

BUSINESS SWEDEN



2ND EDITION

THE RISE OF THE SOUTHEAST ASIAN TIGERS

ELEMENTS FOR SUCCESS IN SOUTHEAST ASIA

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FOREWORD

During the dawn of the 21st century, the economies of Southeast Asia were among the fastest growing in the world. After a painful backlash in 2008, the region has regained its momentum and has been showing remarkable growth in the last five years, reaching a combined GDP equivalent to the world's fifth largest economy. In times of increased protectionism and trade tensions with a global economic slowdown and increased uncertainties, few regions present similar growth prospects.

However, there are factors threatening the region's optimistic outlook. Educational attainment and quality are uneven, there is a growing chasm between the rich and the poor, and public institutions in several of the countries are weak and in need of domestic reforms to tackle challenges with regards to corruption and transparency. To continue on its current growth trajectory, there are needs for vast infrastructure investments across Southeast Asia, and the region's manufacturing sectors require significant productivity improvements. With increased wealth, the domestic consumption of a rapidly growing and increasingly affluent middle class will be an important growth driver. Over the longer term, technological change and especially the emergence of the digital economy will be major drivers of economic growth, rapidly affecting trade, productivity, and ways of doing business in the region.

Swedish companies have a lot to offer the Southeast Asian countries in key areas such as industry automation, infrastructure development, and products and solutions for the emerging middle class. However, Swedish companies' focus in Asia have in recent years been primarily oriented towards other markets such as China and India, resulting in partly overlooked opportunities in Southeast Asia. At the same time, the major economies in Asia such as China, South Korea, Japan, and India are increasingly focusing their attention on the region.

We are happy to present an up-dated edition of our report on the developments in Southeast Asia, in which we highlight the fundamental yet strategic drivers that contribute to the growth in the region. The report is based on interviews with Swedish companies where we present four Elements of Success to win in Southeast Asia. In this report we have also added a survey among 300 manufacturers and industry experts in the ASEAN region to explore their view of the transformation journey that lies within the manufacturing industry.

For Swedish companies looking to embrace the growth opportunities in Asia, our firm view is that the Southeast Asia region is required to be awarded strategic importance.



MARTIN GLAUMANN
Market Area Director
Southeast Asia

SOUTHEAST ASIA – OUTPACING GLOBAL GROWTH

If viewed as a single economic entity, Southeast Asia would be the world's fifth largest economy and with rapid growth projections, the region's global significance can only be expected to increase further.

From Singapore's highly developed society to Vietnam's rapidly emerging middle class, Southeast Asia offers a diverse and fascinating region which combined represents 3.4% of global GDP¹. With a large, young population and some of the world's fastest growing economies, the region's strategic importance on the global stage can only be expected to increase further.

The countries of Southeast Asia have long been held back by poor infrastructure and problems stemming from their colonial pasts, but advances have steadily been made across all sectors and industries. As a whole, the region is expected to grow by an average of 5.2% per year until 2022, on the assumption that trade momentum holds and domestic reforms continue².

The region is home to more than 650 million people or 9% of the world's population, which is also one of the distinctive attributes of the region's growth outlook. In 2012, 190 million (less than 30%) were classified as middle class³. Driven by the region's rapid development, and rising incomes, 50 million new consumers will join the ranks of the middle class in Indonesia, Malaysia, the Philippines, Thailand and Vietnam by 2022. The middle class is projected to grow to 350 million people by 2022 and continue on its upward trajectory⁴.

While Indonesia and Malaysia will see annual growth rates of 5–6%, Vietnam, Philippines, Myanmar, Laos and Cambodia are expected to grow by almost 7% per year until 2023⁵. These are key reasons why many consider Southeast Asia to be among the most interesting regions globally, and one that

cannot be neglected in any international company's Asia-Pacific strategy.

As illustrated in the following graph, the historic and forecasted growth levels of Southeast Asia's economies strongly outperform those of the world and advanced economies.

A DIVERSE REGION WITH COMMON GROWTH DRIVERS

In 1967, Singapore, Malaysia, Thailand, Indonesia and Philippines formed ASEAN⁶ (later joined by Vietnam, Myanmar Laos, and Cambodia), with the aim and purpose to accelerate economic growth, social progress, cultural development and to promote regional peace, collaboration and mutual assistance on matters of common interest. ASEAN therefore resembles the EU in terms of vision but differs in the level of integration, at least in terms of what has been accomplished so far. Progress is however steadily being made, with economic integration being driven through the ASEAN Economic Community (AEC). In addition to its own internal free trade agreement (FTA) ATIGA (ASEAN Trade in Goods Agreement), ASEAN has also signed FTAs with economic powerhouses such as China, India, Japan, Korea and Australia.

Through its strategic location, Southeast Asia has for centuries been thriving on trade with other regions and countries. The strait of Malacca, flowing between Malaysia, Indonesia, and Singapore, has for hundreds of years been one of the world's busiest trade routes, and more than 15 million oil barrels pass through every day. The individual Southeast Asian countries differ in their dependence on international trade, but they share a similar stated commitment towards greater openness and increased integration – within the region as well as with global value chains. Indonesia, Malaysia, Philippines, Thailand and Vietnam have been nicknamed the 'tiger

