Doing Business in the ASEAN Countries

Balbir B. Bhasin

Southeast Asia is home to the ten ASEAN nations of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. Collectively they comprise a huge market of over half a billion people, with a total land area of 4.5 million square kilometers, a combined domestic product in excess of US $1.5 trillion and total trade of over US $1.54 trillion. It is the most dynamic and fastest growing region in the world but also has some of the world’s most distinctive cultures and business systems.

If you want to do business in the ASEAN nations, you’ll need this book. The authors really can help you succeed by becoming familiar with this unique business world including political and business systems, cultural idiosyncrasies, management practices, social structures, legal frameworks, government priorities, potential competition, establishing relationships and selecting partners, and dealing with corruption and other ethical pitfalls.

Dr. Balbir B. Bhasin is the associate professor of international business at the John F. Welch College of Business, Sacred Heart University in Connecticut and Luxembourg. He holds the Master of International Management (MIM) degree (with Distinctions) from the prestigious Thunderbird School of Global Management in Glendale, Arizona, and a PhD in international business from the University of South Australia in Adelaide. Balbir Bhasin grew up in Singapore and has lived and worked in most of the Southeast Asian countries. He is multicultured and multilingual and has been both in the public and the private sectors there. He currently advises companies eager to benefit from the opportunities in emerging Asia.
Doing Business in the ASEAN Countries
Doing Business in the ASEAN Countries

Balbir B. Bhasin
Abstract

This book is a practical and comprehensive guide to doing business in the newly emerging economies of the Association of Southeast Asian Nations (ASEAN), consisting of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, The Philippines, Singapore, Thailand, and Vietnam. Collectively these countries comprise a huge market of over half a billion people, a combined domestic product in excess of US$1.49 trillion, and total trade of over $1.54 trillion. The region’s economy is the fastest growing in the world. It has distinctive business cultures and systems. Each country has a unique business environment and its own level of development.

Familiarity with the business, political, social, and cultural environment of the country is essential to succeed in doing business there. This book provides such insights into understanding the ASEAN region. It gives information on each country’s history, geography, and demography; the political and economic environment; the legal framework, including procedures for starting a business; cultural intricacies, including religious issues, language, beliefs, and customs; business etiquette and attitudes; management and working styles; and negotiation strategies. It provides guidelines on establishing relationships, selecting business partners, and dealing with corruption and other ethical pitfalls. For further exploration into an issue, links to web resources are also given. Information and insights on each ASEAN country will enable the reader to evaluate better the risk factors in order to make meaningful decisions.

Keywords

Association of Southeast Asian Nations (ASEAN), Asian cultures, business opportunities, business strategy, cross cultural communications, doing business in Asia, emerging markets, foreign direct investment (FDI), global business, global strategy, international management, international marketing, international marketing research
Contents

Introduction ......................................................... 1
Chapter 1  The ASEAN Community ............................... 5
Chapter 2  Brunei ..................................................... 13
Chapter 3  Cambodia .................................................. 25
Chapter 4  Indonesia .................................................. 39
Chapter 5  Laos .......................................................... 53
Chapter 6  Malaysia ................................................... 69
Chapter 7  Myanmar ................................................... 89
Chapter 8  The Philippines ............................................ 103
Chapter 9  Singapore .................................................. 121
Chapter 10  Thailand .................................................. 139
Chapter 11  Vietnam .................................................... 155
Chapter 12  Doing Business in ASEAN ....................... 173
Notes ................................................................. 193
References ............................................................ 199
Index ................................................................. 207
Introduction

Doing business in a foreign country requires awareness, consideration, and evaluation of risks that are unique to its environment. This necessarily involves knowledge of the politics, economics, legislation, and of course, the social and cultural traits of the community. These are factors external to the business enterprise, which plans to operate in the foreign country, and can directly affect all outcomes.

This book throws light on the business environment of the Association of Southeast Asian Nations (ASEAN) region and its 10-member countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. The book’s framework is simple, yet allows for examination of the region’s complexity. First it introduces the ASEAN community, then each country’s environment is examined, and finally the entire region’s business climate is integrated by arraying clusters with parities.

Chapter 1 introduces the ASEAN community by tracing its history and examining its current demographics. It outlines aims and objectives of the association. While describing the market and its potential, a detailed account of the ASEAN Free Trade Area (AFTA), which is on its way to total integration with removal of most tariffs and quotas, is provided. Also enumerated are the numerous free trade agreements the grouping has concluded with the United States, Australia, New Zealand, China, India, Japan, Korea, and the European Union (EU). These trade agreements illustrate the advantages of doing business in ASEAN. Finally, the significance of ASEAN to the United States, EU, and Asia is summarized.

Chapters 2 to 11 explore each ASEAN country. Each chapter begins with a table that provides basic data of the country. This is followed by a general background to enable a deeper understanding of the country’s past and to allow for an appreciation of where it is now, which is often a result of how it got there. Important information on population, the size of the country, its people, languages, religions, natural resources, and challenges it faces is provided. This is followed by a detailed examination
of the business environment, which necessarily includes the political, economic, and legal system of the country. The political system includes the executive, the legislature, and the judicial structures. An assessment is made of the stability of the political system and attention is drawn to issues of concern. The analysis of the economic system of the country looks at the structure of the economy and its openness to foreign participation. The main sectors that are common to all the countries (agriculture, industry, and services) are explicated. Graphs provide a picture of the quality and quantity of trade and the relative importance of various trading partners. This allows for evaluating the country’s productivity and the availability of resources and its needs. An analysis of the country’s legal system follows. This is a summary of structures and levels of jurisdiction and the process of appointment of judges. The independence of the judiciary and fairness of the country’s treatment of foreign investors and business organizations is also explored.

The introductory overview of each country is followed by an examination of the prevailing sociocultural environment and the business culture. The country’s ethnic makeup and composition, identity and orientation, social structure and classes, values and beliefs, attitudes and priorities, languages and dialects, religions and religious practices, traditions and customs, and the worldview are examined. This is followed by an exploration of the country’s business culture, including orientations in business approach; time and space; meetings and greetings; practices such as exchange of business cards and gift giving; manner of addressing senior officials and colleagues; use of English and other languages in business and government; social dress and business attire; response to modernization, globalization, and egalitarianism; direct and indirect communications used; personal and business relationships; organizational hierarchy; management styles and negotiations methods that work; and specific approaches and adjustments that will help build a business relationship. Finally, a list of web resources relating to the country is provided. These cover general information and history; people, culture, and health; government, infrastructure, and technology; economy and education; business environment and trade practices; and some local media. These resources are meant to allow for further research about the country and give access to the government, public, and private institutions for establishing contact.
Chapter 12 integrates all the 10 countries as a region and an economic community and explores the overall business environment. First, the required political, economic, and legal systems and inherent risks are evaluated. Next, the diversity of the region in terms of cultures, geography, religions, languages, and business systems and approaches are described to allow for an evaluation of the general landscape in which the foreign entity will be operating. This is followed by a section that details the business potential in the country and the sectors and industries that are growing or have growth potential. An overview of the relative time taken and processes involved in setting up a business is provided. Finally, conclusions are drawn about the potential challenges and opportunities for ASEAN in the coming years.

To ensure the accuracy of data used, all statistics in this book covering demographics and the economies, including trade and investment figures, gross domestic product (GDP), and foreign direct investment (FDI) are drawn from sources external to the country. The sources include the World Bank (WB), Asian Development Bank (ADB), Asia Pacific Economic Cooperation (APEC), International Monetary Fund (IMF), Gateway to the European Union, Economy Watch, The Financial Standards Foundation (FSF), The World Factbook (CIA), the U.S. Department of State (DoS), and the Market Research Library of the U.S. Commercial Service (USCS). The countries' history, political, economic and legal systems, and culture and business systems were drawn from Country Profiles chronicled in the Library of Congress's Portals to the World Country Studies, The Economist, the British Broadcasting Corporation (BBC), globalEDGE’s Country Insight, U.S. DoS Background Notes of Countries, The World Factbook, the Encyclopedia of Nations, Nations Online’s Countries of Asia, the Asia Society, and the World History Encyclopedia. Finally, business opportunities and market potential are based on the U.S. Commercial Service’s studies of industries and markets, Apotheker et al.’s New Business Opportunities for EU companies in the ASEAN Area: How to Benefit from the ASEAN Integration: An Investor’s Guidebook, as well as on each country’s chambers of commerce, and government trade and investment ministries. It is hoped that this book will serve as a practical guide to the reader, providing him or her with a deeper understanding of the business environment of ASEAN countries, assisting in evaluating the risk factors and in decision making while doing business there.
CHAPTER 1

The ASEAN Community

The 10-member countries of the Association of Southeast Asian Nations (ASEAN) collectively make a market in excess of 580 million people. This is nearly twice the population of the United States and a little more than the population of the European Union (EU). The countries are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. Together they cover a total land area of 4.5 million sq km—almost half the size of the entire United States. In 2009, the combined gross domestic product (GDP) exceeded US$1.5 trillion and total trade was worth more than $1.54 trillion. ASEAN is the fourth biggest consumer of U.S. goods after Canada, Mexico, and China. If ASEAN were a country by itself, it would rank twelfth in the world for total GDP—ahead of Spain, South Korea, and Canada. ASEAN’s trade pacts with Japan, India, South Korea, and, most importantly, China could pave the way for a regional economic bloc that could rival the EU. It is a dynamic region, one whose economy is the fastest growing in the world. It also has some of the world’s most
distinctive cultures and business systems. Foreign direct investment (FDI) of the region increased by 150% between 2003 and 2008.  

ASEAN was set up in 1967 in Bangkok, Thailand, with five founding members: Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Its objectives were to accelerate economic development, promote regional peace and stability, and expand trade. Membership was extended in due course to Brunei in 1984, Vietnam in 1995, Laos and Myanmar in 1997, and Cambodia in 1999. In brief, the aims and purposes of ASEAN are to

1. accelerate economic growth in the region;
2. promote regional peace and stability;
3. cooperate in economic, social, cultural, technical, scientific, and administrative fields;
4. provide assistance to each other in the form of training and research in the educational, professional, technical, and administrative spheres;
5. collaborate more effectively in agriculture and industries, expansion of trade, and in raising the living standards of the populace;

Table 1.1. ASEAN Key Indicators

<table>
<thead>
<tr>
<th>Country</th>
<th>Total land area (sq km)</th>
<th>Total population in thousands</th>
<th>Annual population growth (%)</th>
<th>GDP per capita ($ PPP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>5,765</td>
<td>406.2</td>
<td>2.1</td>
<td>49,266.8</td>
</tr>
<tr>
<td>Cambodia</td>
<td>181,035</td>
<td>14,957.8</td>
<td>2.1</td>
<td>1,802.3</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1,860,360</td>
<td>231,369.5</td>
<td>1.2</td>
<td>4,174.9</td>
</tr>
<tr>
<td>Laos</td>
<td>236,800</td>
<td>5,922.1</td>
<td>2.8</td>
<td>2,431.3</td>
</tr>
<tr>
<td>Malaysia</td>
<td>330,252</td>
<td>28,306.7</td>
<td>2.1</td>
<td>13,593.8</td>
</tr>
<tr>
<td>Myanmar</td>
<td>676,577</td>
<td>59,534.3</td>
<td>1.8</td>
<td>1,093.4</td>
</tr>
<tr>
<td>Philippines</td>
<td>300,000</td>
<td>92,226.6</td>
<td>2.0</td>
<td>3,525.1</td>
</tr>
<tr>
<td>Singapore</td>
<td>710</td>
<td>4,987.6</td>
<td>3.1</td>
<td>49,765.8</td>
</tr>
<tr>
<td>Thailand</td>
<td>513,120</td>
<td>66,903.0</td>
<td>0.6</td>
<td>8,072.2</td>
</tr>
<tr>
<td>Vietnam</td>
<td>331,051</td>
<td>86,024.6</td>
<td>1.2</td>
<td>3,067.9</td>
</tr>
<tr>
<td>ASEAN</td>
<td>4,435,670</td>
<td>590,638.3</td>
<td>1.4</td>
<td>4,829.3</td>
</tr>
</tbody>
</table>

Note. Adapted from ASEANstats, 2010 (data compiled from ASEANstats, selected basic ASEAN key indicators as of July 15, 2010). Retrieved August 24, 2010, from http://www.aseansec.org/stat/Table1.pdf
6. maintain close and beneficial cooperation with existing international and regional organizations.

The continuing joint efforts of the ASEAN community have had a stronger influence on the region’s trade and the political and security environment than its members could have achieved individually. The basis of this has been their wide use of consultation, consensus, and cooperation with each other over the past 40 plus years. Despite its shortcomings, ASEAN has been considered as the most successful regional grouping after the EU.

**Market Potential and Development**

The ASEAN countries have experienced substantial growth and industrialization, which has created a middle class with substantial purchasing power. As in all developing nations, ample opportunities exist for investments and trade. There continues to be a strong demand for both infrastructure development and consumables. Rising populations and wages make several member countries favorable for imports and exports, establishment of manufacturing units, and distribution of products and services both to industry and retail establishments.

The creation of the ASEAN Free Trade Area (AFTA) in 1992 has placed the ASEAN region in an advantageous position for trade and investment. This effort at economic integration removes tariff barriers and allows for the free flow of goods, services, and investments. Under the Common Effective Preferential Tariff (CEPT) scheme, tariff on most products has been removed altogether or limited to a maximum of 5%. This goal is expected to be achieved by 2010 by the six original signatories to the CEPT: Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand. The newer members—Cambodia, Laos, Myanmar, and Vietnam—will eliminate all import duties by 2015. A dispute settlement mechanism is in place. Incentives are provided for companies operating in two or more ASEAN countries under the ASEAN Industrial Cooperation Scheme (AICO). This allows for economies of scale, reduction in production costs, and efficient use of human and material resources. Inter-ASEAN trade has grown dramatically at an average of
1.5% annually. Small and medium enterprises (SMEs) account for 90% of this trade volume. Another tool to facilitate business activity is the creation and implementation of the ASEAN Investment Area (AIA). This program allows for more liberal investments in manufacturing, agriculture, forestry, and mining. The AIA can benefit regional and international investors as its liberal definition of an ASEAN investor allows multinationals enterprises, which already have an investment project in a host country and meet the nationality or equity requirement, to get the same privileges as a national of the host country.

All these will bear fruit in the coming years with the realization of total economic integration and the emergence of the ASEAN Economic Community (AEC) by 2015. The AEC is expected to establish ASEAN as a single market and production base.

Over and above the creation of a free trade area within ASEAN, member states have concluded free trade agreements with Australia and New Zealand (2009), China (2009), India (2009), Japan (2008), and Korea (2009). A separate Trade and Investment Framework Agreement was signed with the United States in 2006 and discussions with the EU for a free trade area (FTA) are in progress.

ASEAN–Australia–New Zealand Free Trade Area (AANZFTA): This agreement attempts to integrate the 12 markets of more than 600 million people with a combined GDP of $1.7 trillion (2005). It eliminates 90% of all tariffs and allows for greater market access to all.

ASEAN–China Free Trade Agreement (ACFTA): This agreement went into effect on January 1, 2010, and is expected to reduce all tariffs between ASEAN countries and China by 2015. It is now the third largest FTA in the world after the EU and the North American Free Trade Agreement (NAFTA). China’s trade with ASEAN is growing exponentially.

ASEAN–India Free Trade Agreement (AIFTA): Under this agreement signed on August 13, 2009, ASEAN and India will lift import tariffs on over 80% of traded products between 2013 and 2016. Tariffs on sensitive goods will be reduced to 5% in 2016. Only India, Singapore, and Malaysia have implemented this accord.

ASEAN–Japan Comprehensive Economic Partnership Agreement (AJCEPA): This agreement requires Japan to eliminate tariffs on 93% of imports within 10 years, while six major ASEAN partners (Brunei,
Indonesia, Malaysia, the Philippines, Singapore, and Thailand) will abolish tariffs on 90% of imports from Japan within 10 years.

ASEAN–Korea Free Trade Agreement (AKFTA): Under this agreement it was agreed that ASEAN-79 and Korea shall eliminate tariffs for 90% of all products by 2010 or, in the case that tariffs are levied, they will be no higher than 5%. Indonesia, Laos, and Cambodia are yet to ratify this agreement.

ASEAN–United States Trade and Investment Framework Agreement (TIFA): This is a precursor to a full free trade agreement with the United States, ASEAN’s largest trade partner. ASEAN–United States trade is valued at over $150 billion per year. ASEAN is the United States’ fourth largest trading partner. Talks to further the agreement are scheduled for 2010.

ASEAN–European Union Free Trade Agreement (AEUFTA): Negotiations are ongoing to craft a comprehensive agreement. EU procedures require all ASEAN countries to sign a Partnership Cooperation Agreement containing a commitment to human rights as a prerequisite to the free trade agreement.

ASEAN also holds routine meetings with the major trading partners to foster better relations and also further commercial dealings. Called “full dialogue partners,” they include Australia, Canada, China, EU, India, Japan, Korea, New Zealand, Pakistan, Russia, and the United States. A new dialogue with the Gulf Cooperation Council (GCC) has also started.

For all practical purposes, AFTA is an established and functioning entity. Cambodia, Laos, Myanmar, and Vietnam are slightly behind in the implementation of their CEPT commitments. However, by 2010 almost all products will be subject to no more than 5% duties. Inter and intraregional trade has increased tremendously. The United States, Europe, and Japan continue to be ASEAN’s largest export markets. Japan, the United States, and the EU were the largest sources of ASEAN imports.

**Significance of the ASEAN Community**

ASEAN is Southeast Asia’s only multilateral organization that can take advantage of the complementarities of the members’ economies by using economies of scale, industrial efficiency, and productivity. The four primary objectives of the community are
1. a single market and production base,
2. a highly competitive economic region,
3. a region of equitable economic development,
4. a region fully integrated into the global economy.

The EU has described ASEAN as a 10-nation group that “is a large, fast-growing, and relatively affluent market, characterized by a deepening trade integration and a growing outward reach to even larger markets [India and China].”10 The United States considers ASEAN vital to its strategic interests as it is one of its largest trading partners and because “it has some of the world’s most critical sea lanes, including the Straits of Malacca, through which pass a large percentage of the world’s trade.”11 The United States acceded to the ASEAN Treaty of Amity and Cooperation (TAC) in 2009, followed by 15 other countries including Japan, South Korea, Australia, China, Russia, and India. This is seen as a “symbol of commitment to engagement in Southeast Asia, and to the organization’s emphasis on multilateral processes.” ASEAN became China’s fourth biggest trading partner in 2010, and Japan, South Korea, and India see huge potential in and share interests with ASEAN not only in terms of trade but also in terms of politics and security.12 Their cultural ties are also binding.

The region has recovered from the negative impact of the 1997–1998 Asian financial crises and has moved significantly toward an integrated trade area. Three main draws of the region are its huge potential and growing market (Tables 1.1 and 1.2); abundant natural resources, including raw materials (see Table 1.3); low costs of business; and the large labor pool.

From the foregoing discussion, it is clear that ASEAN holds tremendous potential for business, trade, and investment. The mission of the AEC is to create a single market; a production base that is stable and highly competitive; to allow for a free flow of goods and services and capital; and to facilitate trade and investment. A priority integrated sector (PIS) has been created where liberalization is being accelerated. Priority sectors are agro-based products, air travel, automotives, e-ASEAN, electronics, fisheries, health care, rubber-based products, textiles and apparel, tourism, and wood-based products. There are concerns that more integration is still some distance away and much more management is
Table 1.2. ASEAN Economic Indicators

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports (US$ millions)</th>
<th>Imports (US$ millions)</th>
<th>Total trade (US$ millions)</th>
<th>FDI inflow (US$ millions)</th>
<th>Growth rate of GDP (%)</th>
<th>Inflation rate (%)</th>
<th>Unemployment rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>7,168.6</td>
<td>2,399.6</td>
<td>9,568.2</td>
<td>176.8</td>
<td>-0.5</td>
<td>1.9</td>
<td>3.7</td>
</tr>
<tr>
<td>Cambodia</td>
<td>4,985.8</td>
<td>3,900.9</td>
<td>8,886.7</td>
<td>530.2</td>
<td>0.1</td>
<td>5.3</td>
<td>0.8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>116,510.0</td>
<td>96,829.2</td>
<td>213,339.2</td>
<td>4,876.8</td>
<td>4.5</td>
<td>2.8</td>
<td>8.4</td>
</tr>
<tr>
<td>Laos</td>
<td>1,237.2</td>
<td>1,725.0</td>
<td>2,962.1</td>
<td>318.6</td>
<td>7.6</td>
<td>8.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Malaysia</td>
<td>156,890.9</td>
<td>123,330.5</td>
<td>280,221.4</td>
<td>1,381.0</td>
<td>-1.7</td>
<td>1.1</td>
<td>3.6</td>
</tr>
<tr>
<td>Myanmar</td>
<td>6,341.5</td>
<td>3,849.9</td>
<td>10,191.3</td>
<td>578.6</td>
<td>4.8</td>
<td>n.a.</td>
<td>4.0</td>
</tr>
<tr>
<td>Philippines</td>
<td>38,334.7</td>
<td>45,533.9</td>
<td>83,868.6</td>
<td>1,948.0</td>
<td>1.1</td>
<td>4.4</td>
<td>7.4</td>
</tr>
<tr>
<td>Singapore</td>
<td>269,832.5</td>
<td>245,784.7</td>
<td>515,617.1</td>
<td>16,256.2</td>
<td>-1.3</td>
<td>-0.6</td>
<td>2.2</td>
</tr>
<tr>
<td>Thailand</td>
<td>152,497.2</td>
<td>133,769.6</td>
<td>286,266.8</td>
<td>5,956.9</td>
<td>-2.2</td>
<td>3.5</td>
<td>3.2</td>
</tr>
<tr>
<td>Vietnam</td>
<td>56,691.0</td>
<td>69,230.9</td>
<td>125,921.9</td>
<td>7,600.0</td>
<td>5.2</td>
<td>6.9</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Note: Adapted from ASEANstats 2010 (data compiled from selected key indicators and ASEANstats 2010), data current as of July 15, 2010. Retrieved August 24, 2010, from http://www.aseansec.org/stat/Table1.pdf
Table 1.3. Natural Resources of ASEAN

<table>
<thead>
<tr>
<th>Country</th>
<th>Types of natural resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>Oil and gas</td>
</tr>
<tr>
<td>Cambodia</td>
<td>Oil and gas, timber, gemstones, iron ore, manganese, phosphates, hydropower potential</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Oil and gas, minerals (gold, silver, copper, tin, coal), fish</td>
</tr>
<tr>
<td>Laos</td>
<td>Wood, gold, copper, tin, aluminum, rattan, coffee, hydropower electricity</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Petroleum, gas, tin, timber, copper, iron ore, bauxite</td>
</tr>
<tr>
<td>Myanmar</td>
<td>Petroleum, timber, tin, antimony, zinc, copper, tungsten, lead, coal, marble, limestone, precious stones, natural gas, hydropower</td>
</tr>
<tr>
<td>Philippines</td>
<td>Timber, petroleum, nickel, cobalt, silver, gold, salt, copper</td>
</tr>
<tr>
<td>Singapore</td>
<td>Fish, deepwater ports</td>
</tr>
<tr>
<td>Thailand</td>
<td>Tin, rubber, natural gas, tungsten, tantalum, timber, lead, fish, gypsum, lignite, fluorite, arable land</td>
</tr>
<tr>
<td>Vietnam</td>
<td>Phosphates, coal, manganese, bauxite, chromate, offshore oil and gas deposits, timber, hydropower</td>
</tr>
</tbody>
</table>


required to make the agreement work. The goal for ASEAN remains full economic integration of the AEC by 2015.13

The next 10 chapters (2–11) present a detailed picture of the business environments of each of the 10 countries, and the final chapter 12 will integrate the business environment of the entire region and suggest considerations for entering the market(s).
CHAPTER 2

Brunei

Country at a Glance

<table>
<thead>
<tr>
<th>Size</th>
<th>5,765 sq km (slightly smaller than Delaware)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate</td>
<td>Tropical, hot, humid</td>
</tr>
<tr>
<td>Capital</td>
<td>Bandar Sari Begawan</td>
</tr>
<tr>
<td>Political structure</td>
<td>Constitutional sultanate</td>
</tr>
<tr>
<td>Leader</td>
<td>Sultan and Prime Minister Sir Hassanal Bolkiah</td>
</tr>
<tr>
<td>Official languages</td>
<td>Malay; English and Chinese are also used</td>
</tr>
<tr>
<td>Other languages spoken</td>
<td>Bahasa Malaysia, Hindi</td>
</tr>
<tr>
<td>Population</td>
<td>388,000 (July 2010 est.)</td>
</tr>
<tr>
<td>Age breakdown</td>
<td>0–14 (26.6%), 15–64 (70.1%), 65+ (3.3%)</td>
</tr>
<tr>
<td>Major religion</td>
<td>Islam (67%)</td>
</tr>
<tr>
<td>Other religions</td>
<td>Buddhism (13%), Christianity (10%)</td>
</tr>
<tr>
<td>Major industries</td>
<td>Crude oil, natural gas, construction</td>
</tr>
<tr>
<td>GDP</td>
<td>$14.5 billion (2009 est.)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>$53,100 (ranks eighth in the world, two rungs above United States)</td>
</tr>
</tbody>
</table>


General Background

Brunei is a small, oil-rich kingdom (sultanate) located on the northern coast of the island of Borneo, almost completely surrounded by Malaysia. The Malaysian state of Sarawak splits Brunei into two parts. Brunei is about twice the size of Luxembourg and slightly smaller than Delaware. In terms of land area, it is the second smallest country in the Association of Southeast Asian Nations (ASEAN) after Singapore. With less than half a million people, it is the grouping’s smallest member in terms of population size. It has long land and sea borders and is close to vital sea-lanes through the South China Sea, linking the Indian and Pacific Oceans. The climate is tropical; hence it is hot, humid, and rainy. The mountains in the nation’s eastern border give way to a flat, coastal plain; western Brunei consists of hilly lowlands. Fifty-three percent of the country is forested and 74% of the population is urban.

