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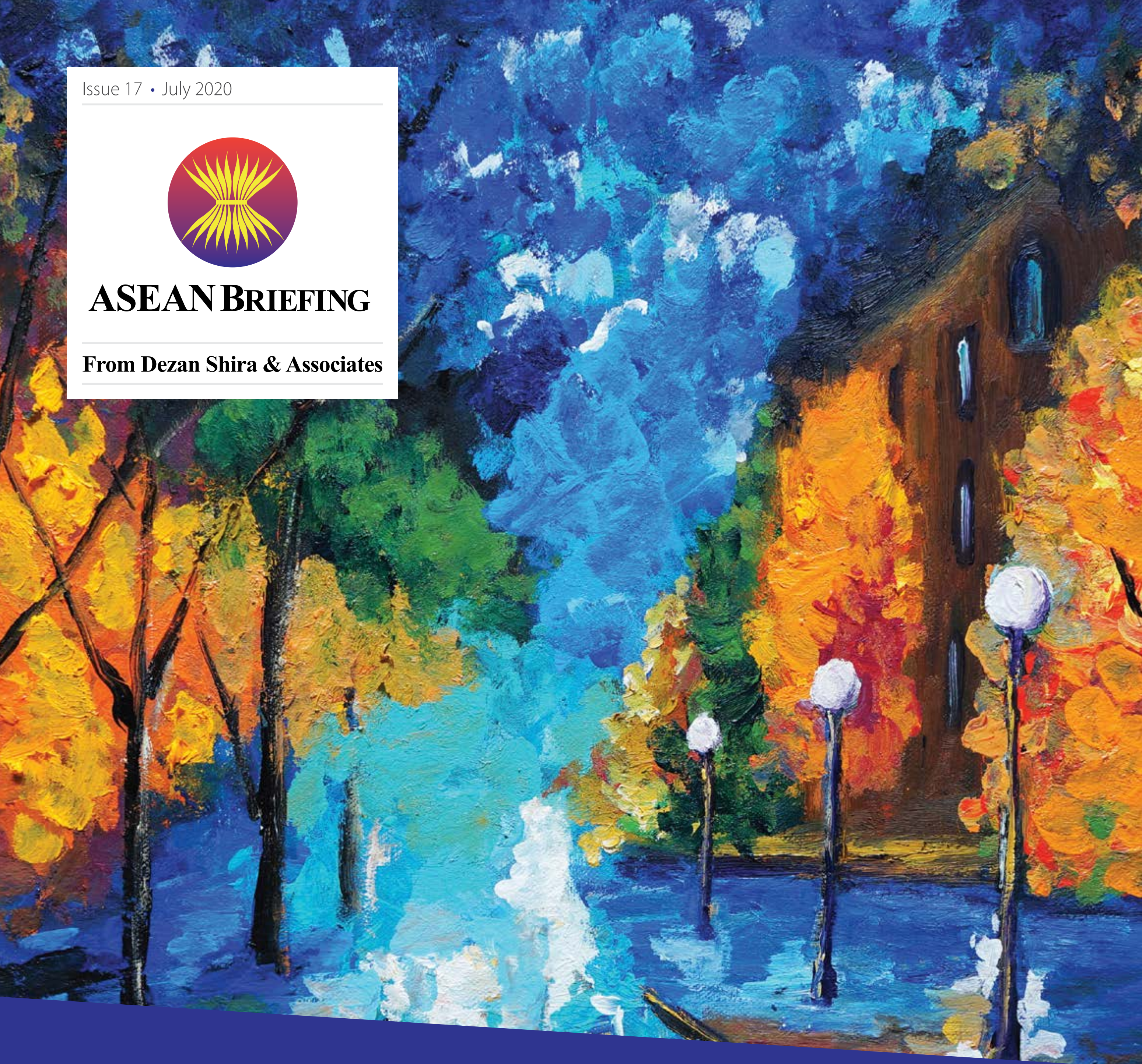

Business Recovery in ASEAN After COVID-19

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Introduction

ALBERTO VETTORETTI
Managing Partner

Southeast Asia has been hit hard by the COVID-19 pandemic as much of the rest of the world.

In response, countries across the ASEAN bloc have issued various stimulus packages containing incentives and new regulations to mitigate the economic impact of the pandemic.

Despite recording a downturn, ASEAN economies offer compelling investment prospects for prominent businesses and niche industries given the region's well-established trade networks, growing middle-class cohort, and a young and educated workforce. In the first quarter of 2020, the bloc became China's largest trading partner worth a total US$150 billion during this period. Furthermore, the IMF predicts the region to grow by 7.8 percent in 2021, fueled by the acceleration of China-based manufacturers looking to diversify their risks into ASEAN.