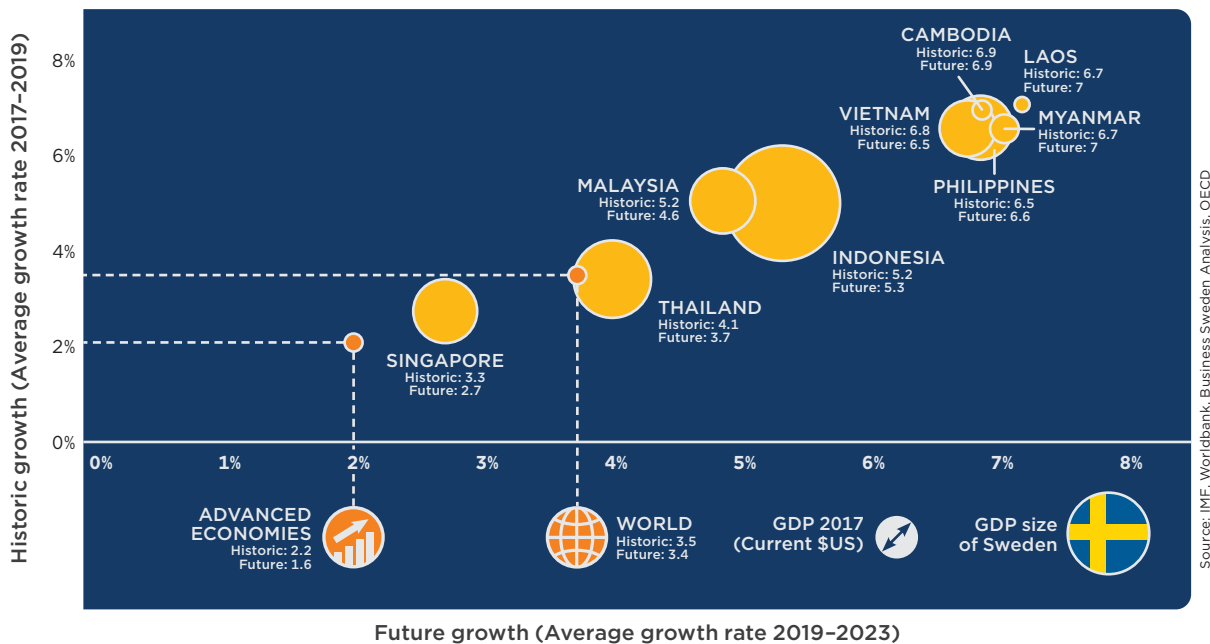


The region is home to more than 650 million people or 9% of the world's population



The middle class population is expected to more than double from 190 million to 350 million between 2012 and 2022

HISTORIC VS. FORECASTED GDP GROWTH RATES; SOUTHEAST ASIA, WORLD & ADVANCED ECONOMIES



‘Asian tigers’ – Hong Kong, South Korea, Taiwan, and Singapore; who all achieved high levels of economic development in the latter half of the 20th century through export-led growth with high technology content. This positive sentiment towards international trade can also readily be seen in the local business community. A recent survey found that companies within ASEAN remain more positive about the outlook for trade than any other trade bloc, despite having the highest proportion of corporates expecting protectionism to rise⁷.

For Swedish companies, an additional main reason for seeing Southeast Asia as a strategic region is the geographic proximity of the countries. Consider the location of Singapore, the 2nd highest ranked country in the world in terms of ease of doing business and the top location in Asia for multinational corporations’ regional headquarters (46%)⁸.

Using Singapore as a base, the entirety of the ASEAN bloc with its 650 million inhabitants are accessible within 3.5 hours by air travel. Further, the region’s strategic location provides easy access to other economic superpowers, such as China, India, Australia, and Japan.

INTEGRATION DESPITE DIVERSITY

While Southeast Asia through ASEAN is making efforts to increase regional integration, one should not forget the significant diversity of the Southeast Asian countries. In several perspectives, it is perhaps

difficult to imagine ten countries more different. From an income perspective, Singapore has a GDP per capita over 40 times higher than that of Myanmar. Political systems range from autocracy to democracy. Economic systems range from socialist to capitalist. Religions and languages are even more diverse.

Despite this diversity, the leaders of ASEAN remain committed to strengthening the partnership with the aim of furthering the level of integration. The benefits of increased integration and leveraging each other’s strengths seem to outweigh the risks and downsides of protectionism and fiercer competition.

There are also external factors that may impact Southeast Asia’s outlook. As China’s unprecedented growth journey is starting to slow down and the world’s largest country becomes increasingly exposed to geopolitical turmoil and trade tensions, particularly with the US, MNCs are likely to look towards other markets to diversify risks by moving production and establishing new supply chains. When assessing potential replacement of Chinese exports to the US, Southeast Asia stands out to potentially be a winner with Vietnam, Philippines and Cambodia being the three most attractive locations in East Asia according to analysts⁹.

We expect ASEAN to continue its endeavour towards a more integrated region, with the ASEAN Economic Community and ASEAN Smart Cities Network being only a few examples of regional efforts ongoing. The implication for Swedish

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46% of MNC’s regional Asia headquarters are located in Singapore

companies is that Southeast Asia should be regarded as a strategic region when setting market priorities, establishing supply chains and developing a high-performing organisation. However, while considering a regional strategy, Swedish companies also need to be cautious in not generalising the countries across Southeast Asia, and they need to conduct adequate market research to identify where the key opportunities can be found.

CHALLENGES REMAIN

While the fundamentals for continued growth and prosperity are mostly solid, there are also factors threatening the optimistic outlook. Despite tariffs and red tape within the bloc having been cut on a macro-level – we also observe signs of certain non-tariff barriers being on the rise, and national leaders remain keen on protecting traditional industries that they consider to be of strategic interest.

The breakneck speed of economic expansion in the region has not benefitted all its citizens uniformly, and Southeast Asia is host to some of the most unequal countries in Asia. The richest 1% of Thailand and Indonesia controls over half of the countries' wealth and this gap is widening in most countries in the region, with a clear urban-rural divide. Educational spending is low in many of the countries, however educational attainment and educational quality has been steadily improving. Likewise, various infractions on Human Rights have been reported in several of the countries in the region, within areas of e.g. freedom of the press, sexuality, religion, and affiliation.