It is likely that modern day Brunei has been inhabited since the 8th century. An ancient trading kingdom existed at the mouth of the Brunei River. This kingdom was overrun by the Srivijaya Hindu-Buddhist Empire in Sumatra in the 9th century. Srivijaya also controlled much of the island of Borneo all the way to the Philippines. Brunei was later conquered by the Buddhist Majapahit Empire centered in Java but regained independence subsequently. The current sultan’s family has ruled Brunei for over four centuries. Brunei enjoyed prosperity from the 15th to 17th century, with its territory extending over all of Borneo to the Philippines. It then fell into decline. Britain made it a protectorate in 1888 through its British North Borneo Company and controlled its external affairs. Self-governance was granted in 1959. Full independence from Britain was achieved only in 1984. Brunei is the only Malay country that did not join the Federation of Malaysia. Due to its vast oil and gas holdings, Brunei enjoys a relatively high standard of living. The country was accepted as the sixth member of ASEAN in 1984. Brunei offers one of the most stable legal, political, and economic systems in ASEAN. It has one of the highest gross domestic product (GDP) per capita in the world at $53,100. Being wealthy, the country levies no income taxes and all citizens receive free medical care and education, low interest loans, and even free pilgrimage to Mecca for the hajj, which is required of all Muslims.
Business Environment: 
Political, Economic, and Legal Systems

Political System

Brunei has a unique political system. It is a constitutional sultanate and the same family has ruled Brunei for centuries. It is the last remaining Malay Islam monarchy in the world. The sultan's family can be traced back to the 15th century. Under Brunei’s system, the sultan is head of state and government with executive authority, including emergency powers. Since 1962, he has ruled by decree. The country has a written constitution made in 1959. The government is based on three philosophical pillars: Malay, Islam, and Monarchy. In a rare move toward political reform, an appointed parliament was revived in 2004. The constitution provides for an expanded house with up to 15 elected members of Parliament (MPs). However, no date has been set for elections. A proposed expanded constitution has been in the works to give some of the sultan's power to elected leaders of different cabinets. The sultan appoints ministers and deputy ministers, who form the executive branch. He is also the minister of defense and finance and has executive authority under the 1959 Constitution. There is an elected legislative council that votes in new laws. The sultan has broad powers under a long-standing state of emergency and no direct elections to legislatures have been held since 1962. The judiciary is composed of the Supreme Court, Intermediate Court, Magistrates Court and Court of Appeals. Syariah Courts are used too but apply only to Muslims.

Economic System

Brunei has a stable economy though much of the country’s wealth is controlled by the strong central government. In a survey by the World Economic Forum, Brunei ranked first overall for macroeconomic stability. The country has a free market economy but the government is involved in commercial ventures, the largest of which is a 50% stake in Brunei Shell Petroleum. The company is the largest employer in Brunei, after the government. GDP growth was steady from 1999 to 2002 averaging about 2.75% growth per year. GDP contracted in 2008 due to a reduction in the demand for petroleum and again in 2009. Brunei’s GDP is expected
to have a modest growth in 2010. Inflation touched 1.9% in 2009, a significant increase from the average 0.6% in the previous 5 years.8

Brunei is the third largest oil producer in Southeast Asia.9 It is also the ninth largest exporter of liquefied natural gas in the world.10 Its oil reserves are expected to last 25 years and natural gas reserves for 40 years. Oil and gas remain two of the country’s most important exports even though in recent years Brunei has tried to attract new industries. Services represent 25% of the economy; manufacturing, excluding petroleum production and other energy products, is less than 2%.11 Major exports are to Japan, Indonesia, Korea, and Australia. Machinery and transport equipment and manufactured goods are imported from ASEAN, the United States, Japan, and China. Although Brunei depends heavily on the energy sector, it is also fiscally strong and has no debt, so it is well positioned to cope with decreases in demand for energy. Brunei’s three major importers are Singapore, Japan, and Malaysia. The three fastest growing industries in the country are man-made filaments, base metals, fish, and crustaceans.

Every effort is being made to enlarge the nonenergy sector, which is expected to stimulate growth in the coming years. Brunei has been taking steps to diversify its economy. It has created a sovereign wealth fund, which manages the country’s foreign reserves of over $30 billion. It is also attempting to develop an offshore financial industry, including Islamic banking. Diversification is also being achieved by focusing on ecotourism, as the country has large areas of untouched rain forest.12 In agriculture, the key crops are rice, cassava, banana, and pineapple. The government continues to be involved in the economy through its holding company Semuan Holdings. It has interests in the poultry industry, mushroom production, food processing, computer hardware development, electronics, biotechnology, tourism, and information and communications technology.13 The World Trade Organization (WTO) Trade Policy review in 2008 found that the government continues to hold monopolies, including dominating domestic manufacturing. Brunei does not have a central bank. It has currency interchangeability with Singapore. It has ratified the United Nations Convention against Corruption (UNCAC) and the government maintains zero tolerance against corruption. Financial dealings by the royal family, however, remain confidential. Brunei is ranked 96 out of 183 in the World Bank’s 2010 survey on ease of doing business.14 The country has a strong need to diversify its economy as it remains dependent on the oil and gas sector.15
Legislative System

Brunei’s legal system is based on British common law. It dates back to 1906 when five courts were established to hear civil and criminal cases. The Supreme Court of Brunei uses the constitution and Islamic law to guide its decisions. But where there has been no law, the court relies on past precedence. As in the United States, there is an attorney general who acts as public prosecutor. Brunei uses Islamic law but it applies only to Muslims. Islamic courts apply Sharia law in family and other matters involving Muslims. Civil procedures are governed by the magistrate courts and the Supreme Court. Matters can be heard both in an open court or with only the parties needed present. There is an appeal process and final appeal can be made to the Judicial Committee of the Privy Council in London. This does not apply to criminal cases.

The World Bank estimates that it will take roughly 4 months to establish a business in Brunei. It ranks 20th in the world for longest time taken to start a business. Eighteen procedures need to be completed to start a business. Only Chad, Equatorial Guinea, and Uganda require more procedures. Brunei ranks low when it comes to enforcing contracts. Legal fees are high, as 36% of a claim goes to the counsel compared to the
A. Imports

B. Exports

*Figure 2.2. Major trading partners of Brunei.*

United States where only 9% of a claim goes toward attorney fees. Brunei has been a WTO member since 1995 and the International Center for Settlement of Investment Disputes (ICSID) since 2002. It is also a signatory to the World Intellectual Property Organization (WIPO).

**Sociocultural Environment**

Officially called Negara Brunei Darussalam, meaning the “nation of Brunei” and “abode of peace,” Brunei has a hierarchal culture with a strong emphasis on family and extended family. Members of a family are expected to be loyal to the rest of the family. Because of this hierarchy, age is much respected in Brunei and younger people are expected to be respectful of their elders. Bruneians are polite and well mannered. Honor and shame are important. People avoid being blunt as they do not want to upset or shame others. Showing anger in Brunei is considered embarrassing as it results in the other losing face.

The culture is dominated by the traditions of Islam. Alcohol is not allowed in the country, and pork is not eaten by Muslims but can be served to non-Muslims. Although the people are devout Muslims, they are accepting of other religious practices. Hours of business are dictated by religious obligations. Businesses are closed on Friday and often shut on Saturday and Sunday too. During Ramadan, government offices operate on a 6-hour-day schedule. Businesses may start a workday with a prayer from the Koran to obtain Allah’s blessing.

Local Malays speak Bahasa Malaysia (Malay language) but it sounds different from spoken Malay. Several other cultural and linguistic differences make the Brunei Malays quite distinct from the larger Malay populations in neighboring Malaysia and Indonesia. The heritage of the country’s linkage with Britain has made the people receptive to Western ideas and concepts. English is widely understood and remains the language of business with foreigners. Other languages spoken are Chinese and Hindi. The country is conservative in culture and religious in temperament. Brunei may have more mosques per square kilometer than any other country.

Religious freedom is guaranteed under the constitution. However, in reality other religions face a number of restrictions such as prohibition on religious teaching and propagation of other faiths. *Melayu Islam Barajas* (MIB) is the national ideology in which the sultan and other leaders are
seen as father figures. Loyalty to leaders and elders is a strong characteristic of Bruneian culture. Leaders are expected to act as role models; hence, the sultan practices a benevolent type of leadership. This has contributed to Brunei’s stability and success.

Business Culture and Intricacies

The general attitude of the Malay workforce is laidback and often borders on complacency. This is because locals are well taken care of by the government and their basic needs have already been met. Motivation to be productive is required only of the minority Chinese who by nature are hardworking. Special efforts will be required to motivate the workforce and must be factored in when setting business goals and timelines. The typical workweek runs from Monday through Thursday and Saturday, as Friday is the Muslim Sabbath. Office hours for government establishments are from 7:45 a.m. to 12:15 p.m. and 1:30 p.m. to 4:30 p.m. Business work hours are from 9 a.m. to 5 p.m. and shops are open till 9 p.m.

Business cards are important. They are exchanged after the introduction. You should inspect the person’s business card and not pocket it in a hurry. This shows respect and interest. Greetings at meetings are determined by the person’s background and title. Titles are important. Younger Bruneian men have picked up on shaking hands to greet as in other cultures. However, men and women do not usually shake hands. Foreign women should bow gently; younger Bruneian men may shake hands with them. Whether they do so, depends on their age and personal views. This can be confusing but in the worst case, simply use the more conservative approach. Eye contact is considered disrespectful and should be avoided. Small gifts should be offered with the right hand only, but if the gift is too large you can use your left hand too. Gifts are usually not opened when received.

Bruneians usually do not invite foreigners to dinner. However, if you are invited, it means that your relationship with the host is good and personal. It is OK to be a little late, as punctuality is not necessary. Turning down hospitality can be seen as an insult. Eat food with your right hand.

According to the World Bank report Doing Business 2010, Brunei ranks fourth in the world in terms of overall worker employment. As in
the United States, it is relatively easy to hire and fire workers. The average firing cost is 4 weeks’ salary.\textsuperscript{21}

Indirect communication should be expected. Bruneians have many different ways of saying “yes” and “no.” It is important to ask questions that can be answered in the affirmative so that clarification is not needed.

Though there are no specific restrictions of foreign equity ownership, it will be prudent to seek local participation both in capital and management.\textsuperscript{22} This will serve well when tendering contracts to the government or Brunei Shell Petroleum.

Group harmony plays a vital role in daily and especially business life. “Face” holds a special place in relationships and has to be borne in mind when dealing with locals. The communication style is indirect and rather ambiguous. This may be disconcerting for those used to a more open and direct culture. Nonverbal communications such as body language, facial expressions, tone of voice, and eye contact can be more salient than the actual words used in conveyance. It is imperative not to take the aggressive, action, and time-oriented approach that may serve to alienate rather than help the relationship. Patience can be a valuable tool when dealing with Bruneian cultures. Like in other ASEAN countries, getting angry and frustrated does not help in negotiations. Losing temper will most likely result in losing the deal.\textsuperscript{23}

**Web Resources**

**Country and History**

BruDirect  
http://www.bruneidirecthys.net

Brunei Daily Diary  
http://www.bruneidiary.info

Brunei Energy Association  
http://www.bena.org.bn

Brunei Year Book 2010  
Department of Environment, Parks and Recreation
http://www.env.gov.bn

**People, Culture, and Health**

Brunei Ministry of Health
http://www.moh.gov.bn

United Nations International Children’s Emergency Funds: UNICEF
http://www.unicef.org

**Government, Infrastructure, and Technology**

Authority for Info-communications Technology Industry of Brunei Darussalam
http://aiti.gov.bn

Brunei Attorney General’s Chambers
http://www.agc.gov.bn

Brunei E-Government National Center
http://www.egnc.gov.bn

Brunei Ministry of Development: Public Works Department
http://www.pwd.gov.bn

Brunei State Judiciary
http://www.judicial.gov.bn

Brunei Year Book 2010

The Brunei Economic Development Board
Economy and Education

Authority for Info-communications Technology Industry of Brunei Darussalam
http://aiti.gov.bn

Brunei Ministry of Education
http://www.moe.edu.bn

Brunei 21st Century National Education System
http://www.moe.edu.bn

The Brunei Economic Development Board

Business Environment and Trade Practices

Brunei Anti-Corruption Bureau
http://www.anti-corruption.gov.bn

Brunei Ministry of Industry and Primary Resources
http://www.bruneimipr.gov.bn

Brunei Ministry of Industry and Primary Resources: Brunei Industrial Development authority
http://www.onebrunei.com

Brunei Ministry of Finance
http://www.mof.gov.bn

Local Media

Brunei Darussalam Newsletter
http://www.bdnewsletter.gov.bn
Borneo Bulletin
http://www.borneobulletin.com.bn

Newsroom Radio Television Brunei
http://www.rtbnews.rtb.gov.bn

The Brunei Times
http://www.bruneitimes.com.bn
CHAPTER 3

Cambodia

Country at a Glance

<table>
<thead>
<tr>
<th>Size</th>
<th>181,035 sq km (about the size of the state of Missouri)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate</td>
<td>Tropical (rainy season: May–November; dry season: December–April)</td>
</tr>
<tr>
<td>Capital</td>
<td>Phnom Penh</td>
</tr>
<tr>
<td>Political structure</td>
<td>Multiparty democracy under a constitutional monarchy</td>
</tr>
<tr>
<td>Leader</td>
<td>Prime Minister Hun Sen</td>
</tr>
<tr>
<td>Official languages</td>
<td>Khmer (95%)</td>
</tr>
<tr>
<td>Other languages spoken</td>
<td>English, French</td>
</tr>
<tr>
<td>Population</td>
<td>14,494,293 (July 2010 est.)</td>
</tr>
<tr>
<td>Age breakdown</td>
<td>0–14 (32.6%), 15–64 (63.8%), 65+ (3.6%)</td>
</tr>
<tr>
<td>Major religion</td>
<td>Buddhism (96%)</td>
</tr>
<tr>
<td>Major industries</td>
<td>Garments, construction, agriculture, tourism</td>
</tr>
<tr>
<td>GDP</td>
<td>$27.92 billion (2009 est.)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>$1,900</td>
</tr>
</tbody>
</table>

General Background

The Kingdom of Cambodia (also Kampuchea) is a relatively small country about the size of Missouri and slightly smaller than Oklahoma, with a population of less than 15 million. The majority of the population lives in rural agrarian communities with only 22% living in urban areas. It is bordered on the north by Laos and Thailand, on the west by Thailand, and on the east by Vietnam. The Mekong River flows directly through the country from north to south, eventually creating a delta in Vietnam. The terrain is mostly low, flat plains with mountains in the southwest and north. The climate is tropical with the rainy monsoon season running from May to December and the dry season from January to April. Temperatures do not vary much. Most of the land is infertile due to little rain and irrigation, and over half the country is tropical jungle. Cambodia is a relatively poor country by world standards but has numerous natural resources that have not been well managed due to the tumultuous upheaval in its recent history. Its resources include oil and gas, timber, gemstones, iron ore, manganese, phosphates, and hydropower potential. Only now is Cambodia emerging as an independent and democratic state.

The original Cambodian kingdom dates back to the 1st century but not much is known about life then. What is known is that the Khmer people migrated from the north and their capital at Angkor had its heyday from around AD 900. It was the most powerful in the region for at least 6 centuries till about 1432 when the decline set in. The Khmers ruled much of present day Laos, Thailand, Burma, Malaysia, and Vietnam. Between the 14th and 18th centuries, Cambodia fought the Thai kingdoms. From 1864, the French ruled Cambodia as part of Indochina, specifically in infrastructure and lawmaking, but never made the country a colony. Full independence was realized in 1953 under the leadership of Prince Norodom Sihanouk. He ruled the country till 1970 when he was ousted in a coup by Marshal Lon Nol. Around this time, the United States, which was militarily involved in Vietnam, subjected Cambodia to heavy bombing as it was being used by the Vietcong for excursions into South Vietnam. The resulting Cambodian civil war saw the Khmer Rouge with Pol Pot at the helm come to power in 1975. The following year, the Khmer Rouge established a 4-year plan to develop agriculture and nationalize industry. Cambodians were forced into work camps...
in the countryside. The number of those who died from starvation and execution in what became known as “the Killing Fields” is uncertain, but estimated put the figure at around 2 million.³

In early 1979, Vietnam invaded Cambodia and ousted the Khmer Rouge regime. Fighting continued for a decade. Following the 1991 Paris Agreement, peace returned under United Nations (UN) supervision. The present Kingdom of Cambodia came into existence only in 1993 when the UN supervised the first democratic elections. A coalition government was formed but fighting broke out between the Cambodian People’s Party (CPP) and the Royalists (Front Uni National pour un Cambodia Indépendant Neutre Pacifique et Coóperatif, or FUNCINPEC) in 1997. Another coalition government was formed after the 1998 elections and resulted in Hun Sen being appointed prime minister. The country has been stable since then.

Cambodia is a developing country with per capita GDP at PPP per capita of only $1,900 in 2010. However, annual growth has been around 6%. The rate of unemployment is estimated to be 5–15%. Agriculture is the most important sector and rice is the main crop cultivated for consumption. Tourism, with the Angkor Wat being the main attraction, is an important source of income for the country. In 2005, oil and natural gas deposits were found beneath Cambodia’s territorial waters, and once commercial extraction begins in 2011, the oil revenues could profoundly affect Cambodia’s economy.

**Business Environment:**

**Political, Economic, and Legal Systems**

**Political System**

Cambodia’s political system is a product of the country’s troubled modern history. It is a constitutional monarchy. A multiparty democracy was established under the 1993 Constitution. King Norodom Sihamoni ascended the throne after Prince Norodom Sihanouk abdicated in 2004. He is the head of state. An elected prime minister is the head of government. The executive branch comprises the king, the prime minister, 10 deputy prime ministers, and numerous other senior and junior ministers. They serve a 5-year term. The bicameral legislature consists of the
national assembly of 123 elected representatives and the 61-member senate. Members serve a 5-year term. The judiciary includes the Supreme Court of Cambodia, lower courts, and an international court specially established to try crimes committed during the Khmer Rouge era.4

Cambodia’s political stability is lower than that of other Association of South East Asian Nations (ASEAN) countries such as Singapore, Brunei, and Malaysia. It compares roughly with Laos and Vietnam, and is significantly better than Myanmar.

Economic System

Cambodia is now a free market economy and has been a World Trade Organization member since 2004. The economy grew at an average 10% till 2007. Growth dropped to below 5% in 2009 as a result of the global economic slowdown. The main industries are garment manufacture (almost all of which is exported to the United States), tourism, construction, rice milling, fishing, wood and wood products, cement, gem mining, and agriculture. The main crops are rice, bananas, rubber, corn, cashews, and tapioca. Between 1998 and 2002, exports rose from $900 million to $1.7 billion; and further from $2.5 billion in 2004 to $4.4 billion in 2009. Even with the global recession beginning in 2008, Cambodia’s economy grew at 6% but shrank to 0.1% in 2009. Only Laos and Vietnam outperformed Cambodia in ASEAN. ASEAN’s average growth rate in 2008 was 4.5% and 1.5% in 2009. The garment industry currently employs more than 320,000 people and accounts for over 85% of Cambodia’s exports.

Oil deposits were found beneath Cambodia’s territorial waters in 2005. Exploratory drilling has commenced. There is a distinct possibility that this could be a good augur for better days in Cambodia’s economy. The economy is heavily dollarized and the U.S. dollar is the working currency of the country. The country remains heavily dependent on foreign assistance although foreign direct investment (FDI) has increased twelvefold since 2004. The political stability the country is enjoying at present coupled with the government’s progressive economic policies have encouraged growth in trade and investment. Tourist arrivals have also been increasing and have touched the 2-million mark. The Cambodian economy is expected to begin a slow recovery from 2010. Its long-term
development remains a challenge. The government is working with bilateral and multilateral donors, including the World Bank and International Monetary Fund to address the country’s many pressing needs, including the depressed garment sector. FDI is expected to rise to $500 million. Much, however, needs to be done to stimulate growth of the private sector, create employment, and increase trade. Corruption is a significant concern for foreign businesses and investors.\(^5\)

**Legal System**

Cambodia’s legal system is based on the French civil law code as well as a product of the input from the United Nations Transitional Authority in Cambodia (UNTAC) period, numerous royal decrees, common law influences, acts of the legislature—with influences of customary law—and remnants of communist laws.\(^6\) The general view is that Cambodia’s legal framework is incomplete and unevenly enforced. The government has passed several trade and investment laws over the past 5 years. Many business-related draft laws are still pending. Many Cambodian and foreign business representatives perceive the court system to be unreliable and susceptible to external political and commercial influence. The

---

**Figure 3.1. GDP by sector in Cambodia.**

A. Imports

B. Exports

*Figure 3.2. Major trading partners of Cambodia.*

Cambodian government is in the process of establishing a commercial arbitration center and commercial court. Disputes can be resolved through international arbitration or the International Center for Settlement of Investment Disputes (ICSID), but most commercial disputes are currently resolved through negotiations.