In this issue of the ASEAN Briefing magazine, we begin by introducing the different incentives and measures issued by ASEAN's largest economies from March to June 2020 to mitigate the economic impact of the virus. We then analyze the HR and employment issues faced by businesses during the pandemic. Finally, we focus on the investment opportunities in ASEAN in the post COVID-19 era.

With offices located in ASEAN and years of experience helping foreign enterprises set up operations in the region, Dezan Shira & Associates is well positioned to assist your company in entering ASEAN markets. For more information, please email us at asia@dezshira.com.

With kind regards,

Alberto Vettoretti

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Business Recovery in ASEAN After COVID-19

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Government Measures to Counter COVID-19 Impact in ASEAN

Author: Ayman Falak Medina

The onset of the COVID-19 outbreak has severely impacted the economies of ASEAN, with the Asian Development Bank (ADB) predicting that developing Asia will only grow by 2.2 percent in 2020.

To mitigate this impending forecast, ASEAN countries have issued various stimulus packages in the form of tax breaks, cash handouts, and low-interest loans, among others.

This article will highlight the important measures introduced by the largest ASEAN economies to mitigate the immediate and long-term impact of the virus on businesses (mainly small and medium-sized enterprises or SMEs) as well as the economy.

Moreover, we look at the assessments made by the IMF and ADB on the prospective growth of the region post COVID-19.

Indonesia

ASEAN's largest economy has been severely impacted by the outbreak in terms of the number of cases and fatalities as well as the economic fallout. The government expects the economy to grow to 2.1 percent, a sharp downturn compared to the 5.1 percent predicted before the outbreak.

To mitigate this slowdown, the government issued several economic stimulus packages between February and May 2020. Totaling close to US$80 billion, the packages aim to support businesses impacted by the virus through various non-fiscal and fiscal incentives. These include tax breaks, tax reductions, and the simplification of import and export activities.

We highlight some of the key fiscal and non-fiscal incentives for the next six months from April to September 2020.

Fiscal incentives

Tax breaks

The government has allocated 123 trillion rupiah (US$8.3 billion) in tax incentives for various industries.

This includes reducing the corporate income tax (CIT) rate from 25 percent to 22 percent for the 2020-2021 tax year. This will be further reduced to 20 percent for the 2022 tax year.

Further, income tax for companies in the following sectors will be reduced by 30 percent.

These sectors are:

1. Agriculture, forestry, fisheries;
2. Mining and quarrying;
3. Processing industry;
4. Electricity, gas, steam, and cold air suppliers;
5. Water management, wastewater, waste recycling, and remediation activities;
6. Construction;
7. Wholesale, retail, repair, car, and motorcycle maintenance;
8. Freight and warehousing;
9. Hotels and accommodation providers, F&B;
10. Information and communication;
11. Financial activities and insurance;
12. Real estate;
13. Professional scientific and technical services;
14. Rental activities, warehouse rental business, employment, travel agents and other business support;
15. Education;
16. Human health and social activities;
17. Tourism, arts, entertainment, and recreation industry; and
18. A company whose activities are located in special bonded zones.

The government will also bear the 0.5 percent income tax on businesses having a gross annual turnover of 4.8 billion rupiah (US$326,000) as stipulated under Ministry of Finance Regulation 23 of 2018, from April to September 2020.

Employees working in the mentioned sectors and earning below 200 million rupiah (US$13,000) per annum will be exempted from paying income tax from April to September 2020.

Non-fiscal incentives

Simplifying import activities

The stimulus packages will simplify and accelerate import and export procedures by reducing the 'Restriction and Prohibition' (Lartas) measures. This will mean scrapping some 749 Harmonization Codes (HS) products, consisting of 443 HS codes for fish and fish products, and 306 HS codes for forestry and forest products.

The government will assist and quickly approve the license applications for the import and export of goods classified as restricted for 'reputable traders'. These are businesses that have a good history of complying with government regulations.

Singapore

Singapore has introduced four stimulus packages (Unity 2020, Resilience Budget, Solidarity Budget, and Fortitude Budget) worth a combined total of S$100 billion (US$70 billion) or nearly 20 percent of GDP.

The packages are aimed at helping businesses and households with a large portion of the funds from the first three packages used to support a wage subsidy initiative, called the Jobs Support Scheme (JSS) as well as training programs for jobseekers.