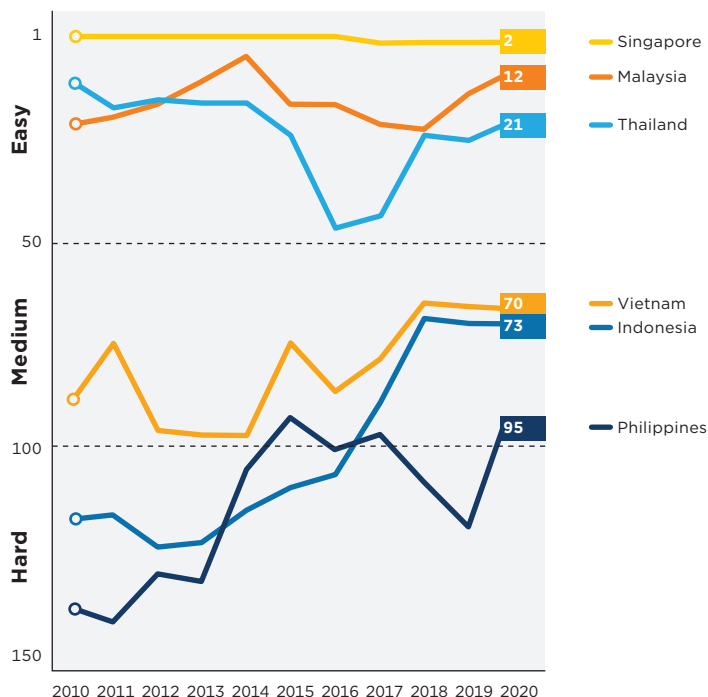
While these topics can be jarring for Swedish businesses, our view is that the structural issues should not dissuade companies from commercial activities in these countries. Conversely – good social outcomes can be achieved if proper due diligence activities are conducted on supply chain partners, and Human Rights compliance should be actively promoted when doing business in the region, in both upstream and downstream activities. A zero-tolerance policy toward corruption should be actively enforced. CSR activities can be formulated with the goal of promoting environmental sustainability, and supporting local communities with access to better health and education.

GROWTH DRIVERS

Across Southeast Asia there are needs of vast infrastructure investments, and the region's manufacturing sectors require significant productivity improvements. These challenges may pose opportunities for Swedish companies as the region is in need for sustainable and innovative solutions across many fields. With increased wealth, the domestic consumption of a rapidly growing middle class will also be an important growth driver. Improved internet access and emerging communication technologies affect all

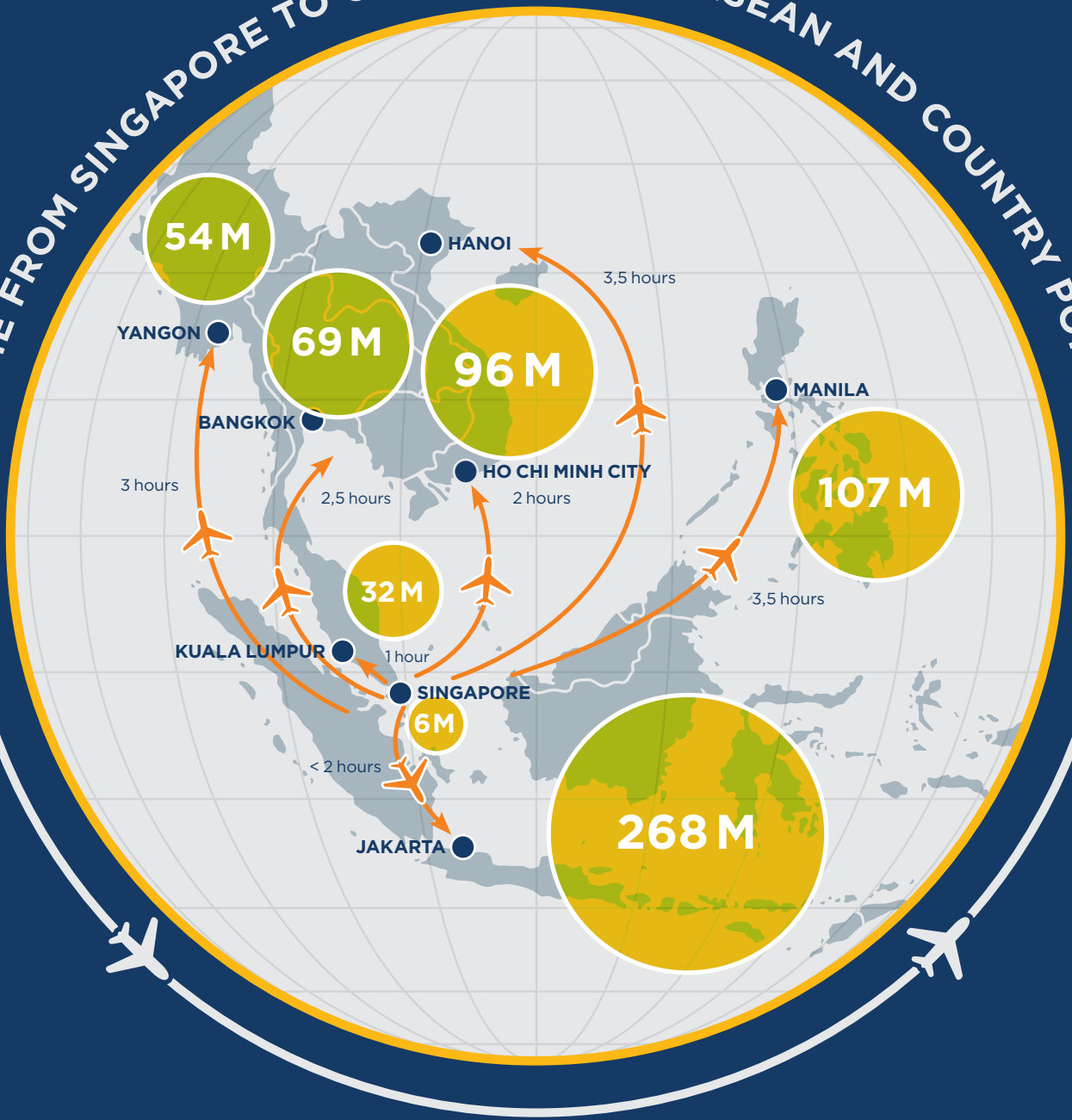
EASE OF DOING BUSINESS

Despite a positive trend in most countries, many of the Southeast Asian nations are in significant need of reforms in order to improve the business environment and tackle a range of issues with regards to corruption, transparency, human rights violations etc.



aspects of society and all economic growth drivers of the region will be increasingly subject to digitalisation, whether it being manufacturing, services or infrastructure development. Sweden has a lot to offer in key areas such as infrastructure development, industry automation and consumer products.