According to the World Bank, Cambodia ranks 141st in the world for the enforcement of business contracts, the average cost of making a claim against a company is 102% of the claim. Because of this it is very hard to enforce contracts and you must make sure the people you are dealing with are reputable. Cambodia ranks 173rd in the world with regard to ease of starting a business from scratch. The average time to start a business is 85 days.7

Sociocultural Environment

Cambodians are traditional and conservative in their outlook. They are proud of their glorious past—the Angkor era is foremost in their psyche. Angkor is pervasive—on the flag, on beer and food packages, on buildings, and even cigarettes. Cambodian culture is hierarchical and the result of deep-rooted religious values and customs. Theravada Buddhism is practiced by most people and is heavily influenced by Hinduism. The commonly held belief is that everyone lives a life on this planet and will come back in another life as a higher or lower being based on how they were in their past lives. Theravada Buddhists believe in karma and harmony in life is their goal. As a result, individual actions and consequences hold much importance in daily life. Life is centered on family. There are guidelines for interaction between parents and children and superiors and subordinates that should not be crossed or challenged. The extended family is the norm and collectivism prevails. Families have strong bonds, stick together, and solve problems together. The community is always placed above the individual. Elders are respected and revered. The king is very much honored. Monks are given every courtesy and respect. The father or husband is the head of the family but the wife exercises considerable decision making, especially with regard to financial matters.

Khmer is the official language and is spoken by almost all the people. It is used in all government administration, in education, and the media. The written script is believed to have evolved from Sanskrit and
Pali. It is one of the few nontonal languages of Southeast Asia. There are many similarities between the Khmer and Thai languages because of close contact and mutual borrowing. There are a few regional differences in language but they are slight and usually will not make communication difficult. French, Vietnamese, and Chinese are also used by some and English is rapidly becoming popular due to increase in business transactions and also because it is the language used in trade and relations with the other nine members of ASEAN.

Traditionally Cambodians greet with a bow with the hands together at chest level (sampeah) and bow. It is similar to the Thai wai and the Indian namaste. When greeting somebody words spoken are “chum reap suor” while “chum reap lear” is spoken when saying good-bye. A younger or lower-status person usually initiates the greeting. Cambodians have recently adopted the Western handshake with foreigners. Cambodian culture places a great deal of emphasis on protocol. The need to retain “face” is important to them. Cambodians do not like being criticized or embarrassed in public. Showing emotions is considered negative, and anger, disappointment, and frustration are not displayed openly. Modesty and humility are valued as part of Buddhist tradition. Boasting is frowned upon. Open disagreement is not the norm and silence is preferred as a response. Communication is mostly indirect.

The Cambodian people’s attitude toward their immediate neighbors, Thailand and Vietnam, needs to be understood. Since the glory days of the Angkor Kingdom, Cambodians have been, by and large, on the losing side of the many battles fought with these neighbors. This historical experience coupled with difficult relationships and fears have shaped popular attitudes. These larger neighbors are blamed for Cambodia’s decline. Cambodians are deeply suspicious of these countries.

Cambodia is undergoing tremendous change in terms of economic development and adjusting to the new realities. Though it still remains in the firm grip of traditionalists, the change in demographics is bound to move the younger generation toward contemporary lifestyles.

**Business Culture and Intricacies**

Buddhist culture is “soft.” So the meaningful way to succeed in business in Cambodia is to take a gentle and personal approach. The workweek in
Cambodia is similar to Western business practice. Cambodians also value punctuality. Late arrival is considered disrespectful. Gifts are traditionally given on New Year’s Eve. Birthdays are not considered an important day in Cambodian culture. A small gift of fruits or sweets or flowers would be good to bring if you are invited to someone’s home. When you are invited to dinner, let the person you are dining with tell you where to sit so you do not interrupt their seating order. The eldest person sits at the head of the table and eats first. Business is never discussed in a dining situation.

Business card exchanges come after the initial introductions. If at all possible, have your card translated into Khmer. Hand your card with either only your right hand or both hands. Business cards are to be treated with respect as it reflects how you will treat the person. Cambodian managers are typically paternalistic. When commending a group for its work, a manager should give praise to all members in the group and not single people out for their accomplishments. Doing so will embarrass the person being praised, who would rather be seen as just another member of the group. Like other Asian cultures, Cambodians are very indirect communicators. So reading body language is important. If a Cambodian disagrees with something being said, he will usually keep quiet instead of openly disagreeing with the person in front of him because that would be considered disrespectful. Humility is considered more important than boastfulness.

Timelines and priorities are flexible in a Cambodian work environment. Usually no formal agenda or schedule is prepared for meetings. The initial part of the meeting should be used to get to know people. Usually small talk will be indulged in. Because there is no schedule, the meeting will usually continue as long as needed. Cambodian workers believe in a sense of harmony within the workplace. Managers and workers are often resistant to change in the workplace. It is important to have a relaxed work environment. Decisions are generally made by a few people at the top of the organization with little input from subordinates.

Being aggressive can lead Cambodian business people to disregard you. They prefer ideas to be brought gently to the fore and have other people evaluate them first. Much like in other ASEAN countries, Cambodian people will agree simply to avoid conflict. Therefore, all contracts should be in writing and people should not necessarily be taken for their word. However, it is vital to note that enforcement of contracts is a long and tedious process and should be used only as a last resort.
Corruption is an endemic problem. Obtaining a local partner is an effective way to succeed in the local environment. It is important to bear in mind that the country faces severe problems of poverty, lack of infrastructure, weak institutions, and underdeveloped human resources. Yet the country offers immense potential for trade and investment, and attractive incentives are available for projects in Cambodia.8

Web Resources

Country and History

Cambodian Information Center
http://www.cambodia.org

Cambodia Government
http://www.cambodia.gov.kh

Cambodia Ministry of Culture and Fine Arts
http://www.mcfa.gov.kh

Cambodia Ministry of Rural Development
http://www.mrd.gov.kh

Cambodia Ministry of Tourism
http://www.mot.gov.kh

Cambodia National Institute of Statistics
http://www.nis.gov.kh

People, Culture, and Health

Cambodia Ministry of Culture and Fine Arts
http://www.mcfa.gov.kh

Cambodian Information Center
http://www.cambodia.org
Cambodia Ministry of Health
http://www.moh.gov.kh

Cambodia Ministry of Planning
http://www.mop.gov.kh

Cambodia Ministry of Tourism
http://www.mot.gov.kh

Cambodia National Institute of Statistics
http://www.nis.gov.kh

**Government, Infrastructure, and Technology**

Cambodia Government
http://www.cambodia.gov.kh

Cambodia Ministry of Justice
http://www.moj.gov.kh

Cambodia Ministry of Public Works and Transport
http://www.mpwt.gov.kh

Cambodia National Information Communications Technology Development Authority
http://www.nida.gov.kh

The National Assembly of the Kingdom of Cambodia
http://www.national-assembly.org.kh

**Economy and Education**

Cambodia Food Security and Sustainable Development

Cambodia Ka-set News
http://cambodia.ka-set.info
Cambodia Ministry of Agriculture, Forestry and Fisheries
http://www.stats.maff.gov.kh

Cambodia Ministry of Economy and Finance
http://www.mef.gov.kh

Cambodia Ministry of Education, Youth and Sport
http://www.moeys.gov.kh

Cambodia Ministry of Interior
http://www.cambodia.gov.kh

Cambodia Ministry of Planning
http://www.mop.gov.kh

Cambodia National Institute of Statistics
http://www.nis.gov.kh

National Bank of Cambodia
http://www.nbc.org.kh

*Business Environment and Trade Practices*

Cambodian American Chamber of Commerce
http://www.cambodianuschamber.org

Cambodia General Department of Industry
http://www.gdi.mime.gov.kh

Cambodia Ministry of Commerce
http://www.moc.gov.kh

Cambodia Ministry of Economy and Finance
http://www.mef.gov.kh

Cambodia Ministry of International Affairs and International Cooperation
http://www.mfaic.gov.kh
Cambodia Ministry of Tourism
http://www.mot.gov.kh

Cambodia National Institute of Statistics
http://www.nis.gov.kh

Phnom Penh Chamber of Commerce
http://www.ppcc.org.kh

Local Media

Agence Kampuchea Press
http://www.camnet.com.kh

Cambodia Daily
http://www.camnet.com.kh

Cambodia Post
http://cambodiapost.com

Phnom Penh Post
http://www.phnompenhpost.com
## Chapter 4

### Indonesia

![Country at a Glance](https://upload.wikimedia.org/wikipedia/commons/0/05/Indonesia_%28orthographic_projection%29.svg)

**Country at a Glance**

<table>
<thead>
<tr>
<th>Size</th>
<th>1,900,000 sq km (about the size of Mexico)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate</td>
<td>Tropical, moderate in the highlands</td>
</tr>
<tr>
<td>Capital</td>
<td>Jakarta</td>
</tr>
<tr>
<td>Political structure</td>
<td>Republic</td>
</tr>
<tr>
<td>Leader</td>
<td>President Susilo Bambang Yudhoyono</td>
</tr>
<tr>
<td>Official language</td>
<td>Bahasa Indonesia</td>
</tr>
<tr>
<td>Other languages spoken</td>
<td>English, Chinese</td>
</tr>
<tr>
<td>Population</td>
<td>240,271,522 (July 2010 est. [80% of the United States])</td>
</tr>
<tr>
<td>Age breakdown</td>
<td>0–14 (28%), 15–64 (66%), 65+ (6%)</td>
</tr>
<tr>
<td>Major religion</td>
<td>Islam (86%)</td>
</tr>
<tr>
<td>Other religions</td>
<td>Christianity (9%), Buddhism, Hinduism</td>
</tr>
<tr>
<td>Major industries</td>
<td>Oil and gas, electrical appliances, plywood, textiles, rubber</td>
</tr>
<tr>
<td>GDP</td>
<td>$962.5 billion (16th in the world)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>$4,000 (2009 est.)</td>
</tr>
</tbody>
</table>

General Background

Indonesia has the largest economy of the Association of Southeast Asian Nations (ASEAN). With the population exceeding 240 million, it is the fourth largest country in the world. It is also the largest Muslim nation in the world and the third largest democracy, after India and the United States. Larger in size than Brazil and about three times the size of Texas, Indonesia has a land area of around 2 million sq km (736,000 sq miles) and a maritime area of 7.9 million sq km. The Indonesian archipelago is the largest in the world and consists of over 17,000 islands and stretches 5,000 km from east to west. Indonesia is located at the crossroads between the Pacific and Indian Oceans and bridges two continents: Asia and Australia.

Discovery of the “Java man” (Homo erectus) suggests that the country was inhabited a million years ago. Early civilization dates back to around 2000 BC with the arrival of Austronesia people from the north. This forced the Melanesian natives to spread across the eastern islands. Small kingdoms flourished by the 1st century and their strategic sea-lane location allowed trade with both the Indian and Chinese kingdoms. By the 7th century, the powerful naval Hindu-Buddhist kingdom of Srivijaya arose and was centered in Sumatra. It lasted well into the 13th century. The Buddhist kingdom of Majapahit was a major empire from the 13th to the 16th century. It was centered in Java and spread across the archipelago. This was the golden age in Indonesian history. Islam first arrived in Aceh in North Sumatra from India in the early 11th century and spread rapidly by conversion. By the 16th century, Islam had surpassed Hinduism and Buddhism. It mixed conveniently with the existing cultures.

Indonesia’s spices drew the Europeans from the 16th century. By the early 17th century, the Dutch had colonized the country and remained in control through the mid-20th century. Japan occupied the islands during the Second World War, and after its surrender, Indonesia declared its independence on August 15, 1945. However, it took another 4 years and a bitter armed struggle before the Netherlands agreed to relinquish its colony. From 1949 to 1965, the country was ruled by President Sukarno, whose authoritarian regime did not achieve much development. Tensions between the Communist Party and the military culminated in a coup on October 1, 1965, and General Suharto emerged as the new leader. He
declared a “New Order” and shifted domestic and foreign policy toward economic development, liberalization, and engagement with the West.\(^3\)

Between 1966 and 1996, Indonesia achieved an annual real gross domestic product (GDP) growth of 7%–8%. Many American, European, and Japanese companies made Indonesia a major site for investment and operations. As a result of the Asian financial crisis in 1997, Indonesia suffered the most as the currency collapsed and there was severe turmoil in the country. Suharto was forced to resign and his deputy B. J. Habibie replaced him in 1998. Eventually, the authoritarian regime was replaced by a democratic government. Elections in 1999 brought in Abdurrahman Wahid as president but he was replaced by Megawati Sukarnoputri 2 years later. The first direct presidential election was held in 2004 and Susilo Bambang Yudhoyono assumed power.\(^4\) He has since been reelected in 2009.

Indonesia is rich in natural resources like oil and gas, gold, silver, copper, tin, coal, and fish. The GDP per capita income (purchasing power parity, or PPP) is around $4,000. The main challenges facing the country are poverty, unemployment (around 8%), rampant corruption, low productivity, and adjustment to political and administrative changes in the country.

**Business Environment:**

**Political, Economic, and Legal Systems**

**Political System**

Despite the political turmoil of the late 1990s, Indonesia is politically stable today. Stability has not come easily and the democratic process still needs to be refined. Indonesia is now the world’s third largest democracy after India and the United States. It is a republic and the constitution provides for separation of the executive, legislative, and judicial branches of government. The president can be elected to no more than two 5-year terms in office. Indonesia adopted the bicameral legislative system in 2004. The People’s Representative Council (DPR) has 550 members elected for a 5-year term. The second chamber is Regional Representative Council (DPD), previously the People’s Consultative Assembly (MPR), composed of four representatives from each of the 33 provinces. The
MPR consists of both the DPD and the DPR. The MPR has the power to inaugurate and impeach the president. The president must consult the DPR on international decisions and can propose bills to the DPR. The Supreme Court is independent and all courts are beneath it. The Constitutional Court is a court of first instance, which also has a court of appeals.\(^5\)

An important facet of the Indonesian political system has been the involvement of the military in the political process. Prior to 2004, a number of seats in the legislature were reserved for the military. The military has also provided leadership in the government during the Suharto era and many senior officers were placed in the civilian bureaucracy. The reforms of 1999 ended the formal involvement of the armed forces in government. In its foreign relations, Indonesia has maintained its independent and nonaligned stance in the region. It continues to follow the moderate path, engaging both the Western powers and China and remaining as the founding and senior member of ASEAN. It is also a strong supporter of the Asia Pacific Economic Cooperation (APEC) forum.

**Economic System**

Like other members of ASEAN, Indonesia has a market-based economy in which the government has traditionally played a major role. It has been a World Trade Organization (WTO) member since 1995 and is now a proud member of the Group of Twenty Finance Ministers and Central Bank Governors, also known as the G20. Indonesia’s GDP at PPP almost reached $960 million in 2009. Its economy is ranked as the 15th and the 16th largest by the World Bank and the International Monetary Fund (IMF), respectively.

Under President Suharto’s “New Era,” which extended from 1967 to 1997, the Indonesian economy grew in excess of 7% till the Asian financial crisis, which was the lowest point of the economy and resulted in political instability. Since then, the rupiah has strengthened with the return of political and economic stability. The banking sector and capital markets have been restructured. GDP growth rose steadily at 4%–6% annually from 1998 to 2007. In 2008, there was a decline caused by a slump in exports and manufacturing and the global downturn that stunted its growth. During the second half of 2009, the growth rate did
not gain new capital investment, which is attributed more to the lack of available credit and financing than any domestic economic problems. Indonesia recovered relatively quickly from the 2009 downturn and real GDP growth of 6% is projected for 2011.

Indonesia has been a net petroleum exporter and a member of the Organization of Petroleum Exporting Countries (OPEC) but left the organization in 2008 and has been importing oil since. This was mainly due to maturation of existing fields. In 2007, Indonesia ranked second (after Qatar) in world gas production. The oil and gas sector contributed over 31% to total government revenue in 2008 and trade balance has remained positive. Indonesia had proven oil reserves of 3.99 billion barrels at the end of 2008 or 0.29% of the world’s reserves. In 2008, its natural gas consumption was 33.8 billion cu m and proven natural gas reserves of 3 trillion cu m. Indonesia is also rich in minerals and has been exploring and extracting bauxite, silver, tin, copper, nickel, gold, and coal. A mining law passed in 2008 has reopened the coal industry to foreign investment. Indonesia exported 140 million tons of coal in 2008. The country ranks fifth among the world’s gold producers. Though mineral deposits and prospects remain high, there has been a decline in investment due to the less favorable new mining law enacted to replace the very successful Contract of Works (CoW) system that was in operation for 30 years from 1967 to 1997.6

President Yudhoyono’s government has adopted a proactive policy of stimulating economic growth by implementing progrowth programs. The 2007 Investment Law sets out general investment principles. A negative list names sectors where foreign investment is restricted. Lowered investment barriers have seen flow of funds from abroad into petrochemicals, chemicals, textiles, and pulp and paper. Privatization of state-owned enterprises has been slow. Inflation fighting regimes have been implemented. Fuel subsidies have been reduced drastically. Banking sector reform allows only a single party to own a controlling interest in an institution. Blanket liabilities on third parties have also been eliminated. Inflation remains below the national target but will rise once the stimulus in place are removed. The currency remains stable as external solvency and liquidity remain sound and foreign exchange reserves rose to $61 billion in 2010.
Legal System

Indonesia’s legal system is more complex than that of other ASEAN members. It is a mixture of three distinct legal systems: customary law from native *adat* law, Dutch colonial law, and current national law. The Indonesian Supreme Court (*Mahkamah Agung*) is the highest level of the judicial branch. Its judges are appointed by the president. The Constitutional Court (*Mahkamah Konstitusi*) rules on constitutional and political matters, while a judicial commission (*Komisi Yudisial*) oversees the judges. Laws are interpreted by the Indonesian Civil Code, which is composed of four books: *Individual, Goods, and Contracts, Evidence* and *Procedure.* The Dutch colonists introduced the court of arbitration to Indonesia, which continues to be used today for dispute resolution prior to litigation. Indonesia has a separate commercial court (*Pengadilan Niaga*) to handle bankruptcy and insolvency. It can handle other commercial matters as well.

Business entities can be registered as subsidiaries of multinationals, national private business organizations or state-owned business. Indonesia ranks 161st out of 183 countries surveyed by the World Bank in 2010 for ease of starting a business and 122nd for ease of running a business.

*Figure 4.1. GDP by sector in Indonesia.*

A. Imports

B. Exports

Figure 4.2. Major trading partners of Indonesia.

beneath much poorer countries like Guatemala and Ethiopia. The minimum capital required as a percentage of income to start a business is roughly 60%. In 2009, Indonesia introduced time limits to reduce the length of waiting between registering and obtaining an ownership certificate. This reduced the number of days needed to register a property from 39 to 22. Enforcing a legal claim is extremely costly and difficult. The average claim time is 570 days. The cost of making a claim averages 122% of the actual value of the claim.9 The corporate tax rate is 25%.10 Legal uncertainty due to complexity, confusion brought by regional autonomy, tax issues, customs issues, a weak infrastructure, and the failure to enforce labor law reforms are among the reasons cited for difficulty in starting a business in Indonesia.

Sociocultural Environment

The name Indonesia means “Indian islands” derived from the Greek *Indos* (India) and *nesos* (islands). It is officially a secular nation and very diverse in its ethnic makeup, hence the national motto, “Unity in Diversity” (*Bhinneka Tunggal Ika*). The country is home to more than 300 ethnic groups, each with their own influences based on geographic location, history, language, religion, customs, and heritage.11 Indigenous Indonesians have also had exposure to external influences, mainly due to Hindu, Buddhist, Islamic, and Christian contacts. From ancient times they have dealt with traders from the East and later from the West, and this has certainly shaped a very complex and unique Indonesian culture. Most Indonesians define themselves as members of their local culture first and then their nation. Even though Islam is the predominant religion, most Indonesians practice a syncretistic, moderate form of Islam. They retain and share the values, beliefs, and traditions of Indian, Chinese, Arab, and European cultures handed down for centuries.

Geographically, the nation was divided into provinces by the Dutch colonial administration in the early 20th century. Some regions are homogenous but most islands are multiethnic. They are home to roughly 1,000 different dialects. There are subgroups of the Austronesia family that extend throughout Southeast Asia—from Malaysia through the Philippines and on to Polynesia. Most people have their native tongue as first language. Upon achieving independence, Bahasa Indonesia was
adopted as the national language as it did not belong to the Javanese, who constitute the largest ethnic group. This was palatable to other regions and helped unite the country. Today, it is the most common language and is used in government, schools, commerce, courts, print and other media, the arts and movies, and cross-cultural communication.

The nation's official ideology is the *Pancasila*, or “Five Principles”: belief in one God, just and civilized humanity, Indonesian unity, representative democracy, and social justice for all. The country has made tremendous improvement in nation building and forging a common identity in the face of so many ethnic and regional differences. Major sectarian conflicts in recent years have been in Aceh, East Timor (Timor Leste), and Papua (Irian Jaya), and earlier in Sulawesi. The nation has held together not only because of military force but also through skilful political initiatives. The continuing thorn in ethnic relations has been the relationship between the majority Indonesians and the Chinese community, the underlying reason for conflict being the latter's wealth. Chinese constitute just 3% of the population but control around 60% of the nation’s wealth. The Chinese were brought in by the colonial Dutch government to work in the mines and plantations. They have not assimilated into the local culture and have always been envied for their commercial prowess. They have never been considered as indigenous Indonesians and are often targets of resentment and violence. The Chinese are also mostly Christians and Buddhists. There are also many exclusively Christian ethnic groups concentrated in parts of Northern Sumatra, Java, Sulawesi, Maluku, the Sunda Islands, and Kalimantan. Transmigration has also caused racial and ethnic tension as immigrants may have different religions and are seen as trespassers.

The aristocratic cultures of Java have strongly influenced stratification of Indonesian life due to the existence of princely states and small kingdoms in addition to the main empires. This means that there is deference to authority and social classes are identified by wealth and titles. Indonesia is still a male-dominated society but status of women has been high. By and large, Indonesians are gentle, accommodative people. The Hindu and Buddhist values have been deeply embedded in their being. Indonesians tend to think as a group. Much of this comes from the large diversity in the country. Traditional family structures exist and each family member has a clear role within the group. Age, power, and status garner
respect in Indonesia. “Bapak” and “ibu” are commonly used to address superiors and is the Indonesian equivalent of sir or madam but literally, father and mother. Indonesians value group discussions and thinking, but in the end, the decision making is left to the most senior member of the group.

**Business Culture and Intricacies**

Indonesians have a flexible approach to life. Time is not considered very important and is not looked on as a money waster as in Western culture. It is approached in a relaxed manner and people are extremely flexible. Indonesians are in no particular hurry to get things done. Do not be surprised if events do not start on time and when it takes a long time for services to be provided. The workweek in Indonesia is usually from 8 a.m. to 4 p.m. or 9 a.m. to 5 p.m. with a lunch break between 12 p.m. and 1 p.m.; on Saturday, many business and government offices are closed. Greetings tend to be formal. The most common way to greet a person is to shake his hand and say “selamat” (greetings). An Indonesian may also give a slight bow when greeting you but this is not expected of you. Give and accept your cards with the right hand. You should examine and treat business cards with respect. Gift giving is a common practice. What is given and how it is given depend on the ethnicity of the individual one is meeting. For Muslims, do not give alcohol. Food, if gifted, should be “halal” (acceptable to Muslims). Gifts are offered with the right hand only and not opened when received. For the Chinese, one refuses a gift at first to show he or she is not greedy. Sharp objects indicate you want to sever the relationship. Elaborate wrapping is expected. Alcohol should be given only if the person actually drinks.