Key Incentives Under Singapore's Stimulus Packages

Rebates and deferment of corporate income tax

The government has provided rebates and deferments for corporate income tax (CIT) for the 2020 financial year at a rate of 25 percent and capped at S$15,000 (US$10,700) per company. Furthermore, CIT payments due in April, May and June 2020, have been granted an automatic three-month extension.

Deferment of income tax

Employees can also defer their income tax payments that were due in May, June, and July 2020, for the next three months.

Jobs Support Scheme

The Jobs Support Scheme allows the government to pay 75 percent on the first S$4,600 (US$3,223) of monthly salaries for each local employee until August 2020. Also, more than S$8.3 billion (US$5.9 billion) in funding over the next three years has been allocated to help with skills training and job redesign.

Loans for SMEs

Under the SME Working Capital Loan scheme, businesses can access up to S$1 million (US$702,000) in working capital for their cashflow needs.

The repayment period is five years and the government provides 90 percent risk share between participating banks and the government.

Waiver of Foreign Worker Levy

The government has waived the Foreign Worker Levy (FWL) until July 2020. There will be a 100 percent waiver and S$750 (US$525) rebate in June 2020 and a S$375 rebate (US$264) in July.

Incentive for hiring local workers

Singapore companies will be given financial incentives if they hire local workers who have completed the traineeship and training programs. If employers hire workers under the age of 40, the government will pay 20 percent of the monthly salary for six months, capped at S$6,000 (US$4,200). Employers who hire workers above the age of 40 will be eligible for 40 percent of the monthly salary for six months, capped at S$12,000 (US$8,400).

Thailand

Thailand has issued three stimulus packages worth over US$60 billion. Named, Phase 1, Phase 2, and Phase 3, the packages were issued between March 4 and April 7, 2020.

Phase 1 and Phase 2, each valued at US$3.2 billion and US$3.5 billion, respectively, focuses on providing low-interest loans for SMEs, tax deductions, and cash handouts for workers. These measures will help companies boost their liquidity in the wake of the expected contraction of the economy this year. The country's central bank, the Bank of Thailand, has forecasted the economy will shrink by 5.3 percent this year.

Phase 3, which was valued at US$58 billion, enhances the measures provided in Phase 1 and 2 by allocating US$15 billion in funding for commercial banks to lend to SMEs. This soft loan for SMEs (with an existing credit line of under 500 million baht (US$15 million)) will be provided at an annual interest rate of two percent.

For the first six months, however, the interest rate will be at zero percent, which will be absorbed by the government.

Withholding tax will be reduced from 3 to 1.5 percent starting from April 1 until September 30, 2020. From October 1, 2020, this tax rate will be reduced again to two percent until December 31 of the same year.

Malaysia

Malaysia issued four stimulus packages totaling over US$60 billion to help businesses and households during the pandemic.

More than US$5 billion worth of funding has been allocated to support the economy and SMEs in managing their cashflow. These have come through low-interest loans, deferment of income tax and loan repayments, and wage subsidies, among others.

Under the measures, each eligible SME can receive between 20,000 ringgit (US$4,500) and 1 million ringgit (US$226,000) with a tenure of 5.5 years – this includes a six-months payment moratorium. Furthermore, micro-enterprises can receive up to 75,000 ringgit (US$17,000) in interest free loans.

Through the wage subsidy scheme, workers earning less than 4,000 ringgit (US$916) per month will be eligible to receive 600 ringgit (US$137) per month until September 2020. Another initiative to reduce the financial burden of SMEs is to provide a 25 percent discount on foreign worker levies, where their work permits end between April to December 31, 2020.

Legal Provisions to Manage HR and Employment Concerns

Author: Ayman Falak Medina

During these challenging times, the ASEAN population of more than 600 million have had to grapple with the immediate disruptions caused by the actions taken by the individual governments and their health authorities. One of the main areas of concerns has been to deal with employment related issues for businesses in the region.

ASEAN countries have issued separate guidelines and regulations on the best practices for employers, ranging from work-from-home (WFH) policies, paid leaves, and implementing occupational health and safety systems, among others. Further, there are new policies regarding the renewal or suspension of visas of foreign employees.

In this article, we cover these new employment obligations for ASEAN's largest economies. Businesses should understand that the level of preparedness varies between ASEAN members when considering the measures, they can adopt for their operations.

