asian base for investors used to dealing in U.S. dollars and euros. It is also highly transparent, ranking first in the Global Ease of Doing Business rankings, and employs strict compliance standards such as FCPA, FACTA and European equivalents. It is little wonder it has become the Asian headquarters choice for more than 100,000 multinationals that are currently based in the city.

CHINA

Amid all the emerging economies in Asia, no country possesses the ability to impact the world economy more than China. It is, simply put, the biggest economic story in Asia — and arguably, the world.

Since post-Maoist reforms began to take place in the 1970s and '80s, China has developed a thriving free-market economy that is in stark contrast to the socialist foundation upon which its Communist government is built. For more than 40 years, China has been focused on harnessing its vast collection of natural resources and the manpower provided by the world's largest population to develop into an economic powerhouse.

The plan has been a resounding success. China is now the world's largest economy, having just overtaken that of the U.S. in terms of nominal GDP. Along with other economies in Asia, such as India, it remains the world's fastest-growing major economy and a major attraction for foreign investment, although those numbers have slowed over the past several years due to a number of factors, including a migration of foreign companies to neighboring countries.

China's FDI peaked in 2011 at USD $124 billion and has slowed incrementally over the ensuing two years, to USD $121 billion in 2012 and USD $117.6 billion in 2013. China's own investment in foreign economies is, in contrast, growing. In 2012, China had the third-largest outward FDI in the world, at USD $84 billion — $168 billion if Hong Kong is included.

A January 2014 article in The Economist notes that China's economy has grown to the threshold of a significant shift. In 2013, for the first time, services were a larger percentage of its GDP than industrial output and manufacturing, 46 percent to 44 percent. It marks the beginning of a shift from a manufacturing-based economy, as is the case in many developing nations, to the service-based economic model that forms the backbone of developed Western economies. China's fastest-growing sector in 2013 was wholesaling and retailing — the sale of products, as opposed to the production of products.

China's large-scale economic goal is to become a fully developed first-world nation by the middle of the 21st century. China has the resources and manpower to make both happen, but some significant hurdles still remain. They include:

- **A reliance on investment instead of consumer spending.** Because Chinese wages aren't in line with what the Western world offers, consumer spending can't drive economic growth the way it can in the West. That means the funding that drives economic growth and expansion still comes largely from investment, a model that can amass large amounts of debt. It is a model that cannot sustain perpetual growth. At some point, the country's people, and their spending power, have to become the engine that drives the economy.

  There are some positive signs, however. According to The Economist, incomes have been catching up to production, particularly in the migrant-worker and rural-household sectors. The disposable income of urban residents in China is three times that of their rural counterparts, which is a significant gap, but the gap is closing. Four years ago, urban residents had 3.3 times the disposable income of rural residents.
- **Disparity of rich and poor.** Even though the disparity between urban and rural spending power is decreasing somewhat in China, the disparity between income levels, affluence and even the availability of basic necessities is still extremely large, and still resembles that of a nation in the developing world. A 2013 report from Al Jazeera goes so far as to say the income disparity between rich and poor is widening, although statistics that can confirm the trend are sketchy.

  What is known is that, even in urban environments, the very rich and very poor often live within blocks of each other. And, once again reflective of a developing nation, the poor greatly outnumber the middle class and wealthy. The prosperity of a free-market economy is evident in the opulent lifestyle afforded the country's richest citizens, but most of the population hasn't been able to share in the prosperity yet. As such, despite China's vast population, its people don't collectively earn enough to power its economy. This is why there has been a political drive to raise the middle-income levels within the country. Fifty percent of all Chinese nationals are expected to be in the middle-class bracket within the next seven years.

- **A guarded attitude toward foreign investment.** China's investment-driven economy is geared for domestic investment and places a range of restrictions on foreign investment. In a 2011 speech, then-U.S. ambassador to China Gary Locke expressed frustration with China's attitude and policies toward foreign investors — what Locke effectively called a step backward from the more open foreign investment policies of the previous 30 years.