As in other ASEAN countries, titles are important. Many Indonesians have a single name, although younger people seem to be adopting two names. The most senior person is introduced first as a sign of respect for elders, which is paramount to Indonesians. Although Bahasa Indonesia is the official language, English can be used in regular business transactions. It must be noted, however, that since English is not always a second language, many Indonesians are not proficient in the language. One needs to speak slowly and also enunciate the words more explicitly. After the initial greeting, business cards are exchanged. The title of your position should
be prominent as titles give credibility. This is a high-context culture; so
Indonesians speak subtly and expect the person receiving the information
to process it to find its true meaning. People are polite and try their best
not to embarrass or upset a person.

Business organizations, much like in other ASEAN countries, are
hierarchal. It is not acceptable for an Indonesian manager to do tasks
that are considered “below” him or her, such as making copies or mov-
ing furniture. Business attire at meetings is usually conservative. Women
should have everything from the ankles and wrists to the neck covered.
At the first meeting, business is seldom discussed. Usually, the first meet-
ing is to get to know the person. Entering the room according to rank
is a good idea. This is how Indonesian people enter and would make
you look knowledgeable about their culture and business practices. Deci-
sions are not made quickly in Indonesia; the reason being is they want
to appear as having deeply considered your offer. Indonesians are often
skeptical of new technology.

Do not employ pressure tactics while in a meeting, as this could in turn
deter the people you are talking to from doing business with you. Loss of
“face,” called “malu” in the local language, is a serious matter and care must
be taken to ensure this is not caused. Maintaining group harmony is valued
by Indonesians. Negotiations take time, so do not expect to strike a deal at
the first or second meeting. Relationships are extremely important. Trust
should be established before making a deal. Networking and having a set
of personal contacts can help achieve this. Particularly in Indonesia, it is
difficult to get rid of a partner if things do not work out. Careful selection
of a partner is therefore imperative. Corruption is a serious issue and steps
are being taken at the highest level to reduce this. Bribes arise because of the
many regulations (peraturan) that are placed to increase revenues. Low sala-
ries of government officials are one cause of corruption. The bureaucracy is
slow and inefficient, and bribes get things moving. This is further exacer-
bated by the willingness of Chinese and others to look on bribes as money
well spent as it allows them to proceed with their ventures. This naturally
increases costs of doing business in Indonesia.13
Web Resources

Country and History

Indonesia Badan Pusat Statistik
http://dds.bps.go.id

Indonesia Ministry of Culture and Tourism
http://www.budpar.go.id

Indonesia Tourism
http://www.indonesia-tourism.com

Republic of Indonesia
http://www.indonesia.go.id

People, Culture, and Health

Indonesia Badan Pusat Statistik (Central Statistics Board)
http://dds.bps.go.id

Indonesia Tourism
http://www.indonesia-tourism.com

Government, Infrastructure, and Technology

Indonesia Investment Coordinating Board
http://www.bkpm.go.id

National Portal Republic of Indonesia
http://www.indonesia.go.id/en

Indonesia Investment Coordinating Board
http://www.bkpm.go.id
**Economy and Education**

Indonesia Badan Pusat Statistik  
http://dds.bps.go.id

Indonesia Bank Indonesia  
http://www.bi.go.id

Indonesia Tourism  
http://www.indonesia-tourism.com

**Business Environment and Trade Practices**

Bank Indonesia  
http://www.bi.go.id

Indonesia Badan Pusat Statistik  
http://dds.bps.go.id

Indonesia Investment Coordinating Board  
http://www.bkpm.go.id

Indonesia Tourism  
http://www.indonesia-tourism.com

**Local Media**

*Indonesia Post*  
http://indonesiapost.com

*Inside Indonesia*  
http://www.insideindonesia.org

*Jakarta Post*  
http://www.thejakartapost.com
CHAPTER 5

Laos

Size 236,800 sq km (slightly larger than the state of Utah)
Climate Tropical (rainy season: May–November; dry season: December–April)
Capital Vientiane
Political structure Communist State
Leader Prime Minister Bouasone Bouphavanh
Official language Lao
Other languages spoken English, French, Vietnamese, Chinese, Hindi, Thai, other ethnic languages
Population 6,834,345 (July 2010 est.)
Age breakdown 0–14 (40.8%), 15–64 (56.2%), 65+ (3.1%)
Major religion Buddhism (67%)
Other religions Unspecified smaller religions (33%)
Major industries Mining, timber, electric power, construction, garments
GDP $14.22 billion (2009 est.)
GDP per capita $2,100


General Background

Laos is one of the few remaining communist countries in the world, but it too has transitioned to a market economy like its neighbor Vietnam. It is the only landlocked country in Southeast Asia that has five nations bordering it: China to the north, Vietnam to the east, Myanmar to the northwest, Thailand to the west, and Cambodia to the south. It is about twice the size of Pennsylvania or slightly larger than Utah. Almost 70% of this mountainous country is forested, especially in the north and east. All rivers flow westward from the mountain ranges into the Mekong River. The climate is tropical, with dry and rainy seasons. The country has a rising population nearing seven million but is still one of the least densely populated countries in Asia. Laos is rich in natural resources and much remains untapped due to lack of capital and technology. The resources include wood, gold, copper, tin, aluminum, rattan, coffee, and hydroelectricity. However, the country remains poor and underdeveloped due to lack of infrastructure and human resources. Laos became a member of Association of Southeast Asian Nations (ASEAN) in 1997.

Laos was inhabited mainly by migrants from southern China in the 4th and 5th century. Strong Indian influences occurred from the 8th century onward when Buddhism arrived. From the 11th century, Laos remained part of the Khmer Angkor Empire and the country was then populated by the Tai people from Thailand (then Siam), who displaced the original Chinese émigrés. There may also have been Mongol influences during this period. Lao recorded history and present day origins as a unified state trace back to the Lan Xang Kingdom, which is translated to mean “land of million elephants,” which began around the mid-14th century. The “golden period” was under King Fa Ngum, whose kingdom included Thailand, parts of China to the north, Vietnam to the east, and much of the Mekong River. The dynasty lasted almost three centuries and finally collapsed with the capture of Vientiane in 1779 by the Thais (Siamese). Laos became part of the Siamese empire and was divided into three principalities: Luang Prabang in the north, Vientiane in the center, and Champassak in the south.

The arrival of the French and their colonization of Vietnam in the 1870s led to Laos being absorbed into French Indochina. The Japanese occupied French Indochina during the Second World War and installed
King Sisavang Vong of Luang Prabang as ruler and induced him to declare independence from the French, just before the Japanese surrendered in 1945. Nationalist tendencies were aroused and in September 1945 the three regions of Vientiane, Champassak, and Luang Prabang united to form an independent government as “Free Laos.” However, the French reoccupied Laos in 1946 and granted only limited autonomy through the election of a constituent assembly. The Pathet Lao (Land of Laos) freedom movement under Prince Souphanouvong sided with the communist movement in Vietnam (Viet Minh) and this resulted in the defeat of the French and the liberation of Laos under the 1954 Geneva Peace Accord. But there was no unity as the two northern provinces were given to the Pathet Lao and the rest went to the royalists. A unified government was formed only in 1957. The Pathet Lao under Prince Souvannaouvong were integrated into the mainstream and their forces into the royal army. Prince Souvanna Phouma was made prime minister. However, the unification did not last long and conflict broke out again in 1959. Prince Souvanna Phouma was driven into exile in Cambodia in 1960 when the royal army under General Phoumi Nosavan captured Vientiane and a pro-Western government was set up under Prince Boun Oum. The Soviets supported Prince Souvanna Phouma. In 1960, Kong Le, an army captain, seized Vientiane in a coup and established a neutral government. This effort at stability too failed, and in 1961 a ceasefire was arranged under the second Geneva Conference in 1961–1962. It provided for the neutrality and independence of Laos and the three princes agreed to a coalition government led by Prince Souvanna Phouma. This coalition too was short lived.

Laos was drawn into the Second Indochina War (1954–1975) with the United States, North Vietnam, and China active in Laos. For nearly a decade, it was subjected to heavy bombardment by the Americans as they sought to curb the supply route (Ho Chi Minh Trail), which passed through eastern Laos and South Cambodia into South Vietnam, and was used by the Viet Minh (Vietcong) for infiltration. The coalition government was again revived in 1973 but the struggle between the neutralists, the communists, and the rightists continued. The fall of Saigon in April 1975 hastened the collapse of the coalition. The Pathet Lao assumed power as the Lao People’s Revolutionary Party (LPRP). Prince Souphanouvong became president. The monarchy was abolished, King Sisavang
Vitthava abdicated, and Laos became the Lao People’s Democratic Republic (LPDR). Communist policies, including centralized planning and exercise of total political control, were imposed. These led to a deterioration of economic conditions and a major exodus of the elite, the educated, and the skilled. Many settled in the United States and Thailand as refugees. A new constitution in 1991 retained a one-party state system but began implementing market-oriented policies. In 1995, the United States lifted its ban on aid to Laos. Diplomatic ties were restored with the neighbors and trade with them has since flourished.3

### Business Environment:
#### Political, Economic and Legal Systems

**Political System**

Though Laos remains a one-party ruled communist state, the political environment is stable. The LPRP has been in power since 1975 and rules by decree. The 1991 Constitution, which was amended in 2003, provides for a unicameral national assembly (Sapha Heng Xat) of 115 members to be elected for a 5-year term. Suffrage is 18 years and universal. Candidates are, however, selected by the LPRP from among its members. The head of state is the president, assisted by a vice president and both are elected by the national assembly also for a 5-year term. The head of government is the prime minister, who is nominated by the president and elected by the national assembly for the same period. There are four deputy prime ministers. Ministers are appointed by the president and approved by the national assembly. Policies are formed by the 11-member Politburo Committee and the 55-member Central Committee. The judicial branch is headed by the president of the People’s Supreme Court, who is elected by the national assembly on the recommendation of the national assembly Standing Committee. The vice president of the court and the judges are appointed by the Standing Committee. There are three distinct court levels: district, provincial, and supreme. The country is divided into three regions (north, central, and south) and 16 administrative provinces.

In its foreign relations, Laos has slowly shifted from hostility to the West and a pro-Soviet stance to a more open and friendly policy with
its neighbors in the region. A low-level insurgency problem with the Hmong, who sided with the United States during the Vietnam War, persists. Laos became a full-fledged member of ASEAN and is on track to join the World Trade Organization (WTO) in 2010. It continues to maintain its special relationship with Vietnam, forged when they were allies during the Vietnam War. Relations with China, which froze during the China-Vietnam conflict in 1979, thawed a decade later. Laos has also signed several cooperation agreements with Thailand. Full diplomatic relations with the United States were restored in 1992 and normal trade relations in 2004. Laos is a member of many international organizations such as the United Nations (UN), ASEAN Free Trade Area (AFTA), Asian Development Bank (ADB), Economic and Social Commission for Asia Pacific (ESCAP), Food and Agriculture Organization (FAO), International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), International Monetary Fund (IMF), and International Labor Organization (ILO).

**Economic System**

The Lao government started encouraging private enterprise in 1986 and is transitioning now to a market economy but with continuing governmental participation. Prices are generally determined by the market, and import barriers have been eased and replaced with tariffs. The private sector is now allowed direct imports and farmers own land and sell their crops in the markets. From 1988 to 2009, the economy has grown at an average 6%–8% annually. Despite being rich in natural resources the country remains underdeveloped and around 70% of the population lives off subsistence agriculture, which contributes to roughly 30% of the gross domestic product (GDP). In addition to rice, the main crops are sweet potatoes, corn, coffee, sugarcane, tobacco, cotton, tea, ginger, soybeans, vegetables, and peanuts. Animal husbandry includes rearing of cattle, pigs, water buffalo, and poultry. Industry is a growing sector (11%) and contributes 33% of the GDP. The main activity is in the extractive industry with mining of tin, gold, and gypsum. Other industries are timber, electric power, agricultural processing, construction, garments, cement, and tourism. The services sector accounts for around 37% of GDP and four new banks have opened in the last 2 years. Laos operates a managed
exchange rate and the Lao kip has been strengthening. A new commercial banking law was introduced in 2006. Lending to the private sector more than doubled in 2008 to the equivalent of 15% of GDP. The country’s first stock market is scheduled to be launched in 2010 with 10 companies listed. A special economic zone is being set up in Savannakhet to promote foreign and domestic investment. Tourism has become a major revenue earner and has provided employment to many.5

Poverty has reduced substantially from 46% in 1992 to 26% in 2009. Exports in 2009 included copper, gold, clothing, hydropower, wood and wood products, and coffee, and were mainly to Thailand (35%), Vietnam (16%), and China (9%). Imports were mainly machinery and equipment, vehicles, fuel, and consumer goods. The country is rich in hydropower generation, which provides almost 90% of electricity. There are no indigenous sources of oil and natural gas but PetroVietnam is exploring for oil and gas jointly with Laos. There are considerable deposits of minerals and these are largely untapped. There are also ample sources of gemstones, especially high quality sapphires, agate, jade, opal, amber, amethyst, and pearls.

Numerous foreign mining companies are operating in Laos. As of 2010, China alone had 40 mining projects here. The biggest source of income and investment continues to be hydropower and Laos hopes to become the “battery of Asia.” It plans to increase export of hydropower to 20,000 MW per year by 2020. Thailand is the main customer and the two countries already have an electricity purchase contract for 5,000 MW in 2015. Investment in hydropower projects has been rising with accumulated investment in 2000–2009 standing at $2.65 billion with Thailand, $2.24 billion with China, and $2.11 billion with Vietnam. Laos was previously a major source of opium but major steps were taken to stem production, which is now the lowest since 1975.

Infrastructure development, streamlining business regulations, and improving finance have been identified as the main priorities for the government. Construction of roads and buildings for the Southeast Asian Games in December 2009 and for the celebration of the 450th anniversary of Vientiane as the country’s capital in 2010 has helped infrastructure development. A mini construction boom is being experienced around Vientiane. The manufacturing and tourism sectors are seen as the key sectors for private sector growth. The garment sector has created
employment for over 20,000. There is a need to focus attention on improving transportation and skill levels of workers. Laos continues to remain dependent on external assistance to finance its public investment. In 2009, it launched an effort to increase tax collection and included value added tax, which is yet to be imposed. It also simplified investment procedures and expanded bank facilities for small farmers and entrepreneurs. Inflation is in check and has averaged at around 5%, and the currency, the kip has been rising steadily against the U.S. dollar. In practice, the Lao economy is highly dollarized. Laos’ bill on imported oil remains large. The country’s international reserves have been strengthened through investments in hydropower and mining. The government maintains controls of the price of gasoline and diesel. The economy is expected to grow by around 7%–8% annually.

**Legal System**

The legal system in Laos is based on French legal norms and procedures, socialist practice, and traditional customs. The judiciary is poorly trained and rather inefficient, even corrupt. Judges are all LPRP members and

*Figure 5.1. GDP by sector in Laos.*

A. Imports

B. Exports

Figure 5.2. Major trading partners of Laos.

appointed. Laws have been enacted to protect citizens against arbitrary arrest and detention. Workers can form and join trade unions within the framework of the Federation of Lao Trade Unions (FLTU). In rural Laos, disputes are handled by village committees. Intervillage disputes in turn are handled by the district administration in line with local customs and socialist practices. The main aim in dispute resolution is to achieve a consensus.\(^6\)

It is very difficult to run a business in Laos. In a World Bank 2010 report, Laos ranked 167th out of 183 countries for ease of doing business and of the nine ASEAN countries profiled, it was ranked last. It takes roughly 100 days and seven procedures to start a business in Laos. With regard to protecting investors, it ranks 182nd of 183 countries surveyed.\(^7\) Only Afghanistan finished behind Laos. However, reforms are being implemented to ease the process of starting a business and to encourage foreign investment. Laws and regulations are being changed to comply with WTO standards. The Ministry for Planning and Investment (MPI) has created a one-stop system to facilitate and simplify business applications processes. Laos became a member of World Intellectual Property Organization (WIPO) in 1995. Corruption remains a problem although the government at the highest level has made combating corruption a priority. Laos is listed 158 of 180 nations in Transparency International’s 2009 Corruption Perception Index (CPI).\(^8\)

### Sociocultural Environment

The name “Lao” may have origins in the *Ai Lao* tribes who appear in Han Chinese records in China and Vietnam as being people from the Yunan province in southern China, which includes the Tai people that migrated to Southeast Asia. Though migration began in the 1st millennium, large-scale movement took place between the 7th and 13th centuries, especially as a result of Han expansion, the Mongol invasions, and in quest of arable land for wet rice cultivation. About half of Laos’ population today is considered to be ethnic Lao and divided into the Highland Lao (*Lao Sung*) and the Midland Lao (*Lao Theung*). The highland tribes (20%) include the Khmu, Kha, and Lavae, and the hill tribes (10%) are mainly Hmong but also include the Musir and Yao. The lowlanders, also known as the *Lao Lum*, make up the majority (70%) of the population. They live along
the Mekong River and include the Tai Dam, Tai Deng, Tai Lue, and the Phutai ethnic groups. To simplify this complex grouping, it can be said that the Lao account for 55% of the population, the Khmou 11%, the Hmong 8%, and the remainder are the 84–100 minor ethnic groups. Naturally, numerous languages are spoken. Linguistically, the population of Laos can be divided into six major groups: Tai-Lao, Mon-Khmer, Hmong-Yao, Tibeto-Burman, Viet-Mon, Hau or Haw. The Tai-Lao written and spoken language is regarded as the official language of the country. The Lao and Thai languages are very close. French has declined in usage while the study and use of English is encouraged and has increased due to membership of ASEAN. Vietnamese, Chinese, Hindi, and Thai are also spoken, as these nationalities have settled in the major urban centers and in border towns. Interestingly, more people of Lao ethnic origin live in Thailand than in Laos.

The religion of the majority is Buddhism (67%) and Christians make up only 1.5% of the population. The rest (31.5%) remain unspecified but include Muslims, animists, and other tribal, shaman, and spirit beliefs. Though Theravada Buddhism is prevalent, many traditions and customs are derived from Mahayana Buddhism and Hinduism. Vietnamese and Chinese practices such as ancestor and spirit worship have also been incorporated. Buffalo sacrifices are made by some southern minority groups. Among Buddhists, young men are expected to become monks for a short period. Monks are highly respected and revered and consulted for wisdom and guidance. The temple is the center of life in a Lao village. The That Luang temple in Vientiane is the main religious symbol of the country as well as an important art and cultural center. Its pagoda is symbolic of their heritage—the Lang Xang golden period—standing 45 m high and 49 m wide at its base and surrounded by 30 smaller stupas. Every year in November, the That Luang attracts a huge gathering of monks and people from around the country, who come to pay respects and gain merit. The Buddha’s birth, enlightenment, and death are celebrated in May, and the Lunar New Year festival falls on April 15.

Glutinous rice (khao nio) is the staple food. The cuisine is similar to the regional cuisines of Thailand and Cambodia. Many dishes are very hot and pungent because of the numerous varieties of chilies, fermented fish sauces, and herbs that are used. Because of the impact of the French, many Laotians drink coffee and eat bread for breakfast in the morning.
There has been a struggle over the liberalization of Laos, where bars and dance clubs are open, and conflict over social norms of how young Lao-tians should act and dress. Gender and age play a crucial role in daily life. Society is largely matriarchal. A husband joins the wife’s family on marriage. Quite often, the youngest daughter and her husband will live with and care for her parents in old age and in turn will inherit the family property or business. A large number of women are active in business. Interestingly, an ethnic hierarchy exists among the populace. Ethnic Lao are at the top followed by the Chinese, Vietnamese, and then Indians. At the bottom are the Austronesia tribes in the south, whose pipe-smoking women stand out. Early attempts by the government to resettle minorities were poorly executed and led to much resentment. The Hmong people have resisted—sometimes violently—government attempts for control. Officially, a caste system does not exist. The traditional dress is the sampot for men, which is a lower body wrap-around garment (like a sarong or dhoti) and is from the Angkor period. The women wear the sinh, a long skirt often made of silk and elaborately woven.

The Lao are truly happy being Lao. They live their culture in a totally unself-conscious way. The Lao worldview is deeply rooted in the Buddhist religion and acceptance of occurrences, instead of rejection, is considered to be the proper way. They accept who and what they are. The main focus is on achieving harmony. The ultimate journey is to prepare for one’s next life. This is dictated by the Buddhist precepts of rightful living. Lao culture is strong in collectivism. By and large, the people tend to be conformist. Decisions are centralized. Authority goes with age, seniority, position or status, and is not openly challenged by subordinates. It is also not often delegated. Like other Southeast Asian cultures, “face” is a fundamental feature of Lao culture. Family and tribal relations play an important role in all aspects of Laotian life. Respect for elders and social position are clearly incorporated in Lao culture.

**Business Culture and Intricacies**

Typically people are more laid back and time holds less importance than to people in the West. Laotians are not preoccupied with “efficient” use of time. Office hours in Laos are Mondays to Fridays from 8 a.m. to 12 p.m. and 1 p.m. or 2 p.m. to 4 p.m., with a long lunchbreak. The standard
greeting is having both hands pressed together, like praying and saying “sabai dee bor,” which translates to “how are you?” You are also expected to bow slightly in response. Laotians do not traditionally shake hands. However, in a business setting, especially with Westerners, a Laotian may extend his hand. It is best to let them initiate introducing themselves with whichever way they are comfortable. Being polite at the start of a meeting is of utmost importance. Dialogue will often become more candid after the meeting begins, but Laotians highly value the greeting at the beginning of the meeting. They should be addressed by their first names preceded by the title “Mr.” or “Madame,” or “Than” if they occupy a position of respect. A Laotian working beneath someone may address him or her by a family name, prefixed with “uncle” or “aunt.” Business cards should be given and received with both hands and treated with respect. Cards with a Laotian translation on the reverse will be well received.

English is not widely spoken and one needs to speak slowly to allow for comprehension of the message. Laotians are very reserved and conservative when it comes to showing emotion or actions. Eye contact is not critical, but do show good posture. Interruptions to communications are commonplace. Although you may be nervous or shy, do not sound nervous as that often makes Laotians skeptical of you and they think you may be dishonest. Speak clearly and with confidence so that the people believe you.

Laotians dress very conservatively. Short and revealing clothes are generally not acceptable. Appropriate dress and behavior are essential when entering places of worship. Sandals are worn in public but not in an office environment. For men, shirt and trousers are appropriate for business meetings. Jackets and ties are worn only on formal occasions. Women usually wear long skirts and blouses.

Do not show the soles of your bare feet; it is considered very rude. Hand holding may be tolerated, but public displays of affection are not. Always accept food that is offered to you. Laotians often sit on mats to eat. They tend to keep more physical distance than their Southeast Asian counterparts. “Face” is an important aspect of Lao culture. Relationship building is an important key to finding the right partner or business associate. Any form of direct confrontation, which may result in the appearance of winners and losers, must be avoided. Embarrassing the other is to be avoided as much as possible. Communication tends to be indirect
and often used to convey unpleasant messages and to avoid loss of face. The actual conveyance may not be in the words used but rather through “behind the words” and even in silence.

