



DEZAN SHIRA & ASSOCIATES
Your Partner for Growth in Asia

AN INTRODUCTION TO Doing Business in ASEAN 2023

Special Focus

Investing in ASEAN 2023
growth opportunities amid
bureaucratic reforms



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About Dezan Shira & Associates

At Dezan Shira & Associates, our mission is to guide foreign companies through Asia's complex regulatory environment and assist them with all aspects of establishing, maintaining and growing their business operations in the region. Since its establishment in 1992, Dezan Shira & Associates has grown into one of Asia's most versatile full-service consultancies with operational offices across China, Hong Kong, India, Singapore and Vietnam, as well as liaison offices in Italy, Germany and the United States, and partner firms across the ASEAN region. With over 25 years of on-the-ground experience and a large team of professional advisers, we are your reliable partner in Asia.

Preface

This publication is designed to introduce the fundamentals of investing in all ten ASEAN countries and includes a guide to corporate establishment, tax advisory, and bookkeeping, in addition to HR and payroll, double tax agreements, and audit and compliance.

An Introduction to Doing Business in ASEAN 2023, the latest publication from Dezan Shira & Associates is out now and available for download through the Asia Briefing Publication Store.

The Association of Southeast Asian Nations (ASEAN) was established in 1967 by Indonesia, Malaysia, Philippines, Singapore, and Thailand to accelerate the economic growth and social development in the region. Brunei Darussalam joined in 1987, Vietnam in 1995, Lao DPR and Myanmar in 1997, and Cambodia in 1999.

ASEAN is home to more than 600 million people (larger than the EU and North America) and has the third-largest labor force behind India and China. Since its inception, the bloc has seen growth in myriad sectors, such as manufacturing, retail, transportation, and telecommunications. The bloc is expected to become the world's fourth largest economy by 2030 with domestic consumption expecting to reach US\$4 trillion.

However, the onset of the COVID-19 pandemic has severely impacted ASEAN states as protracted lockdowns resulted in sharp downturn in industrial production, exports, and consumption. In response, ASEAN members have quickened the pace of key reforms to improve the ease of doing business and attract foreign investment in new areas, such as high-value manufacturing capabilities and digital technology. These new growth drivers, among others, will make ASEAN attractive to foreign investors, including for those looking to move a part or all of their manufacturing activities from China.

This publication, designed to introduce the fundamentals of investing in ASEAN, was compiled by experts at Dezan Shira & Associates, a specialist foreign direct investment practice, providing corporate establishment, business intelligence, tax advisory and compliance, accounting, payroll, due diligence and financial review services to multinationals investing in emerging Asia.

An Introduction to Doing Business in ASEAN 2023 covers the following:

- Corporate establishment;
- Tax and accounting;
- Human resources and payroll; and
- Audit and compliance.



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What's New in This Guide?

ASEAN countries have implemented an array of regulatory reforms as the bloc looks to increase its attractiveness as a destination for foreign investment. The level and type of reforms varies between members. Indonesia for instance, has enacted its biggest attempt at bureaucratic reform since independence.

We provide highlights of some of the key changes in ASEAN states.

Cambodia

Cambodia issued a decree for new income tax thresholds for 2023, and also introduced the Law on Investment. The Law governs both domestic and foreign investments in the country. The Cambodian government first enacted the predecessor to the Law in 1995 and amended it in 2003.

The Law aims to modernize and streamline Cambodia's investment environment, bringing regulations closer in line with ASEAN best practices.

Indonesia

Indonesia enacted the Job Creation Law in 2020 and its implementing regulations in 2021. The Job Creation Law - also known as the Omnibus Law - is touted as Indonesia's biggest attempt at bureaucratic reforms since independence.

The Law amends more than 75 current laws that aims to simplify the process to obtain business licenses and start a business, formalize special economic zones, and amend the country's strict labor laws. Further, Indonesia has liberalized emerging sectors of interest for foreign investors such as construction, healthcare, and telecommunications, among others.

Laos


Laos joins other ASEAN member states in implementing tax obligations for non-resident e-commerce and digital platform providers.

Malaysia

Malaysia has amended its Employment Act to be in line with international standards. This is to come into force in January 2023. The country has also introduced new visa types for expatriates, which includes ASEAN's first digital nomad visa.

Philippines

In a bid to boost its business competitiveness, the Philippines has made amendments to the Public Service Act, the Retail Trade Liberation Act, and the Foreign Investment Act.



The amendments to the Foreign Investment Act allow, international investors to set up and fully own domestic enterprises (including micro and small enterprises) in the Philippines for the first time. Under the amended Retail Trade Liberation Act, the minimum paid-up capital requirements to establish a foreign retail enterprise has been lowered to PHP 25 million (US\$500,000). Finally, the amended Public Service Act now allows for the 100 percent foreign ownership of public services in the country.

Singapore

Singapore has introduced a new points system for Employment Pass (EP) applicants from 2023, in addition to higher qualifying salary thresholds.

The government hopes that the new system – laid out under the Complementarity Assessment Framework (COMPASS) – will improve the capacity of Singaporean businesses to select high-quality foreign professionals and ensure workforce diversity.