FLIGHT TIME FROM SINGAPORE TO OTHER CITIES IN ASEAN AND COUNTRY POPULATIONS





**A REGION
OF UNTAPPED
POTENTIAL**



1.6%
OF SWEDISH
EXPORTS

3.4%
OF GLOBAL
GDP

9%
OF GLOBAL
POPULATION

5.2%
ANNUAL GDP
GROWTH

NEED FOR INFRASTRUCTURE INVESTMENTS

One of Southeast Asia's most significant challenges is the pressure on infrastructure posed by the region's rapid development. Over the last decades, millions of people have been moving from the countryside into cities to live and work. This rapid urbanisation is expected to continue and, in many cases, accelerate with estimated urban population rates to reach 66% in 2050, up from 47% in 2015¹⁰.

Already today, there is a large pressure on most countries to develop their domestic infrastructure in areas such as transport, energy and construction. Additionally, ASEAN as a joint community has a vision for greater physical, digital and people-to-people linkages among its members. The Master Plan on ASEAN Connectivity 2025 proposes connecting the members with new infrastructure and the coastal countries are strengthening the ASEAN Maritime Economic Corridor with improved ports. Highways and railways are going through upgrades and there are efforts to improve logistics and regulations to allow goods, services, and people to move faster. The ultimate goal is a seamlessly connected and integrated ASEAN.

The total infrastructure investment needs from 2016 to 2030 driven by the urbanisation and the ambitions of a more integrated region are estimated to be US\$2.8 trillion (baseline estimate) and US\$3.1 trillion (climate-adjusted estimate)¹¹. This means that spending on infrastructure will grow significantly faster than overall GDP in several of the region's countries. The financing of these investments is partly supported by the Asian Development Bank (ADB), which has established the ASEAN Infrastructure Fund and estimates that ASEAN needs US\$60B per year to address infrastructure needs. But the vast needs will not be met by multilateral institutions alone, the region will also have to continue attracting foreign investments, as well as ensuring fair contracting terms.

Additionally, Southeast Asia is also highly exposed to China's Belt and Road Initiative (BRI).

China International Contractors Association (CHINCA) has for several consecutive years ranked Southeast Asia as the top region in its "Belt and Road Infrastructure Development Index", looking at trends and potential of new infrastructure development needs in the next few years. The index ranks 71 countries and Indonesia (1), Singapore (2), Vietnam (5) and Malaysia (9) all belong to the top 10. It should however be noted that China still lags behind e.g. Japan and the EU in terms of FDI to the region¹².

The types of projects and investments vary across countries. In the more mature countries – Singapore, Malaysia and Thailand, where the road network and city infrastructure have reached a certain level of development, the focus is largely on rail and commercial construction. In contrast, countries like Vietnam, Philippines and Indonesia have large project pipelines for power plant and grid investments and road network upgrades. Swedish companies need to analyse which markets provide the greatest potential, depending on the type of infrastructure solutions they offer.

SMART AND SUSTAINABLE CITIES

In addition to physical infrastructure investments, the public and private sectors also have high ambitions with regards to development of smarter and more sustainable cities. 82% of citizens in Southeast Asia thinks that their city should launch more smart



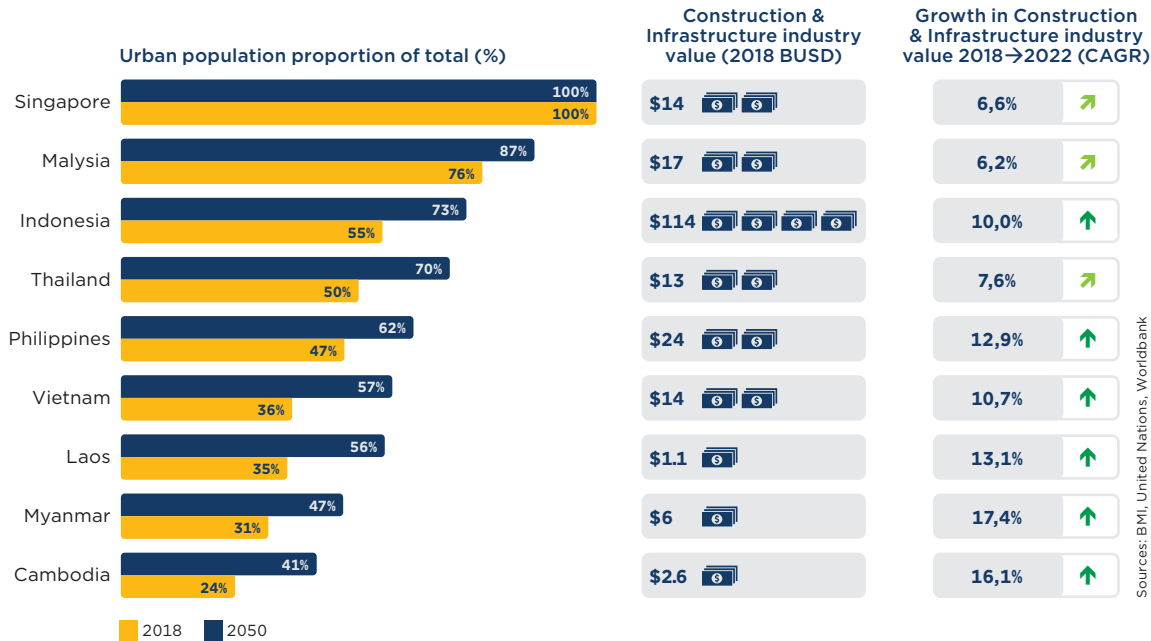
Urbanisation and infrastructure will be the main drivers for growth in the region.

General Manager
Singapore, Swedish
Finance company

Accumulated FDI to ASEAN 2013-2018 (US\$ Billion)	
EU	\$154
Japan	\$99
USA	\$87
China	\$52
Korea	\$34

Source: ASEAN Stats Data Portal

GROWTH IN URBAN POPULATION AND SPENDING ON CONSTRUCTION AND INFRASTRUCTURE



city initiatives, with the top ranked benefit being improved environment¹³. Traffic congestion, air pollution and issues of environmental concern are all significant challenges for the region's cities and these need to be addressed by smart and innovative solutions.

Based on the 2018 World Air Quality Report, Jakarta and Hanoi are identified as Southeast Asia's two most polluted cities. With Beijing's air quality getting better, Jakarta risks overtaking China's famously polluted capital soon.

Traffic congestion costs 2–5% of GDP every year and air pollution has risen by a yearly average of over 5% between 2008 and 2013 in more than two thirds of the region's cities¹⁴. The convergence towards smarter cities is driven both on the countries' national agendas as well as through regional efforts. The ASEAN Smart Cities Network, a collaborative platform, was launched in 2017 to synergise smart city development efforts across the region. In the first launch, 26 cities were nominated as pilot cities, ranging from Kuala Lumpur in Malaysia to Yangon in Myanmar. While the levels of technological sophistication as well as market challenges vary between the different centres in the region, agile Swedish companies are likely to identify ample challenges that can be converted into opportunities for intelligent solutions adaptable to specific problems.

CASE STUDIES

SWEDISH COMPANIES INVEST IN LOCAL INNOVATION TO PUSH GROWTH IN SOUTHEAST ASIA

Many Swedish companies such as ABB, AAK, Hexagon, SKF, Volvo Bus, SAAB and Scania engage in innovative collaborations with government entities, universities and other companies in Singapore. Through EDB (Economic development Board) Singapore offers several grants and incentives to eligible companies ranging from grants for research, training, productivity, to tax incentives for pioneer activities. The Swedish companies have made major investments in launching Innovation centres, joint research projects and trials at the multiple test-beds around Singapore. The main reasons for launching these initiatives in Singapore are the access to talent, IP protection and world class universities.

One example is ABB that recently launched a 3000 m² innovation centre to position itself within digitalisation towards customers. The fast developing Southeast Asia region is on its way to adapt to the 4th industrial revolution, and ABB's investment and expanded presence in Singapore aim to cater to these demands across the region.

Another area where Singapore has become an Asian hub is within autonomous driving. From a Swedish perspective several companies are involved where Volvo and ABB are collaborating with Nanyang Technology University in piloting self-driving buses and Scania has engaged with the port operator PSA since 2017 in autonomous truck platooning system.

TRANSFORMATION OF THE MANUFACTURING SECTOR

Manufacturing is the beating heart of the ASEAN economic bloc. The sector accounts for more than 20 per cent of the region's gross domestic product and is a major driver of growth and competitiveness.

Today, ASEAN is one of the largest markets and boasts the world's third largest labour force. The bloc's importance as a global manufacturing hub has strengthened from the ripple effects of the U.S.–China trade conflict.

The Southeast Asian countries differ in terms of what is being manufactured and to what extent. Indonesia has the largest total manufacturing output, with a high portion in food and beverage driven by the large population's domestic consumption. The automotive industry is a major sector in Thailand wherein the sector has received more than 50% of FDI for many years, and most recently in Vietnam where we are witnessing robust expansion of the 4-wheeler segment in the eye of expanding value chain of Vinfast.

The electronics sector is significant in several countries but the type of products and manufacturing differ, with e.g. Vietnam strengthening its position as a global hub for mobile phone assembly with Samsung at the forefront, Malaysia being large within semiconductor manufacturing, and Thailand

being the second largest hard disk drive producer in the world. On the high-end of the spectrum there is Singapore, where high value-add manufacturing remains an important pillar of the economy, with the focus on R&D and engineering services in for instance electronics and chemicals. Singapore's government also has ambitions of becoming among the world's most research intensive countries and is likely to become a regional centre for manufacturing innovation.

PRODUCTIVITY IMPROVEMENTS AND INDUSTRY 4.0

While industries in focus, salary levels and value-add all differ among the countries there is an overarching regional need for productivity enhancements. Looking historically, the countries' productivity levels have grown significantly slower than for instance China's. ASEAN-6 (Singapore, Thailand, Malaysia, Indonesia, Vietnam and the Philippines) will need to boost productivity by 50–170% through 2030 to maintain historical growth rates¹⁵. This is an essential challenge to overcome if the prospective growth outlook of the region shall be realised. There are numerous efforts to accomplish this, for instance increased penetration and utilisation of disruptive technologies and improved quality of human capital. The region will need to address both areas simultaneously, as it will be necessary to have highly skilled staff capable of operating advanced systems.

The former creates opportunities for Swedish companies to integrate with Southeast Asian manufacturers' supply chains as they become more developed and demand increasingly advanced solutions. This presents openings for Swedish companies with innovative offerings in e.g. machinery, tools, connectivity, and manufacturing software.

Business Sweden's recent survey, conducted among 300 manufacturers and industry experts in the ASEAN bloc, confirms that manufacturers in the region have overwhelmingly recognised

FACTS

SAMSUNG IN VIETNAM

- Samsung Electronics has invested a cumulative US\$17B and employs more than 100 000 people in Vietnam
- Almost one third of Samsung Electronics' output is produced in Vietnam, making Vietnam the world's second largest smart-phone exporter after China
- Samsung's exports of - US\$65B represents more than 25% of Vietnam's total exports as well as GDP

the power and potential of Industry 4.0 technologies. The impact of smart machines and robotics, big data analytics and virtual modelling, to name a few examples, is being carefully assessed.