Singapore

Singapore has issued multiple advisories from the Ministry of Manpower (MOM) and the Ministry of Health (MOH). On April 21, 2020, the government extended its 'Circuit Breaker' period for the country until May 4, 2020 with a gradual easing of the policy taking place on May 5 and June 12, 2020.

The pandemic has created pressure on businesses, in particular with cashflow and retaining staff. The government has provided incentives, such as the waiver of the Foreign Worker Levy (FWL), until July 2020.

What about workers returning to Singapore?

Visitors who have Work Passes, Dependent Passes, Student Passes, and Long-term Visit passes will still be allowed to enter the country, provided they have been given permission by the Immigration and Checkpoint Authority (ICA).

Employers of pass holders must be the ones seeking approval to the MOM through an online facility. If approved, the MOM will issue an approval letter to the employer to be given to the employee. The employee must show this letter to airline staff and immigration officials at the airport in Singapore.

In addition, travelers must also submit a health declaration card through the SG Arrival Card e-service within three days prior to arrival in the country. They will receive an acknowledgement email after they submitted their health declaration, which must be shown to immigration officials. The travelers will also be notified on the need to comply with the mandatory 14-day Stay-Home Notice (SHN).

Alternatives to retrenchment

The incentives issued by the government may not be enough in preventing worker lay-offs as is the case with other ASEAN nations. The MOM has issued advice to businesses on alternatives to retrenchment. These include:

Temporary layoffs

Employers can ask employees to stop coming to work for a short period. Employers, however, must pay 50 percent of the gross salary during the days they are temporarily laid off. Employers can also ask employees to take up to 50 percent of their annual leave and any layoff period cannot exceed one month.

Re-training

Employers should tap into the SkillsFuture program established by the government. This program will assist individuals in gaining new skills (SkillsFuture), enhance the role of businesses in developing their staff (SkillsFuture Enterprise), and support mid-career workers to help them stay employed (SkillsFuture Mid-Career).

Reducing workdays

Employers can implement a shorter week, but this should not exceed more than three days in a week and should not last more than three months.

Indonesia

Since April 2, 2020, the Indonesian government imposed a temporary ban on most non-Indonesian nationals from entering the country due to the ongoing COVID-19 pandemic through the enactment of Regulation No. 11 of 2020 (Reg. 11).

The regulation also stated that foreign visitors on visit permits, limited stay permits, or permanent stay permits that have expired will be granted automatic extension without the need to apply to the immigration office.

Holders of permanent residency permits or limited residency permits; diplomats, employees working on strategic national projects; transport crew (air, land, and sea); or workers engaged in medical, food, and humanitarian work – can still enter the country.

Employment wages

Under the circular – Letter of Republic of Indonesia Ministry of Manpower No. M/3/HK.04/III/2020 on Worker/Labor Protection and Business Continuity for the Prevention and Control of COVID-19 – employers must continue paying the full wages of employees working from home unless an agreement between the two parties says otherwise.

Employees who are under the ODP (patients being monitored and do not have symptoms) status will still be entitled to full salaries. An ODP status means the person has a travel history of entering a COVID-19 hotspot and came in contact with possible COVID-19 patients, and thus has to go into self-isolation

Employees who are under the PDP status (patients under surveillance that have displayed symptoms) are those that have displayed symptoms of COVID-19, such as fever, respiratory problems, and dry coughs and are undergoing self-isolation – they will be categorized as being on sick leave. The company will then have to adhere to the Law No. 13 of 2003 (Labor Law).

Under the Labor Law, the employee on sick leave is entitled to:

- 100 percent of wages during the first four months of sick leave;
- 75 percent of wages during the second four months of sick leave;
- 50 percent of wages during the third four months of sick leave; and
- 25 percent of wages during each subsequent month of sick leave (until the termination of employment is agreed upon).

Temporary leave

This option has been the most favored from businesses impacted by the lockdown. Temporary leaves can range between three to nine months with salaries reduced by between 20-50 percent.

Early retirement

Some employers have prepared early retirement packages for eligible employees.

Termination of employment

The central government and regional governments have not issued any impending regulations with regard to the termination of employment, specifically during the COVID-19 pandemic. Companies should, therefore, follow the regulations stipulated in the Labor Law.

Under the Labor Law, a 30-day notice period must be provided for employment terminations, and the employee is entitled to severance pay.

Thailand

Employers should be aware of the Labor Protection Act (LPA), the main labor regulation that will assist them in facing HR issues during the pandemic.

What happens if an employee is quarantined by the authorities for being in a risk group?

The employer is not obligated to pay the wages of the employee under the principal 'no work no pay', as this situation is not the fault of the employer.