The country has also introduced the Overseas Network & Expertise Pass, which allows high-earners and achievers to live in Singapore without the need to secure employment first.

Thailand

Thailand now offers new incentives to attract high-net worth investors and tourists.

Why ASEAN?

COVID-19 has put every world economy to the test. In Asia, the 10-member Association of Southeast Asian Nations (ASEAN) has shown incredible resilience through the height of the pandemic as a destination for foreign investment. The key driver for increasing foreign direct investment (FDI) into this region has been a diversification of manufacturing supply chains from businesses based in China, in addition to investments in Southeast Asia's growing consumer market.

ASEAN economic growth rebounded in 2021 to 34 percent from a contraction of 3.2 percent in 2020. FDI into the ASEAN region reached some US\$179 billion annually in both 2019 and 2021 having been disrupted due to the pandemic in 2020, reaching US\$137 billion.

Manufacturing supply chain diversification

COVID-19 lockdowns in China and ongoing uncertainties surrounding the US-China trade war have gotten manufacturers to rethink the resilience of their supply chains. As such, they have turned to Southeast Asia for new growth opportunities. Countries like Vietnam, Thailand, and Malaysia have seen gains from the restructuring of supply chains. For instance, American chip giant Intel, and South Korea's Samsung have operations in the region.

Going forward, Southeast Asia will become increasingly intertwined in global trade, especially with the ratification of the Regional Comprehensive Economic Partnership (RCEP), the world's largest free trade agreement, covering a market of 2.2 billion people.

Companies should first look at the complexity of their supply chains before considering diversifying their operations to Southeast Asia. Companies engaged in traditional manufacturing of goods with short supply chains, such as apparel are more likely to relocate their whole supply chain, whereas those in more value-added industries are likely to relocate part of their supply chain.

A growing middle-class and active consumers

Southeast Asia is seeing a steady growth of active consumers and the middle-class demographic, beefing up demand for products ranging from electronics to automobile to education to leisure, among others. ASEAN itself has a population of over 630 million, or nine percent of the world population and enjoys favorable demographics. According to the IMF, more than half of the bloc's population is under 30, and the bloc enjoys more people coming online than any other region in the world. Further, 65 percent of the region's total population is expected to be in the middle-class by 2030.



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“The key driver for increasing foreign direct investment into ASEAN has been a diversification of manufacturing supply chains from businesses based in China, in addition to investments in Southeast Asia's growing consumer market.”

Why ASEAN is an Attractive Investment Destination: Quick Facts



Projected
GDP Growth
in 2023 (%)

	ASEAN	6
	Indonesia	4.4
	Malaysia	4
	Philippines	5.8
	Singapore	1.5
	Thailand	4
	Vietnam	5.8



ASEAN population
(2021)

Around 663 million



Labor force
participation
rate (%) (2020)

	Brunei	65.2
	Cambodia	87.4
	Indonesia	67.8
	Lao DPR	40.8
	Malaysia	68.4
	Myanmar	59.4
	Philippines	59.5
	Singapore	68.1
	Thailand	67.8
	Vietnam	74



FDI (2021)

US\$179 billion



ASEAN top 5 FDI
sources (2021)

	USA	US\$40.2 billion
	EU	US\$26.5 billion
	(Intra-ASEAN)	US\$23.5 billion
	China	US\$13.8 billion
	Japan	US\$11.9 billion

Table of Contents

Preface	04
What's New in This Guide?	05
Why ASEAN?	07
Part 1 Corporate Establishment	12
Country-wise business structures and setup process	13
Brunei	13
Cambodia	15
Indonesia	22
Laos	41
Malaysia	42
Myanmar	50
Philippines	51
Singapore	61
Thailand	70
Vietnam	77
ASEAN's free trade agreements	82
Part 2 Taxation in ASEAN	84
Country-wise tax structure	85
Brunei	85
Cambodia	87

Table of Contents

Indonesia	92
Laos	105
Malaysia	110
Myanmar	116
Philippines	118
Singapore	125
Thailand	136
Vietnam	141
Part 3 Human Resources & Payroll in ASEAN	144
Employment permits and relevant visa categories	145
Brunei	145
Cambodia	147
Indonesia	154
Laos	173
Malaysia	176
Myanmar	187
Philippines	190
Singapore	200
Thailand	224
Vietnam	228
Minimum wages in ASEAN	234
Brunei	234
Cambodia	234
Indonesia	234

Table of Contents

Laos	238
Myanmar	238
Malaysia	238
Philippines	239
Singapore	239
Thailand	240
Vietnam	241
Assessing current talent in selected ASEAN	242
Indonesia	242
Malaysia	242
Singapore	243
Thailand	244
Vietnam	245
Factors impacting HR development in ASEAN	246
Part 4 Auditing and Compliance in ASEAN	248
Brunei	249
Cambodia	252
Indonesia	255
Laos	257
Malaysia	260
Myanmar	262
Philippines	265
Singapore	268
Thailand	271
Vietnam	274



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