At the same time, a number of challenges and potential stumbling blocks have been identified across the six markets in the survey. High initial investment costs, lack of technical skills and know-how as well as lagging infrastructure are all barriers that need to be addressed. Despite this, four out of five manufacturers in ASEAN plan to invest in the technology shift in the next three years. This opens up a spectrum of opportunities for suppliers.

Swedish companies with experience from more mature markets are well positioned to assume an industry leader role in the region, helping manufacturers leapfrog to the next level of efficiency and productivity. Now is the time to tap into strategic national goals defined in the Industry 4.0 roadmaps presented by governments in the ASEAN bloc. Sustainable and innovative solutions, a competitive service offering, and strategic partnerships to develop the region's human capital will be key factors for market success.

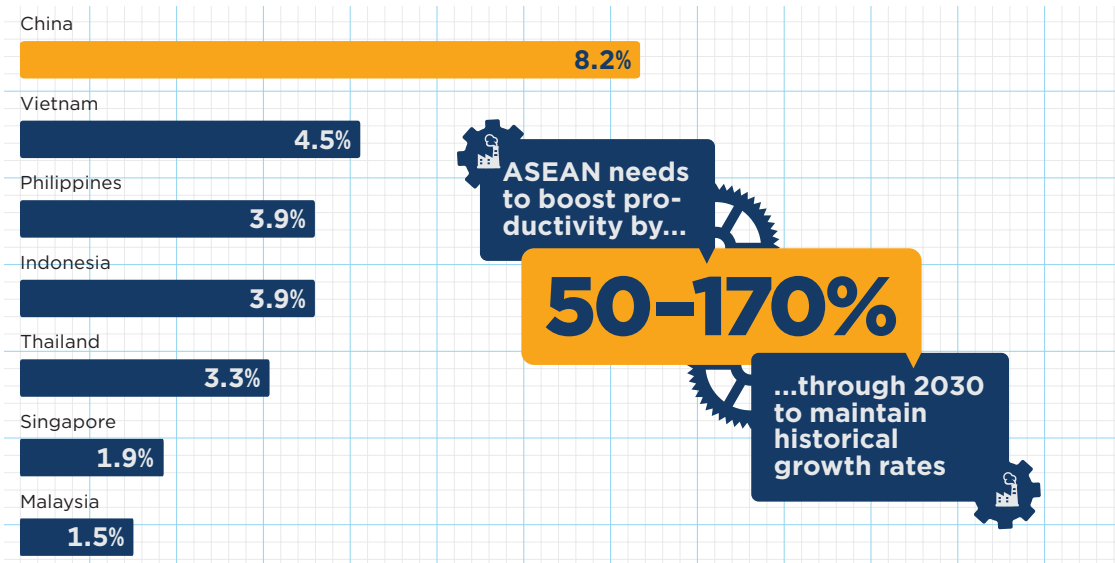
CASE STUDIES

ATLAS COPCO TARGETS KOREAN MANUFACTURERS IN VIETNAM

China, Japan and South Korea are three of the countries with largest influence in SEA. As an example, Southeast Asia hosts more Japanese workers than any other region abroad, including North America and Europe. China on the other hand is the largest foreign investor in Cambodia, Laos, Malaysia and Myanmar, and the second largest in Singapore and Vietnam. This situation is something Swedish companies need to adapt to, which Atlas Copco decided to do in Vietnam.

Atlas Copco has been in Vietnam for over 25 years and today employs close to 100 people. Their strategy has changed due to the movement of many foreign manufacturers from China to Vietnam. Today, Korea is the biggest foreign investor into Vietnam's manufacturing sector. In total there are more than 2700 Korean companies in Vietnam of which 1538 are manufacturing entities. As comparison there are approximately 70 Swedish companies present in Vietnam. Atlas Copco has therefore appointed a Korean Business Development Manager in Vietnam to better cater for the Korean customer base due to language barrier and Korean culture. This is key as it helps Atlas Copco better understand the customer's behaviour and purchasing preferences.

HISTORICAL PRODUCTIVITY ANNUAL GROWTH RATE (10Y CAGR 2008-2018)



Source: The Conference Board Total Economy Database, McKinsey

THE EMERGING MIDDLE CLASS IS DIGITAL

Southeast Asia's large population and rapid economic growth drive the emergence of a middle class market of several hundred million consumers. By 2022, the middle class population¹⁶ in Southeast Asia is projected to reach 350 million, is almost doubling since 2012. As this large, emerging middle class becomes wealthier and accustomed to a higher quality of life, it is highly likely that the demand for foreign brands as well as sustainable products will increase.

While 77% of the business leaders interviewed for say this new group of middle-class consumers could help them significantly grow their business, only 15% of those executives indicated that they are fully prepared for the new volume of middle class. More than half of the executives say they lack the right products or services, as well as go-to-market strategies and sales channels for these consumers¹⁷.

For instance, a survey of more than 1400 consumers in Thailand, Malaysia, Indonesia, Philippines and Vietnam found that ASEAN consumers are becoming increasingly brand conscious and willing to pay a premium for eco-friendly products¹⁸. In addition to increasingly demanding quality products, ASEAN consumers were also highly conscious shoppers with several factors influencing their purchasing decisions, with key concerns being functionality, energy efficiency, product safety and environmental friendliness.

We see how Swedish product and retail companies are targeting the Southeast Asian consumer market. Already present in Singapore, Malaysia, Indonesia, Thailand, and the Philippines, H&M opened its first stores in Vietnam in 2017 and foresees rapid growth throughout the region. IKEA is also expanding its presence in the region, and recently announced it will open a store in the Philippines by late 2020 – which will be the largest IKEA store in the world.