What if an employee is taken ill by COVID-19?

If an employee is infected with COVID-19 (or other illnesses), that forces them to take sick leave, then the employer is obligated to continue paying their salary. The employee can use up to 30 days of sick leave with pay, or more, depending on the employer's sick leave policy.

What about businesses that have been ordered to close by the authorities?

Businesses that have been forced to close by the authorities will not need to pay the wages of their employees under the 'no work no pay' principal.

Businesses that have had to temporarily cease operations

Businesses that were not forced to close by the authorities but have ceased trading due to a reduction in customers or disruption in supply chains etc., can pay employees at least 75 percent of their wages subject to meeting certain criteria.

The employer must give employees and the labor inspection officer written notice by at least three working days in advance regarding the suspension of business. If the employer wishes to reduce an employee's salary by more than 25 percent, they would need to have the consent of the employee.

Termination of employment

Employers can choose to terminate employees but should take care to adhere to the following conditions set out in the Labor Law:

- Employees are entitled to severance pay, depending on the length of service. The employee is entitled to 30 days of their recent wage if they have worked for more than 120 days consecutively, but less than one year, with the business;
- For employees that have worked for more than 20 consecutive years, they are entitled to 400 days' worth of wages;
- Employees should be notified of the planned layoffs at least one pay period in advance. If not, the employer is obligated to pay remuneration in lieu of the notice period; and
- Employers should make remunerations for other benefits stipulated in the work contract such as annual leave.

Vietnam

Employers in Vietnam can take various actions in dealing with the disruption caused by COVID-19 for employees. Under the Labor Code, if an epidemic has been declared, employers can choose to terminate labor contracts or maintain employment contracts but with negotiated salaries.

Temporary work suspension

Businesses can place staff on leave (paid, partly paid, or unpaid) or work suspension, as a way to reduce costs without having the need to terminate employees.

Employers should take into consideration that the full use of paid leaves should take priority.

For partly paid/unpaid leave arrangements, the employer must have the consent of the employee, and all correspondences should be documented in order to avoid disputes. Coercing employees into partly paid/unpaid leave arrangements can expose the employer to breach of employment contract.

Employers can also negotiate with employees to temporarily accept a lower salary during the suspension of business operations.

Changes to work contracts

Employers can change employee labor contracts from full-time employment to part-time employment and can do so with the agreement of the employee.

Termination of employees

Any unilateral termination of employee contracts must be done in accordance with the Labor Law. The period for this restructuring process can be lengthy as well as costly for the employer.

The employer must first formulate a 'labor usage plan' which identifies who will continue their employment and who will have their contracts terminated. This is then sent to the employer's own trade union or a local trade union for approval; this can take up to two months.

Once the plan is approved, the employer must notify the provincial labor authority of the employees' termination 30 days before the termination date.

Every terminated employee is entitled to one month's salary per year of service and a minimum of two months' salary due to termination as a result of redundancy.

Malaysia

Malaysia's Social Security Organization (SOCSO) has officially recognized COVID-19 as an occupational disease under the country's Employment Social Security Act of 1969. This means employees who are infected with COVID-19 due to exposure from the nature of their work can claim compensation under the Employment Injury Scheme.

The Ministry of Human Resources has issued an FAQ in regard to retrenchment during the pandemic and the steps businesses should take with this issue.

The Ministry reiterated that retrenchment is the prerogative of the employer, but they should exhaust other options available, such as reducing working hours, freezing the hiring of new employees, reduce employee wages, or temporarily lay off employees (employers should note that temporary layoffs and salary reductions should be done only with the consent of the employee).

Where retrenchment is cannot be avoided, employers should terminate the contract of any foreign employees first before those of local workers. This is part of the 'Foreign Worker First Out (FWFO) policy in the Employment Act.

Severance pays

If the financial position of the business permits, they are obligated to pay termination benefits.

However, only those considered 'EA employees' (Employment Act employees) are entitled to severance pay. EA employees are those that fall under the following categories:

- Employees earning less than 2,000 ringgit (US$458) per month;
- Employees engaged in the maintenance or operation of mechanically propelled vehicles;
- Domestic workers;
- Employees engaged in manual labor (regardless of salary); or
- Employees who supervise other employees engaged in manual labor.

Philippines

The Philippines' Department of Labor and Employment (DOLE) issued several employment-related measures for businesses impacted by the nationwide lockdown due to the pandemic. These measures include making work from home arrangements where possible, reducing workdays/workhours, temporary suspend business operations, or close the business.