  "Take, for example, China's foreign direct investment policies, where foreign businesses face substantial restrictions in participating in a variety of Chinese industries, ranging from health care to energy to financial services and several others," Locke said in his speech. "And in industries like mining, power generation and transportation, the Chinese government selects national champions and effectively shuts out foreign competition altogether."

Locke praised China's rapid economic growth but cautioned it was the willingness of the Chinese government to pave the way for foreign investment that helped make China's explosive economic growth possible.

China has arrived as the dominant economy in Asia and may become the world's largest by the middle of this century. It has tremendous benefits and riches to offer outside investors but still harbors many of the issues that plague developing nations, along with potential hurdles that Western investors must clear before entering the market. It's a high-risk, high-reward environment for any outside investor. That said, the opportunities to sell to what is the fastest-growing middle class consumer market in the world are increasingly tempting. MNC corporate sales now have a very specific China strategy for breaking into this market. Alberto Vettoretti ,of Dezan Shira & Associates, said, "M&A involving foreign and Chinese companies is at a record high as foreign investors seek to get into the Chinese consumer market. Investments are required throughout the supply chain on a national basis, and with the rise of global online supply chain giants like Alibaba, companies are partnering with and acquiring Chinese companies that are already positioned in these areas. China is the world's largest consumer market, and it is only going to get bigger."

HONG KONG

Although Hong Kong was returned to China in 1997, the former British colony is still a world apart from its parent state, both culturally and in terms of its economy.

Hong Kong is a city-state, similar to Singapore. But whereas Singapore is a sovereign nation within itself, Hong Kong is classified as a special administrative region of the People's Republic of China – largely self-governing, but still under the administrative power of China.

It is one of the world's most densely populated cities, with a population of 7 million packed into the city's 426 square miles.

Hong Kong's most valuable natural asset has always been Victoria Harbor, a deep, sheltered harbor between Hong Kong Island and the Kowloon Peninsula. The harbor has made Hong Kong a vital trading and business center for more than 200 years.

The region has also aided its economic development with business-friendly policies, including low taxation and near-free port trade. The economy, which has grown to a post-industrial, service-based model like much of the developed world, now ranks eighth by purchasing power parity GDP, estimated at USD $400 billion as of 2014.

INDIA AND SOUTH ASIA

South Asia is generally defined as the countries located within, or south of, the Himalayas, although some definitions include nearby countries such as Pakistan and Afghanistan.

The largest and most economically influential of the South Asian countries is India. Worldwide, it is second only to China in population, with 1.2 billion people, and since economic reforms in the 1990s that paved the way for the development of a free-market economy, India's economic growth has exploded. It is now the 10th-largest economy in the world by nominal GDP and the third-largest by purchasing power, having just overtaken Japan.

The country's FDI rose 17 percent from 2012 to 2013, to $28 billion USD, the 16th-highest global FDI figure in 2013.

With an average growth rate of nearly 8 percent over the past 10 years, India's economy is the second fastest growing after China and could become the third-largest economy in the world by the end of the decade, according to a 2013 article in Euromonitor International.

India is known, in particular, for its fast-growing IT and biotech sectors. According to India's National Association of Software and Services Companies, or



NASSCOM, the country's IT sector produced revenue of USD $100 billion in 2012 and USD $118 billion in 2013, and in the 14 years between 1998 and 2012, increased its share of the Indian GDP from 1.2 percent to 7.5 percent. The Indian IT space — broadly categorized into IT services and business process outsourcing — has become one of the world's largest and most important exporters, with revenue of USD $69.1 billion in 2012.

INDIA'S BIOTECH SECTOR

The Indian biotech sector is still in its infancy. According to Invest India, biotech was a USD $4 billion sector in 2011 and could increase to about USD $10 billion by 2015.

The biotech sector is divided into five segments: pharmaceuticals, services, agriculture, industrial and informatics. Of those, pharmaceuticals are the largest subsector, accounting for 60 percent of the space's total revenue.

Several other industries have also experienced increasing growth in India and were identified in a 2013 research paper by the Global Journal of Management and Business Studies as areas of interest for foreign investors and entrepreneurs. They include:

- **Food processing.** Due to its wide range of topography and climate, India is the world's second-largest food producer after China. India's government has placed a priority on funding agricultural research, which should help further India's food output. The research paper estimates India's food production could double in the next decade. As it presently stands, food and agriculture is a USD $40 billion industry — the country's fifth-largest industry in terms of production, exports, consumption and growth.
- **Health care.** The emergence of the Indian middle class has helped drive the country's growth in the health care industry. Higher income levels have helped lead to an increase in awareness of the need for health insurance across much of the Indian population. An increase in average life expectancy has also factored into the need for more comprehensive and advanced health care.

The country has seen across-the-board growth in medical care — including hospitals and outpatient services, medicine production and medical device production, medical equipment, health insurance and outsourced telemedicine services. It was a USD $65 billion industry in 2013, which could grow to USD $100 billion by 2015.

However, despite rapid and widespread economic growth, India is still a developing nation with many problems common for a nation in the developing world. Many parts of the country are inadequately supplied with basic services, particularly in rural areas. Fresh water, sanitation services and the availability of electricity can vary greatly throughout the nation, although companies such as Rural Electrification Corp. Ltd. are helping finance and promote electrification projects throughout India's rural regions.

The country also deals with an ongoing and widely known poverty crisis, with nearly 12 percent of the country's population living below the international poverty line, which is calculated at USD $1.25 a day. That's in spite of the fact that India's poverty level has been consistently dropping over the past decade — in 2004, 37 percent of the country lived below the poverty line.

Much like China and many of the other emerging economies of Asia, India is still a country in which a significant portion of the population has yet to reap the benefits of its developing free-market economy.

GOVERNMENT REFORMS

With the recent election of Narenda Modi as prime minister, and his BJP party holding the first majority government in India for more than 30 years, things could begin to change in India very quickly. Much-needed reforms, including lowering tax rates, combined with more favorable foreign investment policies, are very much part of Modi's mandate. If he is able to get these reforms passed into law, India could well become the foreign investment darling of the next decade. Business interests into India should concentrate on infrastructure development, sales to the huge Indian consumer class — currently some 250 million — and export-driven manufacturing. An example is Ford, which has recently relocated its total non-U.S. market manufacturing capacity to Gujarat. It expects to sell 50 percent of its production in India, and the bulk of the rest to emerging Asia. As Chris Devonshire-Ellis, of Dezan Shira & Associates suggests, "India's demographic development curve is not dissimilar to that of China's 25 years ago. They have everything in place to take advantage of population dividends that China had – low wages, a growing middle class, and a very young and dynamic working population. There is no question that India will boom."

OTHER COUNTRIES IN SOUTH ASIA

- **Bangladesh** is a large nation, surrounded on three sides by India and also close to China, Bangladesh is another rapid-growth economy, with an annual growth rate of between 6 and 7 percent. It's the world's 36th-largest economy by nominal GDP and 37th largest by purchasing power.

  The major drivers of the Bangladeshi economy are the manufacture of consumer goods, pharmaceuticals and textiles. Other important industries include seafood, leather, cement, ceramics and software. Although modern industries such as pharmaceuticals and technology are rapidly growing and contributing to the Bangladeshi economy, it is still a country where a majority of citizens farm — which is due to a number of factors, including a history of subsistence farming and exceptionally fertile soil throughout the country because of its location on the Ganges River delta.

  The economic expansion of Bangladesh has been a relatively recent phenomenon.

  The country seceded from Pakistan to become an independent state after the Bangladesh Liberation War in 1971. According to a Harvard University-published research paper, the war destroyed about one-fifth of the Bangladeshi economy, and the country struggled to rebuild itself for about 20 years. In the 1990s, economic investment started to pick up and has accelerated incrementally over the ensuing 20 years.