DIGITAL CONSUMERS AND PLATFORMS

The Southeast Asia region, just as large parts of the rest of the world, is being transformed by the rapid adoption of digital technologies. Internet use has risen steadily across the region and millions of new Internet users will be added in the coming years. Southeast Asia has a young population and its citizens under 35 years of age are among the heaviest social media users in the world. The countries differ in terms of demographics and digital behaviour, but one thing remains clear – the emerging middle class of Southeast Asia is digital. This presents opportunities for Swedish businesses with consumer products tailored for this emerging, digital middle class.

The Southeast Asian e-commerce markets are expected to follow the same rapid growth as China. The Chinese giants Alibaba and Tencent have already invested in the region and are bringing technology and experience from the world's largest e-commerce market. In Southeast Asia, from 2015 to 2025, the e-commerce marketplace is expected to increase sixteenfold. The e-commerce boom presents significant opportunities but is also a challenging landscape to navigate, with platforms, operating models and consumer behaviours differing from what Swedish companies may be used to.

Success in this rapidly developing landscape will require the ability to pivot quickly. The average time spent on social media exceeds two hours in most Southeast Asian countries, but the platforms used and the behaviour on them differ country by country. Future winners will have to constantly reinvent their capabilities in order to outpace rivals. Adopting an omni-channel strategy, partnering up with the right platforms, and embracing social media will all be parts of a key success strategy to build trust with consumers.



ASEAN consumers are becoming increasingly brand conscious and willing to pay a premium for eco-friendly products



During 2020 IKEA is planning to open the world's biggest IKEA store in the Philippines

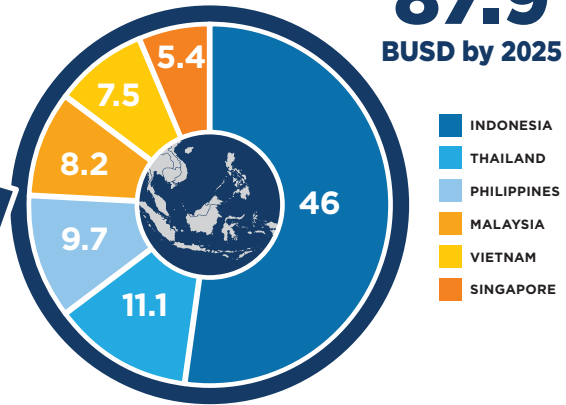
KEY FACTS ABOUT ASEAN E-COMMERCE SECTOR

5.5
BUSD by 2016



16X
INCREASE IN e-COMMERCE MARKET SIZE FORECASTED

87.9
BUSD by 2025



240
MILLION
Internet users



700
MILLION
Mobile subscriptions



15%
CAGR
Since 2015



5,5
BUSD
Market value in 2016

Source: Temasek & Google Asia, Southeast Asia Digital Consumer Survey (Bain & Company)

Today, e-commerce is dominated by the B2C segment, but B2B and B2G will follow a similar path. In the business to business environment we already today observe that 80% of information gathering takes place before contacting suppliers and the digital economy growth is outpacing non-digital growth by a factor of 3. Companies in these sectors should not stall in developing their digital offerings and selling points such as e-catalogues and prepare for e-procurement in public tenders. As only one in ten suppliers can receive orders online whereas one in three buyers send online orders in Southeast Asia, we expect to see a rapid development with suppliers scrambling to catch up to a demand driven by buyers used to the advanced consumer e-commerce landscape.

Overall, Southeast Asia will only increase in attractiveness for Swedish companies as a mass market when the middle class expands further and becomes more wealthy and digital. Swedish companies should leverage their strong brands and reputation for quality and sustainability, but as importantly, adapt their strategies and execution to the local digital landscape of the individual countries.

CASE STUDIES

DANIEL WELLINGTON GROWS IN SOUTHEAST ASIA THROUGH RETAIL AND E-COMMERCE

Daniel Wellington was founded in 2011 and has since then been on a rapid international growth journey with a revenue growth from 0 to \$180m in the first 5 years. In Southeast Asia, the initial expansion was through distributors in the individual countries, however, the company has gradually been moving towards a business model dominated by own stores in the region.

From the very beginning, Daniel Wellington has had confidence in its product and brand, and focused heavily on marketing on both local as well as global level.

In addition to traditional retail sales, another key success factor has been to have a strong online presence on multiple platforms, including the company's own web shop and on key e-commerce platforms in the local countries and in the region.

Moving forward, Daniel Wellington aims to further expand its footprint in the region, through more stores and with a focus on end-to-end control of the distribution.

TIME TO INVEST IN GROWTH

Southeast Asia is one of the most strategically located and economically fastest growing regions in the world. The fundamental growth drivers are spurred on further by innovative technologies and investments.

The Southeast Asian countries have strong ambitions to strive towards smarter and more sustainable cities through infrastructure development. The manufacturing sector will need to increase productivity by embracing disruptive technologies as part of Industry 4.0, a journey that has only begun in the region. Digital consumers and e-commerce will be key elements of the large forecasted growth in consumer spending, stemming from a middle-class population growing by several hundred million new consumers in the coming years. The significant diversity of the region translates to substantial growth prospects for a wide range of Swedish companies of various sizes and sectors, even though careful analysis and navigation are required to identify and capture that potential.

Sweden has a long tradition and strong global reputation for innovation, quality and sustainability. This puts Sweden and Swedish companies in a good position to meet the region's increasing demand for quality consumer products and to offer the solutions for infrastructure challenges and improved manufacturing. However, while few would question the growth and the opportunities offered by the region, the competition and challenges faced should not be underestimated. While Southeast Asia is a long way from Sweden, it is the backyard of powerful competitors from China, Japan and South Korea who are ramping up their presence through Official Development Assistance (ODA) and large-scale investments from private conglomerates. We see a rapidly increasing influence from China, in large part driven by the Belt-and-Road Initiative which has ranked Southeast Asia as the most attractive region in terms of potential for infrastructure development, compared to e.g. 'South Asia', 'Central Asia' and 'Central and Eastern Europe'¹⁹.

Swedish companies cannot rely on the same recipes that may have worked historically in their traditional markets but need to adapt to challenges and opportunities on the ground. To address these challenges and to capture the vast market opportunities we have defined four key elements for success in Southeast Asia to be considered when entering as well as when re-defining your regional strategy.

1 TARGET THE RIGHT CUSTOMER

The growth opportunities in Southeast Asia are obvious but has also been recognized by many of the major economies in Asia. Due to fierce competition and the complex diversity of the region, we see that successful companies put significant efforts and investments into formulating clear strategies for their prioritized markets. To succeed, it will not be enough to identify the most attractive mega-projects and the right industrial companies and conglomerates. Foreign companies also need to be aware that many purchasing decisions are made outside of the local markets, as exemplified by Korean manufacturers in Vietnam or Chinese EPCs involved in Belt and Road Initiatives across the region. The most vibrant and attractive consumer segments will for most Swedish companies be found in the growing megacities across the region – to focus on urban centers rather than overall countries will most likely be key for success. Considering the global macro-economic situation, the immaturity of many of the markets, and the political instability, diversifying risk across the region is a winning strategy.

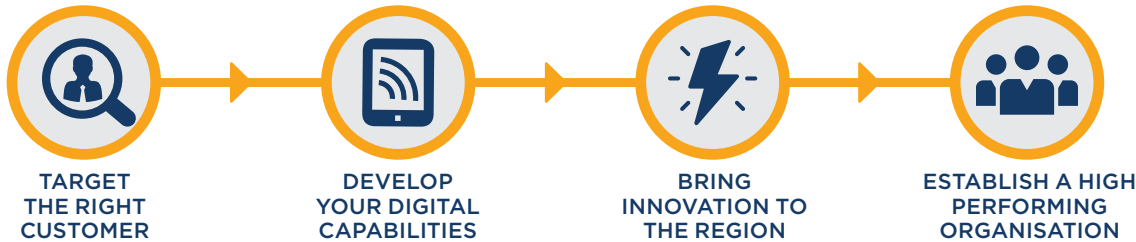
2 DEVELOP YOUR DIGITAL CAPABILITIES

Digitalisation will have transformative effects on Southeast Asia's economies. It has already affected trade, productivity, and ways of doing business in the region. New technologies and improved access

“The use of digital channels for customer acquisition and marketing is a very cost efficient way of reaching customers in the well connected Southeast Asia”

Vice President Southeast Asia, Swedish Transportation company

ELEMENTS FOR SUCCESS IN SOUTHEAST ASIA



to the internet and information and communication technologies will continue to reshape manufacturing and services sectors. B2B companies may seek to differentiate by offering connected products, monitoring and analyzing performance to enhance customer experience, and driving up- and cross-sales of products and services. These capabilities will be key to support the needs for increased productivity in the manufacturing sector as well as to leverage digital technologies to make cities and infrastructure smarter and more sustainable. Private and professional purchasing decisions are also moving online, and the online landscape has more in common with other Asian markets than with Europe and the US. Adopting an omni-channel strategy, partnering up with the right platforms, and embracing social media will all be parts of a key success strategy to build trust with consumers.

3 BRING INNOVATION TO THE REGION

The technological leadership that Swedish companies typically have enjoyed is in many cases being eroded, and Asian competitors are present not just in lower tier segments. A solution-oriented mindset, focusing on customer value and life-time cost, will continue to be critical to win in Southeast Asia. As in other emerging markets, tiered (i.e. multi-branded) product strategies can also be a way of penetrating new mid-market segments, and competing with lower priced brands. But this alone will most likely not be sufficient as the Southeast Asian markets are developing. In the new digital era, the ability of being innovative in adapting your value proposition will be increasingly important. This goes beyond changing your pricing strategy or payment terms. It is about truly adapting to what customers demand and about bringing innovation and business development to the region. We have seen examples of Swedish companies establishing innovation centers to demonstrate

their latest technologies and to co-innovate with local customers and partners. Bringing innovation to the region will be paramount for a sustainable competitive advantage.

4 ESTABLISH A HIGH PERFORMING ORGANISATION

Local proximity is crucial in order to be able to capture the full potential in Southeast Asia. You will need a strong, local presence and a talented and committed team. Companies relying on individual sales representatives or passive distributor strategies will simply be outrun. One of the most significant success factors brought forward from Swedish companies present in the region is the need to invest in local talent. The overall trend is clear; companies at the forefront invest in regional production capacity, R&D capabilities, together with a strong local management with the aim to capture the long-term prospects and short-term wins in Southeast Asia.

SEIZE THE UNTAPPED POTENTIAL

Despite the challenges, the economic power and global strategic importance of the Southeast Asia region cannot be ignored and will only increase further. Traditionally it has primarily been the industrial, multinational Swedish companies who have been taking position in Southeast Asia. While we believe that there is still large untapped potential for these companies and they should ramp up their investments, we also see an increasing potential for products and solutions from fast-moving, tech-, and innovation-focused SMEs and start-ups. Business Sweden is confident that Swedish companies can and should invest and increase their presence in Southeast Asia, to take part of the growth journey this dynamic region is on. The Southeast Asian tigers are on the rise.

“It is key to tailor service offerings to clients, for instance after-sales service and offering more than just a product. Asian brands are good at product but are lagging behind when it comes to service”

Vice President Southeast Asia, Transportation company

“The ultimate key success factor here is our employees. To get the best employees on board and to keep them on board with good coaching and training”

Vice President, Swedish Manufacturing company

ABOUT BUSINESS SWEDEN

Business Sweden's purpose is to help Swedish companies grow global sales and international companies invest and expand in Sweden.

Swedish companies can trust us to shorten time to market, find new revenue streams, and minimise risks. We offer strategic advice and hands-on support in more than 40 countries around the world. Business Sweden is owned by the Swedish Government and the industry, a partnership that provides access to contacts and networks at all levels.

Business Sweden covers all ten markets in South-east Asia through our six offices located in Singapore, Jakarta, Kuala Lumpur, Bangkok, Hanoi and Manila.

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