Reduction in work hours or workdays

If the business does choose to reduce the working hours/workdays of the employees, they have the option to cut salaries in proportion to the new working hours/ workdays. Those on WFH arrangements are entitled to their full day's wage.

Temporary closure of business

Businesses that have to temporarily close are not required to pay the salaries of their employees during this period of suspension. This is consistent with the 'no work, no pay' principal established by DOLE. Businesses that do take this route should inform their appropriate DOLE office using a special Establishment Report on COVID-19 online form, at least one month prior to the suspension coming into effect.

The Labor Code states that any bona fide suspension of the business cannot exceed six months after which the employer must reinstate the employee to their former position.

Permanent closures and layoffs

In the event of permanent closure of the business, employees are entitled to one month's salary for each year they have been in service to the company. This is paid only if a policy or agreement has never been stipulated in the employees' work contract.

New Investment Opportunities in ASEAN

Author: Ayman Falak Medina

The COVID-19 pandemic has negatively impacted almost all economic sectors in ASEAN with the IMF predicting the ASEAN-5 bloc (Indonesia, Malaysia, Philippines, Thailand, and Singapore) will experience growth of just -0.6 percent in 2020.

There are, however, new investment opportunities that have emerged across several sectors since the outbreak began – in healthcare, education, and telecommuting, among others.

Besides, ASEAN will continue to liberalize trade and investment regimes to improve connectivity between members and maintain the competitiveness of its production hubs and global value chains.

Accelerating supply chain shift

When factories began shutting down in China due to the virus, a number of multinationals were able to withstand the dip in production. These companies had already expanded their operations into ASEAN countries in an attempt to reduce exposure to risks spilling over from the US-China trade war.

The pandemic is another accelerant for the long-term trend of China-based businesses establishing new supply chains in ASEAN.

Businesses from Japan, South Korea, and Taiwan are actively increasing their presence in Southeast Asia. Japan issued a US$220 million subsidy program to encourage domestic manufacturers to transfer their production bases to Southeast Asia and Taiwan's New Southbound Policy is aiming to do the same.

Investing in ASEAN's digital landscape

The pandemic has reshaped ASEAN's digital landscape with many governments and businesses in the region being forced to accelerate the transition towards a digital economy.

With over 400 million internet users in the region, the region's digital landscape presents a unique opportunity for investors.

Technology will play a leading role in ASEAN in not only improving resilience to disasters, such as COVID-19, but also to increase the uptake of digital services, tools, and solutions.

Online education and telemedecine are examples of new sectors that have proliferated during lockdowns, and there has been an amplification of demand for telecommuting/ remote working and online conferencing software platforms and services, such as Microsoft Teams, Zoom, and Skype, among others.

Telemedicine, telecommuting, and online education are scalable digital opportunities for data and artificial intelligence specialists.

Telecommuting and 5G

Working remotely might continue to be a new norm in ASEAN with most businesses resorting to flexible work schedules that allows half of the workforce to work from home while the rest work at the office.

Despite the growth of digital nomadism in the West, this notion of working from home was relatively unheard of in ASEAN. The region's young and tech-savvy workforce have had to brave some of the worst commutes in the world to get to their office.

Given the increasing reliance on remote work connectivity during the pandemic and the need for ASEAN countries to improve their existing telecommunications infrastructure, this will be an industry requiring major foreign investment.

5G networks, for example, can transform the world of remote work in the region as it promises to deliver internet speed that's 50 times faster than 4G. ASEAN is expected to need some US$11-US$18 billion in investments to roll out 5G networks in the region, with a view to reach some 200 million people by 2025.

Singapore is leading 5G developments in ASEAN and is launching 5G in 2020; by 2025, it is expected to have nationwide 5G network capabilities. The country will be closely followed by Vietnam, Thailand, Malaysia, and the Philippines who have the same ambitions.

Indonesia has the highest value potential for 5G with more than 100 million potential subscriptions. However, the country currently lacks a clear roadmap on spectrum allocation of 5G, thus delaying the growth and expansion of its US$10 billion telecommunications industry.

Telemedicine

The integration of information and communication technology (ICT) into healthcare will also accelerate the sector's reforms. The use of healthcare apps, for instance, could transform the way hospitals and doctors store their records, collect, and share patient data.

Telehealth offerings will become the new norm in the region post COVID-19. Singapore-based telehealth company Doctor Anywhere raised US$27 million in investments for its expansion while Indonesian-based healthcare app Alodokter recorded more than 30 million active users since March 2020 (one and a half times higher than pre-COVID-19 traffic).

Singapore will continue to be an attractive location for healthtech startups due to its strong legal framework and government support whereas Indonesia's large consumer market could prove lucrative for investors.

Online education opportunities

ASEAN's education sector is transforming to deliver education that is keeping pace with the requirements by businesses for graduates who have the technical and, in particular, English language skills.

With more than 100 million students utilizing online classes, however, governments are struggling to implement these reforms as the information technology (IT) infrastructure varies between countries.

While more than 80 percent of the population of Singapore, Brunei, and Malaysia have access to the internet, it is 50-70 percent access in Indonesia, Thailand, Philippines, and Vietnam. This is even lower in Cambodia, Laos, and Myanmar.

Despite this 'digital divide', most ASEAN members have been expanding online learning, which has mostly been implemented in the higher education sector. A priority area of the ASEAN Work Plan on Education 2016-2020 – which aims to strengthen the region's higher education sector – is improving access and use of digital learning initiatives in member states, opening up major investment opportunities for providers of new educational technologies.

E-commerce on the rise

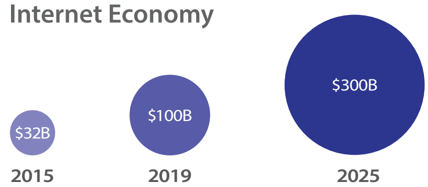
The pandemic has changed the behavior, attitude, and purchasing habits of consumers, and many of these are set to remain post-pandemic. Although purchases are currently centered around basic needs, a growing number of these transactions are done through digital commerce.

Traffic on e-commerce platforms have surged during the pandemic. E-commerce was previously factored by many retailers and producers in ASEAN as an 'option' rather than being an 'essential' business initiative. The region's most popular shopping apps, such as Shopee and Lazada, saw an increase of more than 60 percent in weekly downloads in Thailand alone during the first weeks of lockdown.

Indonesia, Vietnam, and Singapore saw traffic increase by more than 10 percent on apps, such as Shopee, Lazada, Tokopedia, and ShopBack, among others.

The region's internet economy was valued at US$100 billion in 2019 in a report conducted by Google, Temasek Holdings, and Bain & Co. This is expected to rise to US$300 billion by 2025, spurned by the region's young demographic using the internet for everything from purchasing games to banking.

Value of Southeast Asia's Internet Economy



Source: e-Conomy Report, Google, Temasek Holdings, and Bain & Co

Indonesia, the largest market in ASEAN, is predicted to have an internet economy close to US$130 billion by 2025. The other predicted growth will be from Thailand and Vietnam whose internet economies will be valued at US$50 billion and US$43 billion, respectively.

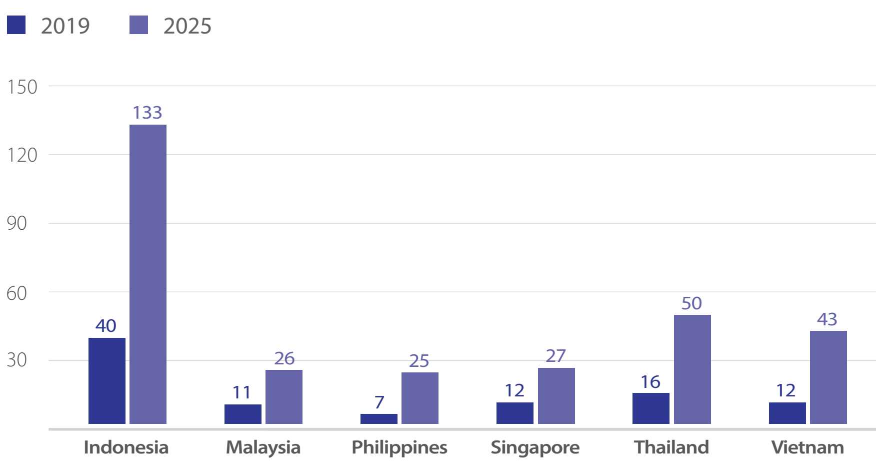
Professional services

As investors gain more confidence in ASEAN, there will be a demand for professional services firms (PSF) who can tailor solutions to the regions' commercial systems and consumer markets, particularly in the areas of business consulting, social media, and market research.

PSFs that have invested in their data analytics in addition to digital solution capabilities will have the best means to explore how to turn this data into business intelligence, and ultimately new business models.