Relationships are the core in business as in social life. In Lao culture, there are two levels of relationships: the moo linh, which roughly translates to “play friends,” meaning a short-term relationship; and moo tie, which translates to “die friends,” meaning a long-term relationship. Considerable investment in time, patience, and effort may be needed to develop close, trusting relationships. The government is central to business development, so having a good relationship with various government officers one meets will help. Due diligence is key in the Lao market. Bargaining is expected in most commercial transactions but Laotians are generally gentle hagglers. Patience is called for often, both in terms of expectations in time and deliverance. The Western view that problems are to be solved and not accepted may cause frustration, but acceptance is the most common response to difficult situations. Small talk is much appreciated and a way of overcoming unease. Contradictions seen by outsiders are normal for the locals. Lao culture is collective and personal insignificance in the larger scheme of things is the norm.

As in other ASEAN countries, business organizations are hierarchal. The concept of the company or employer as patriarch is important and expected. Laotians prefer an authoritative leader, who is considerate, capable, and provides clear-cut decisions. There is little room for initiative as it could be interpreted as being aggressive or as an attempt to seek power. Employees are expected to obey instructions to the letter and challenging authority can have serious consequences.

Laotians also place a high value on degrees obtained in a foreign country, especially in Europe or North America. Foreign managers are respected by their subordinates. Money and job security are the primary motivating factors for workers in Laos. Party, group, and personal loyalty are also important. When hiring, you will be expected to hire kin of other workers. Salary is usually given out once a month. Laotians can be passive when it comes to confronting an issue. An issue that may arise in the workplace may be brought to the attention of a senior manager and not the supervisor. Like other Southeast Asian cultures, being standoffish and aggressive will not work in negotiating. Laos has very high firing costs,
making it difficult to get rid of unnecessary or underperforming workers. Human resource in Laos is low and finding qualified personnel and skilled workers is a serious problem. Laos ranks very low in being able to sue as a shareholder. Bribery of low-level officials to expedite business processes is common. Commercial law and the commercial court system in Laos is work in progress and rather inefficient and tardy.10

Web Resources

Country and History

Lao Government
http://www.laopdr.gov.la

Lao National Tourism Administration
http://www.tourismlaos.org

People, Culture, and Health

Lao Department of Statistics
http://www.nsc.gov.la

Lao National Tourism Administration
http://www.tourismlaos.org

Government, Infrastructure, and Technology

Lao Government
http://www.laopdr.gov.la

National Authority for Science and Technology (NAST)
http://www.nast.gov.la

Economy and Education

Lao Department of Statistics
http://www.nsc.gov.la
Business Environment and Trade Practices

Department of Domestic and Foreign Investment
http://invest.laopdr.org

Lao Department of Statistics
http://www.nsc.gov.la

Lao National Chamber of Commerce and Industry
http://www.laocci.com

Ministry of Industry and Commerce
http://www.moc.gov.la

Local Media

Laos News Agency
http://www.kplnet.net

Vientiane Times
http://www.vientianetimes.org.la
CHAPTER 6
Malaysia

Country at a Glance

<table>
<thead>
<tr>
<th>Size</th>
<th>329,874 sq km (slightly larger than New Mexico)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate</td>
<td>Tropical, monsoon season (SW April–October; NE October–February)</td>
</tr>
<tr>
<td>Capital</td>
<td>Kuala Lumpur</td>
</tr>
<tr>
<td>Political structure</td>
<td>Constitutional monarchy</td>
</tr>
<tr>
<td>Leader</td>
<td>Prime Minister Mohamed Najib bin Abdul Razak</td>
</tr>
<tr>
<td>Official language</td>
<td>Bahasa Malaysia</td>
</tr>
<tr>
<td>Other languages spoken</td>
<td>English, Chinese (Hokkien, Cantonese, Teochew), and Indian (Tamil, Hindi)</td>
</tr>
<tr>
<td>Population</td>
<td>25,715,819 (July 2010 est.)</td>
</tr>
<tr>
<td>Age breakdown</td>
<td>0–14 Years (31.4%), 15–64 (63.6%), 65+ (5%)</td>
</tr>
<tr>
<td>Major religion</td>
<td>Islam (60.4%)</td>
</tr>
<tr>
<td>Other religions</td>
<td>Buddhism (19.2%), Christianity (10.1%), Hinduism (6.3%)</td>
</tr>
<tr>
<td>Major industries</td>
<td>Rubber, electronics, petroleum production, logging</td>
</tr>
<tr>
<td>GDP</td>
<td>$383.6 billion (2009 est.)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>$14,900 (74th in the world, slightly less than Russia)</td>
</tr>
</tbody>
</table>

General Background

Malaysia is one of Association of Southeast Asian Nations’ (ASEAN) most vibrant economies. It is endowed with abundant natural resources and populated by four ethnic and religious groups, giving it a cosmopolitan flavor. Located south of the Thai peninsula and north of Indonesia, it is a country divided into two regions: West Malaysia consists of 11 states of the Malay Peninsula joined to Singapore by a causeway; and East Malaysia consists of the states of Sabah and Sarawak on the Island of Borneo, separated by the South China Sea bordered by Brunei and Indonesian Kalimantan. In size the country is larger in area than New Mexico and is largely mountainous with dense tropical jungle surrounded by coastal plains. It has a population of about 26 million. East Malaysia is less densely populated and less developed. Its strategic location along the Straits of Malacca and southern South China Sea places it at the crossroads of East-West trade.

The early inhabitants of what is now Malaysia first migrated to the area from the north around 3000 BC and intermingled with the native Negritos in the hinterlands. Those living in the coastal areas had early contact with the Indian traders, who brought them Hinduism and later Buddhism, which blended with local animist beliefs. Southeast Asia was dominated from the 7th to the 13th centuries by the Malay Hindu-Buddhist Kingdom of Srivijaya centered in Palembang in Sumatra. It declined with the rise and expansion of the powerful Majapahit Empire based in Java, which ruled the entire Malay Archipelago from 1293 to early 1500. The most glorious years of this empire were during the reign of Hayam Wuruk from 1350 to 1389, who controlled all of what is today Indonesia, Singapore, Malaysia, Brunei, southern Thailand, the Philippines, parts of Papua New Guinea, and Timor Leste. States in Peninsula Malaya were subservient to the Majapahit Empire and trade flourished between the kingdoms and externally with India, Arabia, and China as well. This period also saw the introduction of Islam through proselytization by Indian and Arab traders.

The early 15th century saw the rise of the State of Malacca on the west coast of Peninsula Malaya. It was founded by Parameswara, a prince ousted from the Srivijaya Kingdom in Palembang. He became a Muslim and took the name Iskandar Shah. The city became a major commercial
center, as trade with India, Arabia, China, and the Malay Archipelago flourished. By the 16th century, Islam became the dominant religion of the Malays. In 1511, the arrival of the Europeans culminated with the Portuguese’s capture of Malacca. Portuguese rule lasted till 1641 when the Dutch defeated them. The Dutch ruled Malacca till 1824 and then ceded it to the British as part of the Anglo-Dutch Treaty. The British had founded Penang and Singapore as trading centers and with the acquisition of Malacca, combined them to form the Straits Settlements in 1826. The British expanded their influence thereafter to the other Malay sultanates on the peninsula and by the 20th century they had established protectorates over the Malay states of Pahang, Selangor, Perak, and Negeri Sembilan. The main attractions were the mining of tin, which was in demand for making cans, and the rubber plantations to cater to the needs of the automobile industry. Southern Chinese labor was brought in to work in the mines and South Indians for the plantations. On the Borneo side, Sabah was ruled by the Brunei Sultanate and colonized by the British East India Company in 1888. Sarawak too was under the control of Brunei and ceded to a British merchant James Brooke in 1841 for helping quell and settle a Bidayu (a native tribe) uprising. The Brooke dynasty ruled Sarawak as a de facto kingdom. It established a functioning administration, imported Chinese merchants, and managed affairs of state for the benefit of the locals.

The political and social landscape changed drastically in Malaysia with the World War II and Japanese occupation from 1941 to 1945. Nationalist fervor in favor of independence from Britain took root and resulted in the establishment of a semiautonomous Federation of Malaya in 1948. Independence was eventually negotiated with the British in 1957, but a state of emergency was in place from 1948 to 1960. The local Chinese who had been armed to fight the Japanese formed the Malayan Communist Party (MCP) to oust the British. It was called the Malayan Emergency and ended only after the signing of a peace accord with the Malaysian government in 1989. Meanwhile, in 1963 the British colonies of Singapore—Sarawak and Sabah—joined the Federation of Malaysia, as they were felt to be too small to be independent, and also to balance the racial makeup of these states jointly. Tunku Abdul Rahman became the first prime minister. In 1965, Singapore left over serious political and economic differences. Two years earlier, Indonesia had started a
“confrontation” with Malaysia over its formation, which ended only with President Sukarno’s fall in 1966. In Sarawak too, a smaller communist insurgency ended with a peace accord in 1990.

Evolution of a multiracial Malaysia was marred by racial riots in 1969. Riots between the Chinese and Malays erupted after the general election when the opposition made gains and the celebrations that followed triggered violence and destruction. A state of emergency was declared and the country was ruled by a National Operations Council (NOC) under Prime Minister Tun Abdul Razak until 1971 when parliamentary rule was reestablished. Race relations have suffered as a consequence. Much has been accomplished in the last 30 years and the country has transformed from being totally dependent on mining and plantations to a well diversified industrial and commercial economy. The main challenges facing the country are the need to sustain political stability in the face of religious tensions, reduction of the ethnic wealth gap, protection of the rights of minorities, and protection of the environment especially the rain forests.3

Business Environment:
Political, Economic, and Legal Systems

Political System

Malaysia is a British-style federal parliamentary democracy with a constitutional monarch as declared in the 1957 Constitution. The head of state is the Yang di-Pertuan Agong (king), who is elected for a 5-year term only from among the nine hereditary sultans of the peninsular Malaysian states. The head of the government is the prime minister, who is an elected member of the lower house of parliament and must command the support of the majority of the elected members. Malaysia has a bicameral legislature. The Dewan Rakyat (hall of the people) is the lower house (or house of representatives) and has 222 representatives from single-member constituencies. Members serve a 5-year term. The Dewan Negara (hall of the nation) is the upper house or senate and has 70 members who serve a 3-year term. Thirty are elected by the 14 state assemblies and three federal territories (FTs), and 40 are appointed by the king. Legislative power is shared between federal and state legislatures. The federal government is responsible for external affairs, defense, internal security, federal citizenship, finance, commerce
and industry, communications, and transportation. Each state has its own state assembly and is headed by a chief minister. In states with hereditary rulers, the Chief Minister must be a Malay-Muslim, although this is at the ruler’s discretion. The state governments are responsible for infrastructure development, land, exploitation of natural resources but not forestry. Suffrage is 21 years and universal.

Administratively the country is divided into 13 states (11 in the peninsula and two in Malaysian Borneo) and three Federal Territories (FTs). They are Kuala Lumpur (FT), Labuan (FT), Putrajaya (FT), Johor, Kedah, Kelantan, Malacca, Negri Sembilan, Pahang, Perak, Perlis, Penang, Sabah, Selangor, Sarawak, and Terengganu. Each state is in turn divided into daerah (districts) and further into mukim (subdistricts). Districts are administered by district officers who are appointed by the respective state governments. The sultans, or raja (in the case of Perlis, Yang di-Pertuan Besar in the case of Negri Sembilan), and governors in the case of Malacca, Penang, Sabah and Sarawak enjoy sovereign authority in their states.

Political parties are race-based and though there are about 30 registered political parties, a single coalition party has ruled the country since independence. This alliance, now known as the Barisan Nasional (National Front), includes the United Malay National Organization (UMNO) representing the ethnic Malays, the Malaysian Chinese Association (MCA) representing the Chinese, the Malaysian Indian Congress (MIC) representing the Indians, and smaller parties mainly from Sabah and Sarawak, representing their native populations. The main opposition parties are the Democratic Action Party (DAP), which is mostly Chinese based; the Pan-Malaysian Islamic Party (PAS), which is Muslim-Malay based; and the Parti Keadilan Rakyat (People’s Justice Party, or PKR), which is more multiracial. These three parties formed a loose coalition, the Pakatan Rakyat (People’s Alliance), in the 2008 elections and made substantial gains. Protests by ethnic Indians demanding fair treatment caused a destabilization of race relations. The new government of Prime Minister Najib Tun Razak is engaged in a battle to increase the ruling parties’ approval ratings in the face of a united opposition. It has prioritized the economy and race relations.

Malaysia is a founding member of ASEAN and a strong proponent of regional cooperation. It is a member of the United Nations and has contributed to numerous peacekeeping missions, including deployment
Malaysia is one of ASEAN’s more successful economies and has been declared a middle income country. It is a free market economy and is fully integrated into the global economy. It has benefitted from the advantage of being located on the Straits of Malacca, one of the most important shipping lanes in the world that connects the trade route between the East and the West. From an agriculture and mining based economy in the 1970s, it has been able to transform itself to a high-tech industrial nation. The country has a well-developed infrastructure and a vast array of natural resources. Over 59% of Malaysia is forested. It is a major producer of tin, palm oil, rubber, petroleum, copper, iron ore, natural gas, and bauxite. Services account for 48% of GDP, industry accounts for 42% and agriculture 10%. The manufacturing sector is productive in electronics, hard drives, and automobiles. The service sector has become increasingly important and this includes growth in real estate, transport, energy, telecommunications, distributive trade, hotel and tourism, financial services, information and computer services, and health services.

Malaysia has a well-diversified economy. The economy has been growing at 6%–8% and GDP touched $381 billion in 2009. There was a decline during the Asian financial crisis when the government fixed the exchange rate of the ringgit to the U.S. dollar to deal with the decline. Since 2006, the Malaysian ringgit has been operated as a managed float. The country went through another steep decline during the global economic stagnation in 2008–2009 but is slowly recovering from this as well. The government has injected the economy with a healthy stimulus package to jump-start growth. Inflation, unemployment, and poverty levels are low. The government has instituted banking and financial reforms. Local banks have been consolidated and liberalization is being introduced gradually. Greater incentives are being provided to invite
foreign investment, especially in high-tech areas such as the Multimedia Super Corridor (MSC).

Exports remain the main driver of the economy, which totaled $156 billion in 2009. Oil and gas exports provide 40% of government revenue. Other top exports were electronic equipment, semiconductors, wood and wood products, palm oil, rubber, textiles, and chemicals. The present government is working to move the economy further up the value-added production chain and reduce dependency on exports. It is actively promoting investments in biotechnology, pharmaceuticals, manufacturing of automotive components, tourism, research and development, manpower development, and environment management. There are 13 free industrial zones (FIZ) and 12 free commercial zones (FCZ) where raw materials, products, and equipment may be imported with minimum customs formalities.

A unique feature of the Malaysian economy is the New Economic Policy (NEP) launched in 1971 to reduce the socioeconomic disparity between the Malay majority and the Chinese minority. It was primarily an affirmative action system with the goal of transferring 30% of the country’s wealth to the bumiputera (natives) Malays. The policy was implemented through programs that give preferential treatment to Malays through special rights in ownership of land and property, businesses, civil service jobs, education, politics, religion, and language. In 1991, this policy was renamed as the National Development Policy (NDP) and modified but continued to pursue the original goals as although income inequality had been reduced, the main objective was not realized. Much debate over this has ensued and many have felt that this policy has created small and wealthy Malay elite, even as it reduced the Chinese and Indian minorities to second-class citizens. In April 2009, the government removed some ethnic Malay affirmative action requirements.

Overall, the government is improving the already favorable investment climate by allowing 100% ownership in the manufacturing industry, liberalizing the financial sector and removing capital controls on overseas investments. Numerous infrastructure projects using state funding have also been initiated. Malaysia’s purchasing power remains among the highest in ASEAN.
Legal System

Malaysia has a unified judicial system and all courts take cognizance of both federal and state laws. The Malaysian legal system is based on English common law as provided for in the Constitution. This was put in place during British colonial rule. It has also been influenced by the legal systems of India with regards the Criminal Procedure Code and the Contracts Act, as well as the Australian legal system with regard to the land law. The judicial branch includes the Federal Court, which is the highest court; the Court of Appeal; and the High Court of Peninsular Malaysia, Sabah, and Sarawak. The federal court is headed by the king and has special jurisdiction in disputes among states or between a state and the federal government. The federal court consists of the chief justice, the two chief judges from the high courts, and seven other judges. High courts have jurisdiction over all serious criminal cases and most civil cases. Sessions courts hear cases involving landlord-tenant disputes and car accidents. Magistrates’ courts hear criminal cases in which the maximum sentence does not exceed 12 months. The court of appeals has jurisdiction over high court and sessions court decisions. A Malaysian Special Court was convened in 1993 to deal with offences

Figure 6.1. GDP by sector in Malaysia.

A. Imports

B. Exports

Figure 6.2. Major trading partners of Malaysia.

committed by the rulers (i.e., the monarchical heads of the component states of the Federation of Malaysia), including the king. The special court hears all civil cases by or against them and is chaired by the chief justice of the federal court, assisted by two chief judges of the respective high courts and two other persons appointed by the Conference of Rulers who hold or have held office as a judge.

Malaysia also provides for a dual justice system in that Sharia (Islamic) law applies to all Muslims. Sharia courts include the Sharia appeal court, Sharia high court and Sharia subordinate courts at the state level. They have jurisdiction in personal law matters, including marriage, divorce, custody, inheritance, and apostasy. Their jurisdiction is however limited and Sharia law plays a relatively small role in the overall laws of the country. Only Muslims are subject to Islamic law, which is set at state level, while non-Muslims are subject to federal law.7

Malaysia is a member of World Intellectual Property Organization (WIPO) but does have a problem with piracy of copyrighted materials. Malaysia has some of the toughest censorship laws in the world and the state exerts substantial control over the media in the name of national security and ethnic issues. Drug trafficking and carrying of weapons carry severe mandatory penalties, including death. Malaysia has yet to accept compulsory International Court of Justice (ICJ) jurisdiction. The country is an active participant of the WTO and the ASEAN Free Trade Area (AFTA). It has also signed federal trade agreements (FTAs) with Japan, Pakistan, and New Zealand. Malaysia is also a participant in five regional AFTAs and is negotiating FTAs directly with India, Chile, and Australia, and the regional ASEAN–EU FTA. Malaysia is also a member of Asia-Pacific Economic Cooperation (APEC).

**Sociocultural Environment**

Malaysia is a multicultural nation with three dominant ethnic groups: ethnic Malays, ethnic Chinese, and ethnic Indians.8 The Malays are considered *Bumiputeras* (sons of land), which includes the indigenous tribes of East Malaysia. By constitutional definition, all Malays are Muslims. They comprise just over 50% of the population. The Malays are an ethnic group of Austronesia people predominantly inhabiting the Malay Peninsula, including the southernmost parts of Thailand, the
East coast of Sumatra, the coast of Borneo, and the smaller islands that lie in between. The Malay race encompasses a wider group of people covering most of Indonesia and the Philippines. The Malay language is a member of the Austronesia family of languages and is now the official language of both Malaysia and Indonesia. In Malaysia, the Malays speak various dialects of the language. The word Malay comes from an old name for the entire archipelago.

The Chinese form about a third of the country’s population. They migrated mostly from southern China in two waves. The first wave came in the 15th century at the height of the Malacca Sultanate. Their descendants are known as babas. The second wave came in the 19th and 20th century to work in the mines of the western part of peninsula Malaysia. They came mainly from the provinces of Fujian and Guangdong. The languages they speak are Hokkien, Cantonese, Teochew, Mandarin, Hakka, and Hainanese. The religion of the majority is Buddhist or Taoist and they continue to practice ancestor worship and traditional customs that are not religious in nature. Just over 10% are Christians (Protestants and Catholics). The Chinese have traditionally been dominant participants in Malaysia’s business sector.

People of Indian descent comprise about 7% of the population. South Indian Tamils have been coming to Malaysia since the 11th century. Inflow of Indian migrants began during the establishment of the Straits Settlements. They were brought in as laborers, traders, policemen, and construction workers. Large-scale migration took place in the early 1900s to work in the rubber plantations. The Tamils are concentrated on the West coast of Peninsular Malaysia. The Indian community is made up mostly of Tamils, but also includes Bengalis, Malayalis, Punjabis, Telugus, Gujaratis, and Sindhis. Their main religions are Hinduism and Sikhism.

The final minority ethnic group of Malaysia is the indigenous tribes. Peninsular Malaysia has 19 ethnic groups. They represent only 0.7% of the national population and continue to live traditionally and off the land. In Sabah, there are about 30 different indigenous groups that make up about 60% of the state population. They speak over 50 languages and 80 dialects. There has been a unification of two major tribes: the Kadazans and the Dusuns. They practice diversified agriculture but are slowly entering the mainstream urban population. Many still lead nomadic lives. In Sarawak, ethnic Iban comprise 34% of the population.
Malaysian cultural identity remains unsettled. The few attempts to formally integrate the country into a common culture have failed. The social distinction remains largely a separation of Malays and non-Malays. Each ethnic group retains its customs and traditions that are unique to that culture. Malay is Malaysia’s sole national language but English is widely spoken. Most Chinese Malaysians speak English and Malay as well as Mandarin and their own dialect. Most Indians speak English, Malay, and Tamil. Because of this, public holidays in Malaysia coincide with any major religious festival associated with any ethnic group. Culturally, as it is physically, the country is split. The majority of the population (80%) or 20 million live in Peninsular Malaysia. They are considered more advanced, dynamic, and progressive. West Malaysia has only 8 million people and they are mainly country people and more docile and easygoing.

Religion plays an important role in Malaysia. Islam is the state religion and all Malays are recognized as Muslim but the constitution guarantees religious freedom. The government regulates religious policy for Muslims. Officially, approximately 60% of Malaysia is Muslim, 20% Buddhist, 9% Christian, 6% Hindu, 3% other Chinese traditions such as Taoist, and the remaining 2% unknown or belonging to none.

Like other ASEAN countries, families are very close and the backbone of the Malaysian social structure. Respect for the elderly is emphasized. When one member of the family suffers, the rest of the family will gather around him to help, be it financially or emotionally. It is common for a person to have a large, extended family. Malaysians place high value on “face,” especially in a public setting. They regard their reputation like a Westerner does integrity; it often refers to a person’s name, character, and how they are seen by others. Communication is often indirect and there are a lot of subliminal messages.

All Malaysians are hospitable and offer of food is a critical component of national etiquette. This assumes an even higher importance during festive occasions and celebrations such as weddings. Women are making major inroads in politics, business, and in the workplace, but Malaysia remains a male-dominated society. Because of differences in religion, interracial marriage is limited. Asking questions of a personal nature is not considered to be impolite. Privacy as practiced in the West is not acceptable.
The Malays believe they have legitimate rights to the country even though they hold only a small majority. The monarchy is representative to the Malays of political hegemony. The Malays are spread throughout the Malaysian peninsula and live in kampongs (villages) where they have traditionally been farmers and fishermen. Since independence, the government is staffed predominantly by Malays and they continue to hold great political power. The Malays are generally very easygoing, gentle, and hospitable by nature. They hold on very strongly to traditions as laid down in adat, which is a set of customary unwritten codes that guide individual behavior with regard the family, the community, politics, and even finances. Though the national language is their mother tongue, many Malays especially in cities speak English too. The Malay traditional dress consists of the Baju Melayu for men. It is a long-sleeved shirt with a stiff collar worn and with trousers adorned at the waist with samping, a short skirt and a songkok, and a hat. Women wear the kebaya, which is an ornate blouse worn over the sarong, a wrap-around ankle length skirt. Being Muslims, the Malays pray at the anointed times especially on Fridays, do not consume pork or alcohol, and eat only halal food. Malay culture is generally conservative and rooted in deep traditions.

The Chinese too are traditional and family oriented but more easily adapted to modern ways. They seldom wear Chinese traditional clothing anymore and are mostly urban. They have made Malaysia their home and mostly speak Malay and English in addition to their mother tongue. They are less bound by religion as compared with the Malays and Indians, but those that are Buddhists or Taoists do partake in rituals at places of worship. A substantial number of Chinese have converted to Christianity and a smaller number to Islam and Hinduism. Yet they continue to stick to age-old values of living harmoniously and pragmatically.

Malaysian Indians are mainly Tamils who live traditionally on plantations but a substantial number have moved to the cities where they engage in commerce or are in the professions. Like the Malays and Chinese, they continue to practice the customs and traditions of their ancestors and these include family orientations and religious affiliation. Most Indians are Hindus though a small number have converted to Christianity. Indians, like the Malaysian Chinese, adopted Western culture and a declining number of women wear the traditional sari on a regular basis. As is
with the Malays and Chinese, the Indians too are experiencing economic disparities between their urban and rural communities.9

All aspects of Malaysian life have been influenced not only by the region and the various communities within the country but also through colonization and globalization.

**Business Culture and Intricacies**

Malaysian business culture depends on the ethnicity of the person one is engaging. The five states in Malaysia—Perlis, Kedah, Kelantan, Terengganu, and Johor—follow the Islamic 6-day workweek; offices are open from Saturday to Thursday with businesses closing half-day on Thursday and Friday being the holiday as the Islamic Sabbath. The rest of Malaysia follows the regular workweek of Monday through Friday. However, employers still give Muslims daily time off to pray at the appropriate time or go to the mosque for congregational prayers on Friday. As in all Muslim nations, adjustments are made during the fasting month of Ramadan. Punctuality varies by ethnic group and Malaysia is polychromatic in general. Chinese business people will expect punctuality. Indians and Malays on the other hand do not worry too much about being on time. Appointment times are approximates and expected to be. Greetings depend on who is greeting and who is greeted. Muslims use the familiar Arabic term used to greet other Muslims, and may yet use the question “apa khabar?” which can be translated to “what's the news?” when greeting others. Malaysians are used to the Western greeting of the handshake. There are different customs attached to this depending, however, on the ethnicity of the person. Malays, for example, do not shake hands with the opposite sex. Chinese handshakes are light and can be longer than normal. Indians too do not normally shake hands with the opposite sex. When Indian men greet women, a nod of the head and a smile is considered sufficient. Malays do not have surnames, so the first name is the one to be used as the second (after the enjoinder *bin* meaning “son of” or *binti* meaning “daughter of”) is the name of the father. Chinese names begin with the family or surname followed by two personal names. Indians mostly do not use surnames. They place the father's name as a prefix, mostly as an initial.
Gift giving in Malaysia also depends on the person’s ethnicity. Alcohol is never given as a gift to Malays. Food gifted must be halal, meaning it is acceptable to Muslims. Do not give gifts in white or yellow wrapping paper. Yellow is the color assigned to royalty. Muslims also do not like gifts such as toy dogs or pigs, and anything made of pigskin. Gifts are offered with your right hand and not opened when received. Chinese traditionally refuse a gift before accepting it. Do not give cutting utensils such as knives or scissors because that symbolically means you want to sever the relationship or deal. Flowers are associated with death and funerals and do not make good gifts. Wrap the gifts in red, pink, green, or yellow, which are considered happy and lucky colors. Avoid white, blue, or black as they are considered the colors of mourning. Give gifts in even numbers, as odds are considered unlucky. Wrapping is considered important. Indians enjoy flowers but not frangipani as it is a flower used at funerals. Gifts are usually not opened when received. Since food is a critical requirement of good etiquette in Malaysia, it is considered impolite not to at least taste the offering as a show of appreciation.

English is a common second language but Bahasa Malaysia is used exclusively in government dealings. It is considered good form to send a letter from a mutual friend before engaging a Malaysian business. People are introduced in order of most to least important, also taking into account age, and sex (females are introduced before males). Greetings at business meetings should be formal and respectful. Mutual respect is evident between coworkers. Subordinates especially will strive to honor their superiors, often not calling them by their first name but as “Mr.” or “Mrs.” Titles are important in Malaysia, so if a person has a professional title, such as doctor, it should be used when doing business with him. More importantly, Malaysians value royal titles—“Datuk,” “Dato Seri,” “Tan Sri,” or “Tun”—and are always used as a prefix when addressing such individuals.

After the initial introductions, business cards are exchanged. Receive and give business cards with your right hand only. Examine the card before putting it away; how you treat the person’s card shows how you will treat them. Malaysia is a high-context society, so indirect communication is the way. This means that one relies on implicit messages and not the explicit—not only what is said but also that which is left unsaid. Malaysians will pause after every question even if they know how to
answer it. Pausing shows that they are considering what you said and giving it ample thought. By responding too quickly, they think they are acting rude. If the person dodges the question or leaves it open, continue to ask questions that can give you a clearer sense of what they are thinking. Silence can have deep meaning and is often used in communication to indicate that the subject in discussion is being considered as very important to the person. Laughter is used to conceal uneasiness. Small talk is also used to set the stage for serious discussion to follow and allow each to find his comfort level. They do not display disagreement immediately and use other means such as intermediaries or common connections to convey this at a later date.

As with most ASEAN countries, Malaysian businesses too are hierarchical in structure and approach. Malaysians hold stronger kinship bonds than do Westerners and as such family connections and obligations influence hiring and deal making in business. Definition of relationship extends beyond just the nuclear family, so cases of nepotism are not uncommon. Similar to Chinese management styles, Malaysian businesses involves many family members centered on a patriarchal figure. Hiring in companies relies on the patron-client principle of helping poorer friends and relatives. There is no set corporate culture because Malaysia has so many outside influences with business practices; so often etiquette needs to be reviewed on a firm-by-firm basis. There is some degree of acceptance when it comes to monetary inequality, but successful business people are expected to help the needy by sharing part of their profits. Islamic values will be seen in Islamic businesses and would not necessarily be used in a multicultural work environment.

Malaysia is a relationship-oriented and contact-driven society. People are comfortable doing business with those they know and trust. Building a relationship will take time and persistence. Reciprocity is the key. One needs to be sensitive to their culture and attempt to ascertain their needs and concerns. There is a clear social class stratification that recognizes political connections, wealth, specialized skills, and even a knowledge of English and global education. Consumption patterns indicate social status. A great deal of deference is given to political leaders and those of royal lineage. High-ranking politicians are referred to as Yang Berhormat (he who is respected) and royals as raja and their influence eagerly sought
in the business world. Corruption remains informal and much can be achieved without having to pay bribes to officials in Malaysia.

In business ventures, one may want to get everything in writing, but it is best not to assume that a signed contract is the final deal as further negotiations and considerations may be made after the pact. In Malaysia, the contract serves only to maintain appearance as a guide to the arrangements and not as something that is possibly litigious. Do not show anger in public or act in a way that is considered aggressive in your business dealings. Malaysians will often try to avoid conflict, so pose questions that can be answered affirmatively. There are many managerial challenges in Malaysia as a result of such a diversified workforce both on the management and worker levels. Muslim workers often attend mosque at midday on Friday for religious services and make a pilgrimage at least once in a lifetime to Mecca, which can mean missing work for up to 2 months.10

Web Resources

Country and History

Malaysia Government Portal
http://www.malaysia.gov.my

Tourism Malaysia
http://www.tourism.gov.my

People, Culture, and Health

Malaysia Ministry of Health
http://www.moh.gov.my

Tourism Malaysia
http://www.tourism.gov.my

Government, Infrastructure, and Technology

Malaysia Ministry of Foreign Affairs
http://www.kln.gov.my
Malaysia Ministry of Science, Technology and Innovation
http://www.mosti.gov.my/mosti

Office of the Prime Minister of Malaysia
http://www.pmo.gov.my

Parlimen Malaysia
http://www.parlimen.gov.my

*Economy and Education*

Malaysia Ministry of Finance
http://www.treasury.gov.my

Malaysia Ministry of Higher Education
http://www.mohe.gov.my

*Business Environment and Trade Practices*

Central Bank of Malaysia
http://www.bnm.gov.my

Companies Commission of Malaysia
http://www.ssm.com.my

Department of Statistics Malaysia
http://www.statistics.gov.my

Malaysian Industrial Development Authority
http://www.mida.gov

Malaysia Ministry of International Trade and Industry
http://www.miti.gov.my

National Chamber of Commerce and Industry of Malaysia
http://www.nccim.org.my
Local Media

Business Times
http://www.btimes.com.my

Daily Express
http://www.dailyexpress.com.my

Malaysian Mirror
http://www.malaysianmirror.com

New Sabah Times
http://www.newsabahtimes.com.my

The Borneo Post
http://www.theborneopost.com

The Malaysian Insider
http://www.themalaysianinsider.com

The New Straits Times
http://www.nst.com.my

The Star
http://www.thestar.com.my

The Sun
http://www.sun2surf.com
## Chapter 7

### Myanmar

![Map of Myanmar](https://upload.wikimedia.org/wikipedia/commons/b/b8/Location_Burma_%28Myanmar%29_ASEAN.svg)

**Country at a Glance**

<table>
<thead>
<tr>
<th><strong>Size</strong></th>
<th>678,500 sq km (smaller than the state of Texas)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Climate</strong></td>
<td>Tropical with seasonal monsoons</td>
</tr>
<tr>
<td><strong>Capital</strong></td>
<td>Naypyidaw</td>
</tr>
<tr>
<td><strong>Political structure</strong></td>
<td>Military junta</td>
</tr>
<tr>
<td><strong>Leader</strong></td>
<td>Senior General Than Shwe</td>
</tr>
<tr>
<td><strong>Official language</strong></td>
<td>Burmese</td>
</tr>
<tr>
<td><strong>Other languages spoken</strong></td>
<td>Shan, Karen, Indian (Hindi, Urdu, Tamil, and Bengali), and Chinese (Fujian and Cantonese)</td>
</tr>
<tr>
<td><strong>Population</strong></td>
<td>48,137,741 (July 2010 est.)</td>
</tr>
<tr>
<td><strong>Age breakdown</strong></td>
<td>0–14 years (25.3%), 15–64 (69.3%), 65+ (5.4%)</td>
</tr>
<tr>
<td><strong>Major religion</strong></td>
<td>Buddhism (89%)</td>
</tr>
<tr>
<td><strong>Other religions</strong></td>
<td>Christianity (4%), Islam (4%), and traditional animism (1%)</td>
</tr>
<tr>
<td><strong>Major industries</strong></td>
<td>Tourism, gems, oil and forestry</td>
</tr>
<tr>
<td><strong>GDP</strong></td>
<td>$57.49 billion (2009 est.)</td>
</tr>
<tr>
<td><strong>GDP per capita</strong></td>
<td>$1,100</td>
</tr>
</tbody>
</table>

General Background

Myanmar, formerly known as Burma, is a resource-rich country. It has remained closed to the outside world and consequently poor for over 60 years since independence from British colonial rule in 1948. It has a population of around 48 million, and in terms of the land area, it is the second largest country in mainland Southeast Asia (678,500 sq km/261,000 sq miles). It is located between Bangladesh to the west and Thailand to the southeast, and China and India to the north. The original capital Yangon (Rangoon) was replaced by the newly built administrative capital of Naypyidaw in 2005. Myanmar’s terrain is mostly tropical and the coastal south region of the Irrawaddy Delta is very fertile. Half of Myanmar is covered by forests. It is well endowed with rich natural resources and has abundant natural gas reserves. It has large areas of arable land, forestry, minerals of numerous varieties, and freshwater and marine resources. Yet it remains poor due to isolation and mismanagement. However, the country has switched to a market-oriented economy and is making progress in the liberalization of trade and investment. It became a member of the Association of Southeast Asian Nations (ASEAN) in 1997 and is working toward becoming fully integrated with the ASEAN community.

The country’s history has seen the unification of three waves of immigration from Cambodia (Hmong), the eastern Himalayas (Mongol), and northern Thailand (Tai) under the Buddhist King Anawratha in the 9th century at Bagan. By the 14th century, after numerous invasions by the Mongols and then by neighboring Siam, the country was carved up among warring tribes. The arrival of Europeans traders in 1824 (i.e., Portuguese, Dutch, and British) finally resulted in the colonization of Burma by the British in 1937. The British were expelled by the Japanese during World War II. The Japanese surrendered in 1945 and Burma became independent in 1948 under the leadership of their great statesman, General Aung San, who was assassinated the same year. The Union of Burma became a democratic republic with U Nu as prime minister.

In 1962, the left-wing General Ne Win staged a coup, banned political opposition, suspended the constitution, and introduced the “Burmese way of socialism.” After 25 years of economic hardship and repression, the Burmese protested in 1987 and 1988. These were brutally quashed by the State Law and Order Restoration Council (SLORC). In 1989,
the military government officially changed the name of the country to Myanmar. The ruling junta has maintained a tight grip on Myanmar since 1988. There have been numerous uprisings against the government in favor of democracy but these have been ruthlessly put down by the military. On May 3, 2008, Cyclone Nargis ravaged the Irrawaddy Delta and Yangon, killing over 130,000 people and leaving a million homeless. It caused serious damage to the agricultural sector. Slow recovery with international relief has been taking place.

**Business Environment:**
**Political, Economic, and Legal Systems**

**Political System**

Myanmar has been ruled by the military since 1962 with power being concentrated in the State Peace and Development Council (SPDC). The head of state and chairman of the SPDC is Senior-General Than Shwe. Under the 2008 Constitution, legislative power is shared by the People’s Assembly, consisting of 440 representatives, 110 of whom are military appointees; and the House of Nationalities with equal numbers of representatives elected from regions and states, consisting of 224 representatives, 56 of whom are military appointees.

Myanmar is divided into seven regions and there are seven ethnic states. It has seen severe political turmoil since 1990 when elections were held and the National League for Democracy (NLD) won by a landslide but the military declared the elections invalid. Aung San Suu Kyi, daughter of liberation hero Aung San, is leader of the opposition’s fight for freedom and democracy in Myanmar but she has been under house arrest on and off since 1995. In 1991, she was awarded the Nobel Peace Prize. In 2007, there were serious antigovernment riots in response to the government’s decision to remove fuel subsidies. The protests were led by Buddhist monks and the government quelled the riots with severe loss of lives and damage to property. A referendum for a new constitution was conducted in 2008 and approved by 92.5% of the vote. Multiparty elections are due in 2010.

Myanmar has been consistently rated at low levels on personal and political freedom indexes. It has 10 legally registered political parties. The Union Solidarity and Development Association (USDA) is the
progovernment sociopolitical organization with 24 million members. The main opposition party is the NLD led by Suu Kyi.

Relations with the West remain contentious. Very tight sanctions are in place from the United States (since 1993), the European Union (since 1996), Canada (since 2007) and Australia (since 1998), mainly because of the government’s decision to extend its prodemocracy leader’s house arrest. In 2010, the United States and the European Union (EU) have indicated their intention to engage Myanmar in a broad dialogue as 12 years of sanctions failed to alter the domestic situation in Myanmar. Myanmar’s ties with its neighbors, however, have been strengthened since it became a member of ASEAN. China and India too have strengthened their political and economic ties with Myanmar.

**Economic System**

Unlike most other ASEAN countries, Myanmar is not a fully free market economy yet. After independence, as a reaction to years of colonization, the country adopted central planning, which resulted in a severe decline of the economy. From being one of the wealthiest rice, teak, mineral, and oil exporting nations, it experienced severe inflation. The subsequent military coup of 1962 saw further deterioration of the economy as Myanmar adopted the “Burmese Way to Socialism.” Industries were nationalized and the state owned all sectors of the economy, leaving only agriculture to the masses. By 1987, Myanmar figured in the UN’s list of least developed countries. The country has suffered mismanagement of resources, low productivity, high inflation, large budget deficits, and an overvalued currency, government control of financial institutions, little room for private enterprise, poor infrastructure, and rampant corruption. In 1988 the government changed track and began opening the economy to expansion of the private sector, encouraging foreign investment and participation in some sectors. Progress has been slow but increased trade with regional neighbors, fellow ASEAN nations, India, and China has resulted. There exists a large informal economy, which includes trade in currency and commodities.

Myanmar has immense natural resources but the economy remains essentially agro-based. Over 50% of its gross domestic product (GDP) is derived from rice and other crops such as sesame, groundnuts and sugarcane, livestock and fisheries, and forestry. Myanmar has one of the
largest teak reserves in the world.\textsuperscript{6} It is also a net exporter of oil and natural gas and has major confirmed deposits. It has the 10th largest natural gas reserves in the world and the seventh largest in Asia. Precious stones are also abundant; 90% of the world’s rubies come from Myanmar. It also produces large amounts of sapphires, pearls, and jade, which are exported mainly across the border to Thailand. A large illicit cross-border trade exists as Western sanctions do not allow major jewelry companies to import gems from Myanmar. Manufacturing remains a small component of the economy, just over 10% in 2008. Food processing, mining (copper, tin, tungsten, and gems), cement, fertilizer, oil and natural gas production, and garments are the principle industries. The currency, the kyat, remains officially overvalued. A dual exchange rate exists and as such inflation is a serious problem, which is estimated to be 7% in 2009, down from 22% in 2008, and 33% in 2007. Myanmar has not received any loans from the World Bank since 1987 or any assistance from the International Monetary Fund (IMF) though it is a member of both institutions. It has been a member of the Asian Development Bank (ADB) since 1973 but has received no assistance in over 20 years.

Liberalization of the economy is a work in progress. Production controls in agriculture have been removed. Privatization of state-owned enterprises is taking place. Over 100 state-owned companies are up for sale in 2010. The government reports that in 2009 it sold 260 state-owned buildings, factories, and land plots. With the opening of the economy, foreign investments from China, South Korea, India, and ASEAN countries, including Singapore, Malaysia, and Thailand have increased. Tourism has grown and infrastructure is being developed with participation from foreign investors. New industrial zones are being developed. Myanmar is an active participant and member of the Greater Mekong Subregion Economic Cooperation Program (the GMS Program) together with Cambodia, China, Laos, Thailand, and Vietnam as well as the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) with Bangladesh, Bhutan, India, Nepal, Sri Lanka, and Thailand. The Shwe Gas Project in the Bay of Bengal is a consortium of Korea Gas Corporation (KOGAS), which has 51% stake; Oil and Natural Gas Corporation (ONGC), GAIL (India); and the Myanmar-state oil company. The government has signed a contract to sell production to China, which is building a pipeline connecting the gas field to China.\textsuperscript{7}
Myanmar has the highest hydropower potential in Southeast Asia and the government has set the goal of generating all electricity from hydropower by 2030. There are over 36 hydropower plants under construction. China has invested $200 million of the $600 million cost and helped in the construction of the largest hydropower project in Ye Village. Another large project under construction is the Ta Sang project, which involves the building of a dam on the Salween River in the northeast of the country. This is a joint venture with a Thai company MDX Group. The project is scheduled to be completed by 2022 with the electricity produced to be sold to Thailand. In return, Myanmar will receive an amount of free power.

Myanmar's chief trading partners are Thailand, China, India, Singapore, Japan, Malaysia, and Indonesia. It has border trade agreements with China, India, Bangladesh, Thailand, and Laos. Several Memoranda of Understanding have been signed with these countries to expand bilateral trade. Myanmar remains isolated from much of the Western world and sanctions are still imposed by the United States, EU, Australia, and Canada. Trade with the United States and the EU was less than 7% of total trade in 2007. Foreign currency reserves totaled $3.6 billion in 2009 mainly due to gas exports. GDP growth is estimated by the IMF to remain at around 5% for the next 3 years.

![Figure 7.1. GDP by sector in Myanmar.](https://www.cia.gov/library/publications/the-world-factbook/geos/bm.html)
Figure 7.2. Major trading partners of Myanmar.

**Legal System**

The legal system is rooted in British law, so it is founded on precedence based on common and civil law. The country does not accept jurisdiction of the International Court of Justice (ICJ). Under the Judiciary Law of 2000, the Supreme Court of Myanmar is the highest judicial body and is the court of last appeal. Below it are state or divisional courts, district courts and township courts. Judges and magistrates are appointed by the government. This being the case, it can be concluded that the judiciary is not independent. In reality, a dual system—“rule by law” and rule of the “social and traditional practices”—exists today. Social norms and traditional practices are left to be dealt by village headmen and abbots of Buddhist monasteries throughout the country. Intellectual property rights are not guaranteed in Myanmar. Piracy of books, movies, and music is rampant as is corruption. It is not clear if the new constitution will result in major changes to the legislature but military participation will definitely be reduced. The new constitution grants workers the right to organize but prohibits collective bargaining and strikes.8

**Sociocultural Environment**

The name “Burma” is the Anglo version of Myanmar and rooted in the Bamar or Burman people, who form the majority ethnic grouping making up 65%–70% of the country’s population. The remaining consists of minority ethnic groups such as Shan, Karen, Kareni, Rohingya, Arkenese, Kachin, Chin, Mon, Palaung, Parauk, Wa, and Yangbye. They speak their own languages. There are around 111 spoken languages in Myanmar. The official language and the most spoken language is Burmese. The other non-Burmese languages most spoken are Shan, Karen, Indian (Hindi, Urdu, Tamil, and Bengali), and Chinese (Mandarin, Fujian, and Cantonese). English is often spoken in business, government, and tourist circles. The Burman language is derived from Tibetan and Chinese languages and goes back a thousand years. The written script is based on the Mon and is related to South Indian scripts. Ninety percent of the people practice Theravada Buddhism. Minority religions include Christianity (4%), Islam (4%), and traditional animism (1%). The 2008 Constitution protects the right of individuals to practice their own religion.
Myanmar culture is deeply rooted in Buddhism, which has been adapted to local traditions and practices. The people take pride in their heritage and look back to the golden age of their history for inspiration. Central to Buddhism is the belief in karma where one endeavors to complete the cycle of births and deaths (reincarnation) by doing good deeds and living purely. Temples and monasteries, festivals, and rituals are the central part of village and even city life. Buddhist monks are venerated and supported fully by lay people. All Buddhist boys must become novice monks before the age of 20 years and a full-fledged monk after that. The duration of monkhood is flexible and left to individuals. It can be as little as 1 week. The entering of a monastery is a major event in the life of males and marked with a ceremony, shinbyu (coming of age). For girls it is the ear-piercing ceremony. Some important cultural events in the Myanmar calendar are the New Year Thingyan (Water Festival), which is celebrated over 3–4 days in April; the Kasone in May, celebrating the Buddha’s birth, enlightenment and death; and the Thadingyut (Festival of Light) usually in October to mark the descent of the Buddha from the abode of the devas (higher beings or gods). Superstitions abound in the rural areas and people consult astrologers and palmists for help in making decisions related to marriage, business ventures, and naming a newborn. Luck plays a major role in individual lives and yadaya (meritorious deeds) are performed to create luck. These may be in the form of setting birds or animals free, performing acts of charity or contributing to communal projects.

Myanmar is a traditional society. The family is the central institution of daily life irrespective of religion, language or ethnicity. Typically in a patriarchal system, the father is the head of the family. There are no family names. Women retain their names even after marriage. Elders are much respected and an honorific is used in addressing different age groups and genders. Older males receive a prefix of U (pronounced oo) and females the prefix of Daw. For young adults the prefix of Ko (for males) and Ma (for females) apply. The very young are referred to as Maung (male) and Ma (female). Children are valued immensely and referred to as Yadana, a treasure. Music and dance are integral to social life. As in other Buddhist countries, the monastery remains the center of cultural life in Myanmar.
Business Culture and Intricacies

Myanmar is only now opening up to private enterprise and still does business the traditional way. Very few are exposed to dealing with foreigners. The workweek in Myanmar follows the system left from British times: 5 or 6 days a week from 9 a.m. to 5 p.m. and Saturdays may be half-days, but in application it is not uniform. Most private and government offices close on Saturdays but shops may be open all week. Government employees arrive at their desks around 10 a.m. As in most traditional Southeast Asian societies, time is approached in a rather flexible manner. Hurrying is not considered a worthwhile pursuit or trait. Foreigners, however, are expected to be on time for meetings. Business suits are a norm for official meetings and contract signing ceremonies. The traditional Burmese greeting is “Mingalar Bar,” which translates to “wishing good tidings to you.”

Proper titles are used when addressing each other. When addressing an older male, the prefix “U” is used. Thus, Mr. Thant becomes U Thant. When addressing an older female or a female official, address her with “Daw” in front of her name. When talking to a male of the same age and social status, one should put “Ko” in front of his name such as Ko Mya. If it is a female of the same age, use “Ma” instead. To address a younger male, one can use either “Ko” or “Maung.” When addressing a female of younger age, use “Ma.” To address children, use “Maung” for a boy and “Ma” for a girl. One can also use pronouns when talking to Myanmar people. When talking with an elderly person, call him “Oo” or “Oo Lay,” which literally means uncle. To call an elderly person, use “A Ba” or if he is a very senior person, use “A Phoe,” meaning grandfather. To call an older woman, use “A Daw” (aunt). For an elderly woman, use “A Phwar” (grandmother). To call another person of the same age, you can simply use his name. If he is slightly older call him “A Ko” (elder brother). If he is younger, call him “Nyi Lay” (younger brother). For a woman who is only a few years older than you, use “A Ma” (elder sister), and for a younger one, “Nyi Ma” (younger sister). Myanmar people use “Sayar” (teacher) to address a government official or one who is superior at work.

It is customary to give and receive business cards at first meetings. Myanmar culture is considered to be a “soft” culture in that their approach is nonaggressive. People are very respectful in their behavior toward elders.
and guests. Business is done on a personal basis. Relationships count a lot. They are very conservative, in line with Buddhist practices. Public display of affection even among married couples is rarely seen. Maintaining “face” is very important in Myanmar, as is the case for most ASEAN countries. Receiving and granting of favors is common practice, so be prepared to reciprocate for all favors received. Gifts are not required but often exchanged especially when dealing with government officials. Sharp instruments such as knives and black-colored gifts are taboo.

Business organizations are hierarchal. People are hardworking and loyal to their employers. In turn, they expect to be treated fairly. The employer is treated with reverence like a father figure and is expected to join employees during festive and tragic occasions and to help them out in times of difficulty. Births, engagements, and marriages are considered to be auspicious occasions or tha ye, while sickness and death fall into nga ye or sad occasions. Age plays an important role in the workplace and a younger person placed in a supervisory role may be uncomfortable with older subordinates. Communications tend to be indirect especially if a negative message is to be conveyed. A lengthy period of time may be spent socializing and exchanging pleasantries before business is discussed. Relationship building is paramount in business ventures.11

The country is unranked in the World Bank’s 2010 ease of doing business survey. It is ranked very low on the Economic Freedom Index.12 Poor infrastructure remains a major obstacle to production and distribution of goods and services. Be prepared to deal with cumbersome bureaucracy and to spend long hours in obtaining all sorts of permits, licenses, and approvals. Arbitrary, unannounced, and unwritten changes in policy are frequent. Obtaining accurate information is difficult. The government is taking steps to improve the processes and a one-stop license issuance service has been introduced. However, multiple occasions for graft and unofficial payments still exist. A major impediment is the health of kyat, the official currency of Myanmar. The official exchange rate is extremely overvalued and is nonconvertible outside the country. Trade sanctions remain in place and prevent participation in investing and doing business in Myanmar and importing of products from and exporting of certain goods by citizens and companies from the United States, EU, and Canada.
Web Resources for Myanmar

Country and History
Myanmar Ministry of Foreign Affairs
http://www.mofa.gov.mm

People, Culture, and Health
Myanmar—General
http://www.myanmars.net

Myanmar Ministry of Health
http://www.moh.gov.mm

Myanmar Ministry of Hotels and Tourism
http://www.hotel-tourism.gov

Government, Infrastructure, and Technology
Myanmar Ministry of Transport
http://www.mot.gov.mm

Myanmar Progress of Order Areas and National Races and Development Affairs
http://www.myanmar.gov.mm

Economy and Education
Myanmar Central Statistical Organization
http://www.csostat.gov.mm

Myanmar Ministry of Finance and Revenue
http://www.myanmar.com/finance/dept_cbm.html

Myanmar Ministry of Planning and Economic Development
http://www.mnped.gov.mm
Business Environment and Trade Practices

Myanmar Central Statistical Organization
http://www.csostat.gov.mm

Myanmar Directorate of Investment and Company Administration
http://www.dica.gov.mm/app.htm

Myanmar E-Trade
http://www.etrademyanmar.com

Myanmar Ministry of Commerce
http://www.commerce.gov.mm

Myanmar Ministry of Co-operatives
http://www.myancoop.gov.mm

Myanmar Ministry of National Planning and Economic Development
http://www.mnped.gov.mm

Union of Myanmar Federation of Chambers of Commerce and Industry
http://www.umfcci.com.mm

Local Media

Burma Daily
http://burmadaily.com

Myanmar News
http://www.myanmarnews.net

New Light of Myanmar
http://myanmar.com/newspaper/nlm

The Myanmar Times
http://www.myanmar.gov.mm/myanmartims
CHAPTER 8

The Philippines

<table>
<thead>
<tr>
<th>Country at a Glance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Size</strong></td>
</tr>
<tr>
<td><strong>Climate</strong></td>
</tr>
<tr>
<td><strong>Capital</strong></td>
</tr>
<tr>
<td><strong>Political structure</strong></td>
</tr>
<tr>
<td><strong>Leader</strong></td>
</tr>
<tr>
<td><strong>Official languages</strong></td>
</tr>
<tr>
<td><strong>Other languages spoken</strong></td>
</tr>
<tr>
<td><strong>Population</strong></td>
</tr>
<tr>
<td><strong>Age breakdown</strong></td>
</tr>
<tr>
<td><strong>Major religion</strong></td>
</tr>
<tr>
<td><strong>Other religions</strong></td>
</tr>
<tr>
<td><strong>Major industries</strong></td>
</tr>
<tr>
<td><strong>GDP</strong></td>
</tr>
<tr>
<td><strong>GDP per capita</strong></td>
</tr>
</tbody>
</table>

General Background

The Philippines is Southeast Asia’s second largest archipelago with over 7,000 islands. With a population nearing one hundred million, it is the 12th most populous country in the world. It is the only Christian and English-speaking country in Asia. Almost as large as the entire British Isles or slightly larger than Arizona, the Philippines has a land area of 300,000 sq km (115,000 sq m).\(^1\) It stretches from China in the north to Indonesia in the south. It has no land boundaries and is situated on the eastern rim of Southeast Asia (east of Vietnam) between the Philippine Sea and the South China Sea. The country is extremely rich in natural resources with a well-educated population but remains relatively poor due to mismanagement and underperformance.

The aboriginal inhabitants of the Philippines are Negritos that descended from the Asian mainland and Indonesia about 25,000 BC. Subsequent migrants were the Indo-Malays, who established settlements known as barangays (Malay word for boat, which denotes a community) across the islands. Kinship groups were lead by a datu (tribal chief) and these groupings were either seafaring or land based. Filipinos trace their ancestry to these Malays. By the 14th century, intensive trade routes had been established with India, Indonesia, Arabia, China, and Japan. By AD 1500 when the Westerners first arrived, Islam had replaced Hindu and Buddhist influences especially in the Sulu Archipelago and Mindanao. Spanish explorer Ferdinand Magellan was the first European to have landed in the Philippines in 1521 and was greeted by the Indios (natives). He claimed the land for King Philip II of Spain, named the country the Philippines, but was killed in a skirmish with a local chieftain. Several Spanish expeditions followed; in 1571, after defeating a local Muslim ruler, a permanent settlement was established in Manila.

The Spaniards wanted a share of the lucrative spice trade, to find better contacts in China and Japan, and to spread Christianity. They ruled the Philippines for more than three hundred years; they built their administration on traditional village organizations and ruled indirectly. A new feudal society was created; converts were many and the Muslims and native tribes remained alienated. The Philippines served mainly as a connecting point for the China-Mexico (Acapulco) route
of the Spanish trade, bringing silver bullion from New Spain (Mexico) to exchange for Chinese silk and porcelain. There was minimum direct trade with Spain and local resources were not exploited. With the galleon trade, many Chinese migrated to the Philippines as both traders and service providers. Spanish rule was interrupted during the Seven Years’ War (1756–1763) when the British East India Company occupied Manila. The country was returned to Spain at the end of the war, but rebellions broke out while the Spaniards were fighting with the British. The Chinese in the north resented Spanish discrimination and supported the British while the Muslims conducted raids from the south. Spain sought to restore order by instituting administrative reforms and economic development. The galleon trade ceased by the early 1800s and the Royal Company of the Philippines promoted direct and tariff free trade with Spain. Cash crops were cultivated for trade with Europe and Latin America but as Spain’s colonies in America became independent in the 1800s, profits fell. The Royal Company of the Philippines was abolished in 1834 and free trade was formalized. Manila became an open port for Asian, European, and American traders. Exports increased, additional ports were opened and by the late 19th century tobacco, abaca, and sugar were the main crops grown.

Throughout Spanish occupation, there were sporadic localized attempts to overthrow the colonial government. By the 19th century, a nationalist movement had taken root. With increased Chinese immigration, a native elite class emerged. The Chinese mestizos and the local Filipino ilustrados (literally, enlightened ones) were infused with liberal and democratic passion and rebelled against the Spanish establishment where there was union between church and state. The locals were sidelined by the conservative Catholic friars and were biased against the native clergy. In 1892, a nationalist leader emerged in the form of José Rizal, a Western-educated physician, scientist, scholar, and writer. At this time, the Spanish-American war led the Americans to ally themselves with Filipino revolutionaries. Rizal was executed by the Spaniards and as soon as fighting started, a new leader Emilio Aguinaldo declared independence of the Philippines on June 12, 1898. At the end of the war, Spain ceded the Philippines, Guam, and Puerto Rico to the United States via the Treaty of Paris. New hostilities between the United States and the nationalists began.2
U.S. rule over the Philippines covered two phases over the 50 years of occupation: The first phase was from 1901 to 1935 when the United States put in place reforms in preparation for eventual independence for the Philippines. Political organizations were developed, including a bicameral legislature in the image of the American system; political parties were formed; and English became the main language. The second phase was from 1935 to 1946 when the Commonwealth of the Philippines was established to serve as a 10-year transition government toward a fully independent state. Manuel Quezon was elected as the first president of the Commonwealth. However, the process was interrupted by the Japanese invasion in 1942 and the outbreak of World War II. Even though the Japanese ostensibly supported the government, it was confronted with large-scale resistance led by the Huks (people’s anti-Japanese army). The United States returned to retake the islands in 1944 and the Japanese surrendered in 1945. Over a million Filipinos died during the war. Manual Roxas became the first president when independence was declared on July 4, 1946.

The newly independent country faced many challenges: rebuilding after the war (with the help of the U.S. government) and dealing with local insurgency led by the Huks, now renamed as the People’s Liberation Army with communist support. The next president that was elected, Ramon Magsaysay in 1953, was partial to Christians in the north, alienating further the Muslims in the south. By 1954, the Huk movement had waned but the Muslims continued to be a problem. In 1961, President Diosdado Macapagal responded to rising anti-American sentiments by negotiating with the United States to close their bases and seeking to bring the country closer to its Southeast Asian neighbors. For the next two decades (1965–1985) the Marcos era saw a serious decline in the country’s development and stability. In 1972, President Ferdinand Marcos, nearing the end of his second term, declared martial law and usurped total power. Cronyism, corruption, and patronage in politics became rampant. In 1968, a new communist insurgency resurfaced as did an uprising in the Muslim south led by the Moro National Liberation Front (MNLF). His opponent Senator Benigno Aquino Sr. was assassinated in 1983 upon his return from exile in the United States. This resulted in a people’s revolution and Marcos’s overthrow in 1986, which was led by dissident and former Marcos henchmen Defense Minister
Juan Ponce Enrile and Armed Forces General Fidel Ramos together with Philippine Catholic Church leader Cardinal Jaime Sin. He was succeeded by President Corazon Aquino and a new constitution was put in place following democratic principles. Her successor President Fidel Ramos brought some stability, peace, and prosperity in 1992–1998. He made efforts to realign the country toward the Association of Southeast Asian Nations (ASEAN) region, signed a peace agreement with the MNLF, and began talks with the communists. His successor, the movie star Joseph Estrada, did not last long (1998–2001) and was deposed on charges of corruption and incompetence. Vice President Gloria Macapagal Arroyo replaced him. She finished her second term in 2010. In the ensuing election, the presidency went to Noynoy C. Aquino III, the son of Senator Benigno Aquino and President Corazon Aquino. He has vowed to fight poverty and corruption.

**Business Environment:**

**Political, Economic, and Legal Systems**

**Political System**

The Filipino government is a representative democracy modeled on the U.S. system with one major difference: the United States is a federal republic with significant power reserved for the states, but the Philippines is a unitary system where the national government cannot be challenged by local authority. The Philippine Constitution was amended for the fourth time in 1987 after martial law ended with the collapse of the Marcos regime. The president is the head of state as well as the chief executive and is elected for a single term of six years. The vice president may hold two consecutive 6-year terms. There is a bicameral legislature and an independent judiciary. The 24-member senate is elected for a 6-year term (a maximum of two consecutive terms) and half the number are elected every 3 years. The Philippine House of Representatives has a maximum of 250 members; 80% are elected from the various constituencies and the remaining 20% are party list representatives. All serve a 3-year term, with a maximum of three consecutive terms allowed, and elections are held for half the seats every 3 years. There are eight major political parties and several smaller ones. The Philippine
Supreme Court has the power to review constitutional issues. It consists of the chief justice and 14 associate judges; not all judges are needed to convene in the court. For administration, the country is divided into regions (17), provinces (80), cities (120), municipalities (1,500), and barangays (about 42,000 villages).

There are two ongoing internal armed conflicts in the Philippines: The Communist Party of the Philippines (CPP) and its armed wing, the New People’s Army (NPA) seek a “national democratic revolution” and operate in the rural areas. The other involves three militant groups in the south seeking to establish a Muslim state on the southern island of Mindanao. The United States is actively engaged in helping the Philippine government fight the Abu Sayyaf Group (ASG) and the Jemaah Islamiyah (JI). Substantial success has been achieved and the ceasefire agreement with the separatist Moro Islamic Liberation Front (MILF) in 2009 is holding. In its foreign relations, the Philippines has cultivated close cooperation with its neighbors, especially the ASEAN members. A founding member of ASEAN, it plays a key role. The country is an active member of the UN (including 2 years as member of the Security Council), the Asia Pacific Economic Cooperation (APEC), and the Non-Aligned Movement (NAM). It has participated in peacekeeping efforts in Timor-Leste as part of the UN team and currently has troops deployed in eight missions abroad.

**Economic System**

At the end of the World War II, there was strong economic expansion and the Philippines became one of Asia’s strongest economies. However, the economy has declined to become one of the poorest in the region because of years of economic mismanagement and underperformance, political turmoil and volatility, and misallocation of scarce resources. Oligopolies ruled as a legacy of the U.S. colonial period, where farmland was concentrated in large estates. As a policy, protectionism was used to prevent imports and restrictions were placed, preventing foreign ownership of land and other assets. This was exacerbated by rampant corruption, and the tax revenue remained low at only 15% of the gross domestic product (GDP). There was underinvestment in infrastructure and uneven economic development, with the region around Manila producing 36% of
the output with only 12% of the population. The result was economic
stagflation during the Marcos era, severe recession in the mid-1980s, and
political instability during the Aquino years (1986–1992). Long-term
economic growth was hampered by a crumbling infrastructure, trade
and investment barriers, and lack of competitiveness. More than half the
GDP was from the service sector (53.5%); industry contributed 31.7%,
and agriculture, forestry, and fishing accounted for the remaining 14.8%.
Over 11% of the labor force was forced to go abroad to work and send
remittances to their families, which in 2007 totaled $1.4 billion and
counted for 10% of the GDP.

A number of economic reforms were implemented during the Ramos
presidency to help regain stability and the Philippine economy began
to stabilize, although the 1997 financial crisis did hinder growth for a
period. Macroeconomic stability has returned but long-term growth is
doubtful due to poor infrastructure and education. GDP grew by 7.1%
in 2007, the highest in 30 years. In 2008, GDP growth slowed to 3.7%.
This was mainly the result of high inflation coupled with a worldwide
downturn in export demand. In addition, the Philippines has suffered
from a strong decrease in capital investment. Services grew by 3.1% in
2008 and 2.8% in 2009. Manufacturing had slightly better growth,
despite a drop in ordering in the fourth quarter. Construction showed
strong growth, while mining, metals, and agriculture displayed a slug-
gish performance.

The budget has shown a deficit every year since 1998, though trends
in the last decade have been encouraging. The deficit is a direct result
of overspending and poor collection of revenue. Attempts are being
made to bring down debt ratios and raising new taxes has helped. Value
added tax (VAT) was implemented in 2005 and raised from 10% to
12% and expanded in coverage. A law was also passed to increase rev-
ene using a performance-based collection system. Though a deficit
remains despite efforts to balance the budget for 5 consecutive years,
deficit spending is considered necessary to cope with the economic cri-
sis. A deficit of 0.9% of GDP was seen in 2008 and 3.2% in 2009.
Another source of revenue that needs improvement is the extractive
industry. It is estimated that the Philippines possesses untapped mineral
wealth of $840 billion. Mining has declined from 30% to only 1% of
GDP and the country was a top producer in the 1970s and 1980s. In
2004, the Philippine Supreme Court ruled that foreign companies will be permitted to obtain mining and energy contracts with the Philippine government. Foreign companies are now allowed to own up to 100% equity and invest in large-scale exploration, development, and utilization of minerals, oil, and gas.

GDP grew at around 1.1% in 2009 and 3.5% in 2010. The government has taken plans to jumpstart the economy by introducing a $7 billion stimulus package. This money will be used to expand welfare, improve infrastructure, and provide tax breaks for both private citizens and corporations. The country continues to have strong potential especially in the areas of mining, natural gas production, manufacturing, business process outsourcing (BPO), and tourism. Inflation and unemployment remain major challenges. Infrastructure must be improved and greater reforms put in place to increase productivity and competitiveness. Tax revenues need to be increased further and reduction of poverty remains a top priority. Trade liberalization to spur investments and increase competitiveness and productivity can help achieve greater growth. These reforms would lower costs of doing business and remove obstacles to growth.

![Figure 8.1 GDP by sector in the Philippines.](source)
Figure 8.2. Major trading partners of the Philippines.

A. Imports

B. Exports

Legal System

The Philippine legal code is based primarily on Spanish and Anglo-American law. Spain had enforced the Spanish civil and penal code on its colony. The system was retained by the Americans during their occupation, even though the U.S. system was based on common law. However, judicial precedents of the Philippine Supreme Court were made binding as in the common law system. In the 1930s, the penal code was revised and a new civil code was enacted in 1950. The Philippine legal codes have been enacted after being passed by congress. Common law is used for constitutional law, corporate law, tax, labor, and other business-related law. There is no trial by jury in the Philippines. The Philippine justice system is composed of the Supreme Court, the Court of Appeals, the regional trial courts, the Court of Tax Appeals, and the metropolitan and municipal trial courts. Justices are appointed by the president on the recommendation of the Philippine Judicial and Bar Council and serve till the age of 70. Lower-level courts are composed of the court of appeals that is divided into 17 divisions, local and regional trial courts, and a rather informal local system to settle disputes outside the formal court system. A special court, Sandiganbayan (antigraft court), was created in 1979 consisting of a presiding justice and eight associate justices, who have exclusive jurisdiction over violations of the Anti-Graft and Corrupt Practices Act, the Unexplained Wealth Act, and other crimes or felonies committed by public officials and employees in relation to their office, including employees in government-owned or controlled corporations. In 1985, a separate Islamic law system (Sharia) was established in the south with jurisdiction over family and contractual relations among Muslims. Three district magistrates and six circuit judges oversee the Islamic law system. Another special court, the court of tax appeals, composed of a presiding judge and two associate judges, was created with exclusive appellate jurisdiction over decisions of the commissioner of internal revenue and the commissioner of customs on certain specific issues.

Business law is catered in a specific code: the Philippine Code of Commerce. This is Western style in nature (being of Spanish origin) and covers contracts, performance of obligations, antitrust and securities issues, banking and finance, product safety and quality requirements, and advertising and sales practices. The Foreign Investments Act of 1991 and
the Omnibus Investments Code of 1987 regulate the processes by and conditions under which non-Philippine nationals may invest and operate in the country. The major government body dealing with foreign investors is the Philippine Board of Investments (BOI). Reforms in 2009 have made it easier to obtain credit to start a business.7

The Philippines ranks fairly low on the World Bank’s list of ease of doing business; in 2010, it was ranked 144th out of 183 countries. It ranks even lower for ease in starting a business, coming in at number 162. Of the nine ASEAN countries listed, it ranks last with regard to ease in starting a business. There are 15 procedures to starting a business, it takes roughly 52 days and costs 28% of income per capita on an average. Getting construction permits can be time consuming, taking about 200 days on an average. Firing workers is costly, with redundancy costs being equal to 91 weeks of salary. The Philippines ranks 127th for ease in obtaining credit, with low levels of protection and information available to investors interested in the country. Enforcing contracts is time consuming too, with the average claim taking 842 days. The legal fees of enforcing a claim average 26% of the total claim.8 The tax rate is 30% of profits.9

Intellectual property (IP) laws in the Philippines stipulate that it is a private right. It is the responsibility of the holder of the rights to register, protect, and enforce their rights. The Philippines has the longest tradition of intellectual property protection in ASEAN, reaching back to decrees introduced under Spanish rule. After a period of IP protection via presidential decrees during the Marcos regime, the Philippines was the first country in Southeast Asia to adopt a comprehensive intellectual property code following World Intellectual Property Organization (WIPO) models in 1995. The code covers patents, utility models, trademarks and geographical indications, copyright, industrial designs, layout designs of integrated circuits, and undisclosed information. However, enforcement of IP laws remains weak and the judicial system is often slow in the adjudication of disputes.

**Sociocultural Environment**

The Filipino is basically of Malay stock (and defines himself as such) but infused with native, Chinese, Spanish, Indian, Arab, and American blood and cultural heritage. From a long history of migration of easterners and
colonization by Westerners, the Filipino has evolved into a unique blend of East and West in appearance and culture. The majority of people are Malay and the largest minority is Chinese. Smaller minorities include Americans, Spaniards, Indians, and other Asians. About 91% are Malay or Chinese Christians, and are mainly Catholics (81%) as a result of heavy conversion by the Spanish. The other smaller Christian denominations are Protestants (9%) and include Presbyterian, Methodist, Philippine Independent Church, and Philippine Church of Christ. Five percent are Muslims and 3% Buddhist and others. The majority of Muslims live in central and western Mindanao and in the Sulu Archipelago. Aboriginal tribes still inhabit remote areas of Mindanao as well. Though the constitution guarantees freedom of religion and separation of church and state, Christianity dominates entirely and Muslims have been historically marginalized.

The Philippines has two official languages: Filipino and English. Filipino has eight major dialects (specified in order of use): Tagalog, Cebuano, Ilocano, Ilonggo, Bicol, Waray, Kapampangan, and Pagensinese. Filipino belongs to the Malay-Polynesian family of languages and is used as a common medium between speakers of different native languages. Tagalog is spoken in the greater Manila region, Cebuano in the Visayas, Ilocano in northern Luzon, and Maranao in Mindanao.

There are more than a hundred distinct native languages. English is used in government and business and is the medium of instruction in higher education. At 93%, the Philippines has one of the highest literacy rates in the developing world. It is the third largest group of English-speaking people in the world, after the United States and the United Kingdom. Only a small minority still speak Spanish or Chinese at home. It is common to hear “Taglish,” which is a mixture of Tagalog and English in daily conversations.

The Philippines is the only Christian country in Asia. Religion holds a central place in the life of most Filipinos—Christians and Muslims. Spanish-style Catholicism is highly embedded in the culture, which was acquired from priests or friars. This is shown in traditions such as Misa de Gallo, Black Nazarene procession, and Santo Niño and Aguinaldo procession, where large crowds gather to honor their patron saints. Processions and fiestas are conducted during feast days of the patron saints of barangays (barrios or villages). Each barangay has a patron saint. A big fiesta is
held and large amounts of food served at each house. Friends and relatives visit each other and festivities such as talent shows, beauty contests, carnival rides, and bingo games are organized. Christianity has merged with local traditions and customs and includes faith healing, where psychics operate without using scalpels or drawing blood. Sites where “miracles” have taken place are frequented on feast days. Easter is the most important festival and the entire Christian area is shut down for observances. Major processions take place on Good Friday. Customs at death include a 24-hour vigil and mourning for 6 weeks. All Saints’ Day (November 1) is a national holiday to honor the dead and family members visit graves of the deceased. Christmas is celebrated in a manner that blends Catholic, Chinese, Filipino, and American customs. Religious leaders are powerful figures and are respected and courted for their influence. Personal friendships with priests, ministers, and nuns are prized. Muslims are mainly Sunni and Islamic religious holidays are legal holidays in Mindanao and the Sulu Islands but mosques are located in all large cities. Animism is still practiced by indigenous people in the mountains of Luzon. There is a strong societal belief in fatalism.

Family relationships are the basic building block of the Philippine society. Kinship groups are a major part of Philippine culture. Each Filipino is at the center of a large circle of relatives, usually extending to third cousins. Marriage is rarely permitted for members of the same kinship circle. The kinship circle is customarily enlarged through ritual coparenthood, the Catholic custom of selecting godparents to sponsor one’s child at baptism. In the close-knit Filipino family, members are provided assistance when needed and expected to give their first loyalty to their kin. In rural areas, villages contain clusters of households supporting an extended family system within the Philippine culture. The social support provided by these close-knit communities is reflected in the absence of retirement homes. Filipinos also extend the circle of social alliances to friendship. Friendship is placed on a par with kinship as the most central of Filipino relationships. Ties among those within one’s group of friends are an important factor in the development of personal alliance systems. Here, as in other categories, a willingness to help one another provides the prime rationale for the relationship.

Another trait that stands out is the respect of elders. Filipinos are taught in childhood to respect their elders and obey their will. It is
common practice especially in traditional society to kiss the hand or forehead of one’s grandparents or older relatives. Godparents are held in high esteem and they often ensure a child’s success in life. Therefore prominent members of society often have hundreds of godchildren and this provides an individual a network that will serve him well when he grows up. It is not uncommon to see Filipinos of either sex walking hand in hand with relatives and friends. Filipinos are warm people and hospitality is something they are extremely proud of. They will go out of the way to greet guests and foreigners, and help in finding directions or provide help in any way possible.10

There is a clear social stratification in the Philippine society. The wealthy 2% of the population lead Western lifestyles. The masses live humble lives as poverty is common. The middle class is growing and consumption of goods is valued and an indication of upward mobility. Filipinos have taken a special affinity to American culture, which is evident in their love for pop culture, dress, fast food, film and music, and television.

Business Culture and Intricacies

The business culture in the Philippines seems Western oriented but this is only on the surface. The workweek in the Philippines for government and commerce follows the Western model of Mondays to Fridays from 8 a.m. to 5 p.m. with an hour for lunch and is generally a 40-hour workweek. Banks open from 9 a.m. to 3 p.m. while shops and supermarkets remain open from 9 a.m. to 10 p.m. all week. “Filipino time” is used to describe a cultural trait in the Philippines that means they are not much into punctuality. This is said to have been inherited from the Spanish era and later reinforced by heavy traffic delays. However, “Filipino time” applies to social occasions only. Foreign business people are always expected to be on time for meetings.

In Tagalog, the main greeting is “Mabuhay,” an expression used in welcoming guests to show hospitality. Traditionally, the eldest or most important person is greeted first. The handshake is a common form of greeting in the Philippines. Unlike other cultures, both men and women shake hands with each other. Close female friends may even hug and kiss when they meet. It is not uncommon for a Filipino to use a bit more
body contact when greeting a person. Filipinos prefer face-to-face meetings. Appointments should be set up a few weeks in advance. Most business meetings happen midmorning or in the afternoon. Meetings should be confirmed a day earlier. Business dress should be conservative. Appearances do matter and one is judged by the dress. Filipinos are status-conscious and they should be addressed by their title and family name at the first meeting. Use academic, professional or honorific title, and the individual’s last name until you are invited to use the first name. It is common for Filipinos to have a nickname. If invited to dinner, bring sweets or flowers to show respect and gratitude. Do not bring chrysanthemums or white lilies as they signify death. Gifts are not opened when received. Always accept any offer of food or drink as a refusal may be insulting to the host. Social conversation may go on for long periods.

Though Filipinos speak English fluently, the pronunciation and accent do need time getting used to. Business cards are important but not treated with the same respect as in other ASEAN cultures. When giving a business card or receiving one you should use both hands to give and accept it. Where a person sits at a table reflects his order in the team or organizations hierarchy. Informal conversation is expected to happen at some point during the meeting. Filipinos may ask personal questions during this time, but it is only to get to know you. As in most Asian societies, privacy holds a different value than in the West.

Business relationships in the Philippines are personal and not corporate. They are doing business with you and not the company. Therefore, if you leave the company, your replacement will have to build his own relationship. A mutual friend or acquaintance should be used to introduce you to the business partners you want to meet. There is a certain level of mutual respect that is required of any business relationship. When choosing business partners in the Philippines consider their age and reputation. Known as *pakikisama*, the concept is of group collectivism, and loyalty to the organization is the approach taken in the business context. The concept also promotes harmony within an organization. The Philippines is a high-context society. Filipinos can be indirect and “yes” may only be said to avoid giving a real answer. A Filipino will always try to avoid a negative situation. It is important for a business person to maintain “face” in Filipino culture. *Hiya* (shame) is an important aspect of Filipino social propriety and acting in a way that
ignores this brings shame not only to the self but to family and friends as well. The contention is that one must do all they can to keep things moving smoothly.

Showing your anger, being negative, or causing public embarrassment will cause an individual to lose face. While communicating with a Filipino you should never intentionally try to embarrass him. Avoid direct eye contact; staring is seen as rude. Do not get angry or interrupt a Filipino businessman while he is talking; this is seen as disrespectful. Protocol between subordinates and superiors must be adhered to. Managers put a lot of effort into taking care of their employees. Filipino managers are people persons and boundaries between personal and professional are often blurred in the work place. Often employees will be retained if it is seen to be for their good, even if it means sacrificing profits for the company. Competitors and employers are very comfortable interacting with one another and with workers on a personal basis. Human capital is a priority over profitability. Loyalty to company and employer is highly valued and will often be rewarded via personal means. Nepotism is not uncommon. Negotiations will often take longer than usual to finish, so be patient. Being a hierarchal culture, decisions are made at the top tiers of organizations. Such decisions are often based on feelings rather than facts or reason. The boss also acts as a parent and is treated as such. Decisions are not challenged and noncompliance can be taken as disrespect.\textsuperscript{11}

**Web Resources**

**Country and History**

Philippine National Statistics
http://www.census.gov.ph

Philippine Tourism
http://www.tourism.gov.ph

**People, Culture, and Health**

Philippine Department of Health
http://www.doh.gov.ph
Philippine National Commission for Culture and Arts
http://www.ncca.gov.ph

Philippine Tourism
http://www.tourism.gov.ph

**Government, Infrastructure, and Technology**

Philippine Department of Science and Technology
http://www.dost.gov.ph

Philippine House of Representatives
http://www.congress.gov.ph

Senate of the Philippines
http://www.senate.gov.ph

Supreme Court of the Philippines
http://sc.judiciary.gov.ph

**Economy and Education**

Philippine Department of Energy
http://www.ncca.gov.ph

Philippine Department of Higher Education
http://www.ched.gov.ph

Philippine National Economic and Development Authority
http://www.neda.gov.ph

**Business Environment and Trade Practices**

Philippine Board of Investments
http://www.boi.gov.ph

Philippine Chamber of Commerce and Industry
http://www.philippinechamber.com
Philippine Department of Agriculture
http://www.da.gov.ph

Philippine Department of Trade and Industry
http://www.dti.gov.ph

Philippine Department of Finance
http://www.dof.gov.ph

Philippine National Economic and Development Authority
http://www.neda.gov.ph

Local Media

The Manila Bulletin
http://www.mb.com.ph

The Manila Times
http://www.manilatimes.net

The Philippine Daily Inquirer
http://www.inquirer.net

The Sun Star
http://www.sunstar.com.ph
# Chapter 9

Singapore

---

**Country at a Glance**

<table>
<thead>
<tr>
<th>Size</th>
<th>697 sq km (3 times the size of Washington DC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate</td>
<td>Hot, humid, rainy, two monsoon seasons</td>
</tr>
<tr>
<td>Capital</td>
<td>Singapore</td>
</tr>
<tr>
<td>Political structure</td>
<td>Parliamentary republic</td>
</tr>
<tr>
<td>Leader</td>
<td>Prime Minister Lee Hsien Loong</td>
</tr>
<tr>
<td>Official languages</td>
<td>Mandarin, English, Malay, and Tamil</td>
</tr>
<tr>
<td>Other languages spoken</td>
<td>Chinese (Hokkien, Teochew, Cantonese, Hainanese, Hakka), Punjabi, Sindhi, Gujarati, Bengali, Malayalam, Telugu, and Kannada</td>
</tr>
<tr>
<td>Population</td>
<td>4,657,542 (July 2010 est.)</td>
</tr>
<tr>
<td>Age breakdown</td>
<td>0–14 (14.4%), 15–64 (76.7%), 65+ (8.9%)</td>
</tr>
<tr>
<td>Major religion</td>
<td>Buddhism (42%)</td>
</tr>
<tr>
<td>Other religions</td>
<td>Islam (15%), Christianity (15%), Hinduism (4%)</td>
</tr>
<tr>
<td>Major industries</td>
<td>Electronics, chemicals, financial services, petroleum</td>
</tr>
<tr>
<td>GDP</td>
<td>$243.2 billion (2009 est.)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>$52,000</td>
</tr>
</tbody>
</table>

General Background

Singapore is the most developed country in the Association of Southeast Asian Nations (ASEAN). Singapore is the regional grouping’s smallest member in terms of area, as it is an island city-state about three times the size of Washington DC. It is located at the southern tip of the Malay Peninsula to which it is joined by a causeway. It borders Indonesia’s Riau Islands to its south. Singapore’s strategic location on the major sea-lanes connecting the West to the East makes it one of the busiest ports in the world. It has no natural physical resources, save its location and its dynamic and industrious people. It has a multicultural population of around five million. It is one of the most densely populated countries in the world. Singapore is a model of economic development, with one of the highest standards of living in the world.

Singapore has been a trading post of some sort since the 2nd century and home to traders operating between China and India since the 5th century. It later became an outpost of the Sumatra-based Hindu-Buddhist kingdom of Srivijaya. A permanent Malay settlement called Temasek (sea town) existed on the island around the mid-14th century. The Javanese Majapahit and the Thai Siamese empires both claimed the island following the decline of Srivijaya. In 1390, the last Srivijaya prince, Parameswara, fled to Temasek (renamed Singa Pura, literally Lion City) and subsequently founded the Malacca Sultanate, which included early Singapore. During the 16th and early 17th centuries, it briefly regained some importance as a trading centre of the Sultanate of Johor. In 1613, the Portuguese destroyed the settlement at the mouth of the Singapore River and the island sank into obscurity until it was rediscovered by the British in the early 19th century.

The British were seeking a port of call in Southeast Asia to support their trade with China and were already in India by the 1600s. They established trading posts in Penang in 1786 and captured Malacca from the Dutch in 1795 but needed a stronger base for their fleet in order to forestall the advances of the Dutch in the East Indies (Indonesia). In 1819, the Governor General of Bencoolen (in Sumatra), Sir Stamford Raffles, signed a formal treaty with Sultan Hussein of Johor and the Temenggong (ruler) Abdu’r Rahman of Singa Pura and founded the trading post of Singapore. It was such an excellent location that by 1820,
trade had surpassed that of Penang. In 1824, Singapore’s status was formalized in favor of the British. Through the Anglo-Dutch Treaty, the Dutch withdrew all objections and received Bencoolen; the Malay rulers ceded the island in return for additional cash payments and pensions. In 1826, the British merged Singapore with their territories of Malacca and Penang as the Straits Settlements under the control of British India. Singapore soon became the center of government for the three areas, and in 1867 the three became a Crown Colony, directly under jurisdiction of London’s Colonial Office.

By the late 19th and early 20th century, Singapore had become a major export center thanks to British expansion into Malaya, the opening of the Suez Canal, the invention of the automobile and consequently the increase in demand for rubber, and the overall expansion of entrepôt trade between the East and the West. The prosperity resulted in a flow of immigrants into Singapore from China, Malaya, Indonesia, India, and Europe. The British built a naval base in Singapore as part of a chain from Gibraltar to Aden to India and beyond. The thriving city-state was provided infrastructure and civil administration to support the mercantile trade and the various ethnic communities were left to themselves in their enclaves. Singapore enjoyed peaceful growth till World War II when it fell to the Japanese in 1942. It was renamed Syonan (Light of the South). Japan ruled Singapore with an iron fist until the end of the war in 1945 when the British reoccupied Singapore. The military administration ended in 1946, the Straits Settlements was dissolved, and Singapore became a Crown Colony while Penang and Malacca became part of the Malayan Union and the Federation of Malaya in 1948.

As a result of the war, Singapore residents had emerged from migrants to citizens with a stake and demanded a say in the government. Limited elections were allowed in 1948 and a legislative council was created. When the communists tried to seek independence by force, a state of emergency was declared that lasted for 12 years. A new constitution was negotiated in 1958 and self-government was finally attained in 1959. Lee Kuan Yew became the first prime minister. Tensions between the moderate government and the communists led to an open split in 1961. The People’s Action Party (PAP) agreed to a union with Malaya as part of a larger federation with the inclusion of the other British territories in Borneo. In 1963, independent Malaysia was formed and Singapore became
a part of it together with the Federation of Malaya, Sarawak, and Sabah (formerly North Borneo). Brunei chose not to participate and Indonesia objected to the union and responded with the commencement of a “confrontation” for 3 years. The merger did not last long and disputes over political, security, and economic issues finally resulted in a break and Singapore became an independent sovereign nation on August 9, 1965.

In order to survive economically, a rapid industrialization program was started. With foreign investment, technology and infrastructure developed. The foundation was laid for economic development and free trade. This was hampered by the British withdrawal of its military and the closing of its naval base in 1967. The country responded by building its own armed forces based on the Israeli conscription system and converted the naval facilities into shipyards. By the 1970s, Singapore emerged as a politically stable country with a high rate of economic growth. It has since evolved into a power house of manufacturing, a financial services hub, and a center of technology and education. This has been achieved through the hard work of its population and the government’s policies favoring free trade and investment, progressing from being labor intensive in the 1960s–1970s to being capital intensive in the 1980s–1990s and knowledge intensive in the new millennium.²

Business Environment:
Political, Economic, and Legal Systems

Political System

Singapore is the most politically stable country in ASEAN and the current government has been in power since being elected upon receiving self-government in 1959, again on joining Malaysia and later achieving full independence in 1965. Singapore is a republic and a parliamentary democracy with a directly elected president as head of state, who serves a term of 6 years. The head of government is the prime minister, who is the leader of the party that commands the most seats in parliament and can serve numerous terms. The executive cabinet is selected by the leader and must be from the elected members. Singapore has a unicameral parliament with 94 members, out of which nine are nominated to represent the opposition. This provision was created in 1984 as Singapore has not
had a meaningful opposition since independence. These “nonconstitu-
ency” seats are offered to candidates that receive the highest or more than
15% of the votes. They are also appointed by the president as Nom-
inated Members of Parliament (NMPs) and selected by a special com-
mittee appointed by the government. They enjoy the same privileges as
normal members of Parliament but cannot vote on constitutional matters
pertaining to expenditure, no-confidence against the government, and
removing the president from office. Parliament is elected every 5 years
but NMPs serve two-and-a-half-year term. Voting in Singapore is com-
pulsory for those over 21 years of age. The judiciary comprises the high
court and the court of appeal, as well as district and magistrate courts.
The chief justice, senior judge and 12 judges are appointed by the presi-
dent on the recommendations of the government.

Though there are numerous political parties in Singapore, the rul-
ing PAP has always formed the government and has been accused of
preventing the emergence of a viable opposition. This marginalization
has been achieved through harsh measures such as gerrymandering, fil-
ing of civil suits against the opposition for libel or slander, and seek-
ing huge damages that have bankrupted opponents. Western observers
consider Singapore’s political system as being rather authoritarian but
one that has created an efficient government that is not corrupt and a
safe and progressive environment for the populace. The political cli-
mate is regarded by the Economic Intelligence Unit as being hybrid,
with a mixture of authoritarian and democratic elements. Control is
exercised on many aspects of life in Singapore, including the media.
Certain rights, such as freedom of assembly and of speech, remain
restricted. Singapore was ranked 82 out of 167 countries in the Democ-
racy Index in 2008, compiled by The Economist in London. In 2009, it
was ranked 133rd out of 175 nations by Reporters without Borders in
the Worldwide Press Freedom Index. In its foreign relations, Singapore
is officially nonaligned. It is a member of the United Nations (UN),
the Non-Aligned Movement (NAM), a founding member of ASEAN,
and a participating member of the commonwealth. Singapore held a
rotational seat in the UN Security Council from 2001 to 2002. It par-
ticipated in UN peacekeeping-observer missions in Kuwait, Angola,
Namibia, Cambodia, and East Timor. Together with the United King-
dom, Australia, New Zealand, and Malaysia it is part of the Five Power
Defense Arrangement (FPDA), which provides for information sharing, consultation, and help in the event of external aggression.

**Economic System**

Singapore is the freest in ASEAN as well as its most advanced and developed member. The 2010 Index of Economic Freedom by the Heritage Foundation rates Singapore at 86.2, making it the second most free in the world. It is one of Asia’s “Four Tigers,” the others being Hong Kong, Taiwan, and South Korea that have witnessed remarkable economic growth. The growth has been enabled by the government’s pro-business and investment policies and its role in the economy through government-controlled companies, which have served as engines of growth. The policies pursued by the government to foster economic development include eradication of corruption in the civil service and business, a meritocratic system of recruitment and compensation, building of sound institutions that have served the populace well, and provision of a world-class education and skills training in line with national goals and market demands.

The government accounts for roughly 60% of the gross domestic product (GDP), and this is done using government-linked companies (GLCs), which have strong government equity and control. Savings are promoted and the Central Provident Fund (CPF) is a compulsory saving scheme that provides the government with the necessary capital for investment. Two wealth funds are the Government Investment Corporation (GIC) and Temasek Holdings, which operate as commercial entities.

Foreign investment has played a major role in Singapore’s emergence as a world-class economy. This required a stable government and a cooperative and skilled labor force, both of which were made available to multinational corporations. Strong incentives, including liberal tax holidays, were offered for investors to set up manufacturing and service operations in Singapore. There are more than 7,000 multinational corporations from the United States, Japan, and Europe operating out of Singapore. Besides, there are 1,500 Chinese companies and a similar number from India. Together they account for more than two-thirds of manufacturing output and exports. Industrial estates were developed to provide the necessary facilities needed for large-scale industry. Initially, Singapore’s primary focus was on petrochemicals, electronics, and precision machinery.
It later turned to high tech and services industries, including banking and finance. The Singapore model of development was based on the successful creation of a public-private sector alliance where policies, programs, and funding were geared toward achieving economic development through an efficient, honest, and supportive administration. The net result has been a growth rate of around 8% from 1960 to 1999. Singapore recovered well from the Asian financial crisis of 1997; by 2000, it was back on track with 9% growth but the global economic downturn slowed growth to an average 3% in 2001–2003. Between 2004 and 2007, growth touched 8% annually. The global financial crisis of 2008–2009 has hurt Singapore but the prognosis is that recovery is at hand for 2010 and beyond. The government is liberalizing the financial services, telecommunications, power generation, and retail sectors to stimulate growth and investment. In 2009, Singapore spent $20 billion on a government stimulus package.

The country boasts excellent telecommunications and Internet facilities; the best airline and airport; efficient public transportation and education systems; safe, clean, and green city environment; and the best investment potential.

![GDP by sector in Singapore](data:image/png;base64,iVBORw0KGgoAAAANSUhEUgAAAgAAAAAbgAAAB2rQw8AAAAUlEQVR42mP8/A7/AQAAAAAP+CwA8AAAAABJRU5ErkJggg==)

**Figure 9.1. GDP by sector in Singapore.**

Figure 9.2. Major trading partners of Singapore.

Legal System

Singapore's legal system is based on English common law, which has been used since British colonial times. Although the final institutional link with Britain was cut in 1994 when the Singapore Court of Appeal replaced the English Privy Council as the country's highest appellate court, English case law still retains nominal authority. In line with the development in other common law countries, there is a tendency to incorporate important subjects into statutory law. The jury system was abolished in 1969.

Singapore has a three-tier court system with a number of subordinate courts, the high court and the court of appeal. The court of appeal is the highest court in Singapore. The court of appeal and the high court constitute the Supreme Court, whose judiciary consists of the chief justice, the judges of appeal, the judges of the high court and the judicial commissioners. The high court is presided by the chief justice and the judges of appeal. All judges are appointed by the government. