What is a favourable environment for a global company when deciding for perennial investments in a country?

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Key factors in investment decision making
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• Element of uncertainty
  – Marginal efficiency of capital - rate of return that is expected considering the inputs and depreciation of capital
  – Present and future prospects – labour costs and quality, material costs, institutional quality, infrastructure

• Existing capacity
  – Substantial level of competition, how/where do you play?

• Income levels
  – Increasing income favours investment, who are the customers

• Consumer demand
  – Present and future forecast demand

• Liquid assets
  – Ability to invest, availability of investment funds and prioritization of business opportunities
Key factors in investment decision making

• Innovation and invention
  – Implementation of new technology and TT along with cost effective labour forces, institutional quality

• New products
  – Driver of growth – sustainable differentiation and competitive advantage

• Population growth
  – Increasing customer opportunities -> driver of growth

• Government policy
  – Govt policy to encourage investment with strong evidence of focus on institutional quality
  – Expansion of market opportunity thru other mechanisms

• Political climate
  – Political stability a key, disruption of activities a major concern
The favourable environment – what does it look like?

• Element of uncertainty
  – Relatively stable economic environment with developing infrastructure
  – Ability to compete – importance of institutional quality

• Existing capacity
  – Strong local Gx manufacturing capacity -> challenge/opportunity
  – Portfolio optimisation/disease mgmt approach – Rx(Gx)/OTC/CHC
  – Manufacturing quality a key essential – PIC/S – ID, MY, (TH, PH)
  – Ability to manufacture specialty products – e.g. biologicals

• Income levels
Regional Comparison of GDP per capita, in USD

- Compared to ASEAN GDP per capita (2013), EU and US are significantly higher by 164% and 295% respectively.

Source: World Bank – World Development Indicators
Higher GDP growth has been consistently recorded in ASEAN compared to EU/US regions.

The top 6 countries – Indonesia, Thailand, Malaysia, Singapore, Philippines and Vietnam – make up ~96% of ASEAN GDP.

Source: World Bank – World Development Indicators, CIA Factbook, Index Mundi
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- **Income levels**
  - Economic growth: ASEAN 10% WW Popn, GDP +6-8%

- **Consumer demand**
  - Growth in all sectors - Rx/OTC/CHC
  - Increasing Govt focus on health
  - OOP spending increasing/medical tourism

- **Liquid assets**
  - Approaches may vary: M&A, partnership, expansion of existing business
  - ASEAN vs. other WW opportunities
The favourable environment – what does it look like?

- **Innovation and invention**
  - IP protection favours environment for TT
  - Regional medical challenges

- **New products**
  - Improve access to new markets -> limit on the number of manufacturing sites  e.g. biologicals
  - Improve patient outcomes and offer better payor value
  - Novel access mechanisms

- **Population growth**
Population Growth

Regional Comparison, Population Growth (annual %)

• Europe and US lag behind ASEAN in terms of population growth

• Slowdown in population growth, particularly among developed nations, is greatly influenced by declining birth rates.

Source: World Bank – World Development Indicators
Changes in Birth Rate and Life Expectancy

Regional Comparison, Changes in Birth Rate

- Although birth rate in ASEAN has been gradually declining, it is still relatively higher than that of EU/US
- Declining birth rates can be attributed to people's changing priorities

Regional Comparison, Changes in Life Expectancy

- Life span has been improving over the years – with the highest expectancy in Europe, followed by the US

Source: World Bank – World Development Indicators
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- **Population growth**
  - Strong driver of growth -> improved longevity, strong birthrate, NCD challenge

- **Government policy**
  - Incentive schemes to capture FDI
Rising foreign direct investment in ASEAN – with Singapore (49.5%) and Indonesia (18.1%) getting the most share

- Economic activities under the Services sector remain a key driver of FDI inflows, with an average share of ~70% in the past four years, followed by FDI in Manufacturing.¹

- In 2013, EU, with total share of 22%, was the top source of FDI inflows in ASEAN. Other major sources of FDI were Japan (19%), ASEAN Member States (intra-ASEAN, 17%), China (7%) and Hong Kong (3.7%). FDI inflows from these countries have continuously increased while USA has been facing a declining trend since 2011.¹

Source:
² Bank of America Merrill Lynch
³ World Bank – World Development Indicators

- In 2013, ASEAN FDI inflows reached USD 122 billion – more than 80% of which (USD 101 billion) came from extra-ASEAN inflows¹

- ASEAN overtook China’s FDI in 2013²
The ASEAN Comprehensive Investment Agreement (ACIA) aims to create a free, open and competitive investment environment among ASEAN member states.

### Promotion and Facilitation of FDI

1. Existence of a single investment law covering domestic and foreign investments
2. Principle of national treatment/nondiscrimination to ensure a degree of equality between foreign and domestic investors
3. Protection against unlawful expropriation
4. Guarantee of the right to the free transfer of funds
5. Possibility to recourse to investment arbitration provided by law
6. Adherence to international conventions on arbitration and international investment treaties (including BITs and FTAs)
7. Other incentives: tax deductions/exemptions, simplified investment procedures, presence of IPAs, after-care services for investors

### Restrictions on FDI

1. Limits on Foreign Equity Ownership
   - Most governments apply this to certain sectors in order to protect local enterprises
2. Screening or approval of foreign investment
   - Within ASEAN, only Myanmar screens all FDI coming in under the Foreign Investment Law
3. Restriction on Foreign Ownership of Land
   - Almost all member states have restrictions on this

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1 The provisions serve as a guide but these are not yet fully adopted by all member states
2 BITs: Bilateral Investment Treaties, FTAs: Free Trade Agreements
3 IPAs: Investment Promotion Agencies

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  - Incentive schemes to capture FDI
  - Commitment to institutional quality

- **Political climate**
  - Improving political stability - reassuring for ROI certainty
Summary – key points

• Opening the market and attracting FDI
  – Help countries to quickly gain SEC achievements

• ASEAN/AP – one of the most dynamic regions with high potential
  – Population and income growth
  – Increased lifespan/strong birth rate
  – Abundant and cost-effective labour force
  – Preferential investment policies/incentives

• Build strong relationships with Government partners
  – Prioritization of health/tackle health challenges
  – Regional diseases
  – Incentives to drive investment
  – Besides traditional factors that influence FDI (labour cost, economic growth, population size, …) research indicates institutional quality need to be further addressed
  – More stable political climate