Furthermore, the improving quality of human resources in ASEAN means businesses can expand to new sectors, such as fraud analytics, banking insurance, equity research and

Value of the Internet Economy of ASEAN-6 (US$ billion)



Source: e-Conomy Report, Google, Temasek Holdings, and Bain & Co investment, and web design and development, among others.

The use of technology, for instance, can enable firms to move from the 'pay by the hour' service to subscription-based services that require limited human contact. Other examples include automated tax services or legal bots – these technology-driven business models will enable PSFs to meet the demands of the ever-evolving ASEAN marketplace.

Healthcare and pharmaceuticals

The pandemic will drive reforms and open investment opportunities for ASEAN's healthcare sector, particularly in the fields of biotechnology, telehealth, pharmaceuticals, and diagnostic medicine. According to the World Health Organization, ASEAN spends close to four percent of its GDP on healthcare, with Singapore at the top of the list with expenditure per capita of more than US$2,700 annualy.

Increasing health coverage

ASEAN countries are slowly committing to universal healthcare systems and these national health insurance systems have become a key driver in changing the behavior of ASEAN populations towards health. This has resulted in consumers becoming more health conscious in addition to demanding and spending more on health services.

Major markets, such as Indonesia and the Philippines, have succeeded in implementing their national insurance programs; Indonesia's programs are considered the largest in the world, covering more than 180 million people.

Virtually the whole of Thailand's population is covered for primary and hospital care and Singapore offers the most advanced levels of healthcare for its citizens, providing specialized treatment, such as heart transplants and neurological procedures.

Medical tourism

Singapore, Malaysia, and Thailand lead the field in the medical tourism sector with the three countries having around 100 Joint Commission International (JCI) accredited healthcare centers combined. Being JCI certified is considered the gold standard for patient healthcare and safety.

Foreign patients arrive in the region annually, providing a major source of income for private hospitals, accounting for some 40 percent of revenue in the aforementioned countries. Globally, the medical tourism industry was worth some US$28 billion, with nearly one third of the 11 million global medical consumers travelling to Southeast Asia.

Pharmaceuticals

The bloc's pharmaceutical industry is valued at just over US$25 billion, accounting for some 2.2 percent of the global market. Generic drugs account for a large percentage of the industry's revenue in the region. However, only a small number of manufacturers have the capabilities to manufacture active pharmaceutical ingredients, with the majority importing ingredients from China or India.

This will open the region for domestic players to increase collaboration with multinational life science companies to serve their local markets. Business models will become more flexible as the use of multi-channel marketing, such as e-commerce, becomes the new norm.

Medical devices

According to BMI Research, ASEAN's medical devices industry is expected to generate more than US$8 billion in revenue in 2021. In 2015, the bloc established the ASEAN Medical Device Directive (AMDD), a set of directives that aim to harmonize regulations across the region and require medical device manufacturers to register their devices in any member state where they have production. So far, only Singapore, Malaysia, and Indonesia have complied with the AMDD.

Producers of high-end products can focus on wealthy Singapore as well as the middle-income economies of Thailand and Malaysia, whereas lower-end devices would fare better in the price sensitive markets of Indonesia, Vietnam, and the Philippines.

Logistics and transportation providers

The increased demand on e-commerce platforms has highlighted the severe impact of COVID-19 on ASEAN's logistics sector. Online retailers have suffered from delivery bottlenecks as logistics providers try to adhere to new safety measures, thus incurring extra costs and affecting productivity.

Another major challenge to logistics operators in the region is the 'last mile delivery' problem, which is defined as the movement of goods from the distribution hub to end users. The global logistics system is capable of transporting goods across countries into major ports, but it is often the 'last mile' that presents the biggest issue, especially in Southeast Asia.

Singapore has consistently ranked among the best in the world for logistics, whereas Myanmar, Laos, and Cambodia are underdeveloped. Indonesia is embarking on a US$400 billion infrastructure program to improve logistics and the Philippines on some US$177 billion.

The majority of ASEAN countries, however, lack the skilled human capital and technical know-how that foreign investors can bring into these sectors. Investors who can introduce modern logsitics technologies, for example, with a focus on inter-city delivery, can tap into the increasingly popular 'same day' delivery market.

Moreover, the region requires multi-modal transport systems considering its unique geography. The Philippines and Indonesia are archipelago nations with dense jungles. Indonesia is also home to more active volcanoes than any other country in the world.

Businesses that can provide strong systems and operational excellence in the development of shipping lanes, rail, air, and road networks will improve the bloc's attractiveness to more foreign direct investment, which had reached an all-time high in 2018 at US$155 billion.