  Bangladesh still has major hurdles to overcome as a developing nation, including an underdeveloped infrastructure, regulatory issues, low levels of human capital and low levels of trade. However, the China-Myanmar-Bangladesh-India trade corridor is being developed, with road, rail and sea ports dotted along it, and this commercial route is expected to become significant over the coming years. Sectors to watch include textiles, an area in which Bangladesh is the world's largest supplier, after China.
- **Sri Lanka** is an island nation off the coast of India. Sri Lanka has a smaller economy than India or Bangladesh but is considered an economically advanced country because of its strong per-capita GDP of USD $7,900 and robust growth, particularly since the end of the Sri Lankan Civil War in 2009.

  The economic nadir of the country was reached in 2001, when the country was on the verge of bankruptcy, which was avoided through a civil-war ceasefire and the securing of foreign loans.

Over the past decade, Sri Lanka has invested heavily in its manufacturing sector. Food and apparel are among its most lucrative exports, and the country has also begun to establish itself as a growing player in the telecommunications and banking spaces. As an example, HSBC's call center, which services the entire globe, is located in Colombo due to low costs and wide use of the English language. The recent development of the Port of Colombo also now gives Sri Lanka one of the largest port capacities in South-East Asia, where shipments from India are loaded onto supercontainer ships and reshipped around the world, including to China, which was a major investor in the port. Other developments about to reach fruition later this year include a second international airport and sea port at Hambantota, in the southeast of the country, giving Sri Lanka an Asian, as opposed to purely Indian, facing trade front.

- **Pakistan:** Due to its large population (183 million — the sixth-largest country by population), Pakistan has a sizable economy, and it's the world's 45th largest by nominal GDP. However, years of war and unrest have made the country both politically and economically unstable, and its economy is primarily dependent on foreign aid.

  Although Pakistan has deficiencies in its ability to provide basic services to its population, its manufacturing sector has been able to flourish in small pockets. In particular, textiles are a major product, including garments, bedding and cloth for garment-manufacturer supply. Agricultural processing is another major sector within Pakistan's manufacturing industry.

ECONOMIC TRANSPARENCY

Government cooperation is integral to a country's ability to attract foreign investors in its businesses. On that front, Asia has a wide spectrum of governmental systems and, in turn, a wide variety of policies regarding transparency of economic and business data, including taxation policies and trade regulations. Corruption and lack of ethical business practices remain widespread problems in many parts of the continent.

In China, the Communist government has a long history of opacity when it comes to its policies and inner workings. But as the country's economy has gravitated toward a free market, that has started to change. Particularly over the last decade, China has taken steps to improve its transparency regarding policymaking and regulatory matters. In 2008, the Chinese government pledged to post all trade and economic regulations and rules on its State Council's Legislative Affairs Office website for 30 days from the time of issue.

However, according to the U.S-China Business Council, less than one-quarter of relevant documents were posted to the site, and only three posted for the full 30 days. Transparency is critical to China's future economic growth, due in large part to the fact that it has a large amount of corruption, according to Transparency International. In 2013, China attained a score of 40 out of 100 on TI's Corruption Perceptions Index, placing it 80th out of 177 ranked countries. Bribery, in particular, remains a serious corruption matter.

Although India is a democratic state, it has its own issues regarding transparency and corruption. In March 2014, the U.S. expressed a desire to see more transparency in taxation policies and regulatory approvals. Western countries will be looking with interest at the government of new Prime Minister Modi, and whether the pro-business regime will take the necessary steps to India's business transparency and fight its widespread corruption problem. Transparency International ranked India 94th out of 177 countries on its 2013 Corruption Perceptions Index.

In much the same way, the ASEAN footprint has transparency issues that Western governments have red-flagged as areas to watch. The 2013 European Business Position Paper, published by the European ASEAN Business Centre, offered recommendations to Thailand regarding the improvement of its transparency and policymaking. Thailand has an endemic culture of corruption and bribery, and ranked 102 out of 177 countries in Transparency's International's 2013 Corruption Perceptions Index.

The European Business Position Paper highlighted Vietnam and Malaysia as countries moving in a positive direction regarding transparency and developing a competitive international business climate. Singapore is widely regarded as the regional ASEAN leader in transparency and business-friendly practices, along with Hong Kong, when viewed as its own entity apart from China.

IN CONCLUSION

Everything about Asia is vast — it is the world's largest continent by both land area and population, and as such, it is, and will continue to be, a major economic force in the global economy. The size, resources and manpower available to the continent's giants — particularly China and India — will make them countries of great opportunity for outside investors, and countries than can exert forces on the global economy that we might not yet be able to comprehend.

For the West, Asia is at once a promised land of would-be wealth, and a threat to the superpower standing of the U.S. and the power of other Western countries. It would seem to be only a matter of when, not if, the likes of China and India surpass Western nations in economic size and industrial clout.

It will be up to outside investors to develop an understanding of the Asian marketplace, and how it will affect their businesses in the coming years and decades.

Asia can be an economic adversary or an economic partner, but the one thing it can't be is ignored.

RECOMMENDED READING

Asia Briefing / ASEAN Briefing
Various Authors
www.asiabriefing.com & www.aseanbriefing.com

Global Strategies for Emerging Asia
Editors: Anil K. Gupta, Toshiro Wakayama and U. Srinivasa Rangan
Wiley, 2012

Avoiding the Fall: China's Economic Restructuring
By Michael Pettis
Carnegie Endowment for International Peace, 2013

The New Chinese Economy: Dynamic Transitions into the Future
Editor: Elias C. Grivoyannis
Pargrave MacMillan, 2012

Indian Economy and the Information and Communications Technology
Seema Kapoor
New Century Publications, 2013

The End of Cheap China
By Shaun Rein
Wiley, 2010

India: The Emerging Giant
By Arvind Panagariya
Oxford University Press, 2010

Vietnam: Rising Dragon
By Bill Hayton
Yale University Press, 2011

SELECTED ASIAN COUNTRIES AT A GLANCE

(GDP listed in terms of purchasing power parity) Note: The corporate tax rates indicated may be significantly reduced in many cases if businesses are sited in Special Economic, Free Trade or Export Processing zones. Please refer to the pertinent LEA member firm for clarifications. (Listed corporate tax rates are as published in the EY Worldwide Corporate Tax Guide 2014.)

China
Capital: Beijing
Population: 1.35 billion
GDP: USD $13.3 trillion
Corporate tax rate: 25 percent

Hong Kong
Capital: Hong Kong/Beijing
Population: 7 million
GDP: USD $400 billion
Corporate tax rate: 16.5 percent

India
Capital: New Delhi
Population: 1.2 billion
GDP: USD $5.3 trillion
Corporate tax rate: 40 percent foreign investors, 30 percent domestic companies, currently under discussion to unify at a flat 30 percent

Indonesia
Capital: Jakarta
Population: 237 million
GDP: USD $1.3 trillion
Corporate tax rate: 25 percent

Japan
Capital: Tokyo
Population: 126 million
GDP: USD $4.7 trillion
Corporate tax rate: 25.5 percent

Malaysia
Capital: Kuala Lumpur
Population: 30 million
GDP: USD $556 billion
Corporate tax rate: 25 percent

Pakistan
Capital: Islamabad
Population: 182 million
GDP: USD $574 billion
Corporate tax rate: 34 percent

Philippines
Capital: Manila
Population: 100 million
GDP: USD $456 billion
Corporate tax rate: 30 percent, reductions to 25 percent currently being discussed by parliament

Singapore
Capital: Singapore
Population: 5.3 million
GDP: USD $327 billion
Corporate tax rate: 17 percent

South Korea
Capital: Seoul
Population: 50 million
GDP: USD $1.75 trillion
Corporate tax rate: 10 to 22 percent

Vietnam
Capital: Hanoi
Population: 89 million
GDP: USD $359 billion
Corporate tax rate: 22 percent (reducing to 20 percent by 2016)

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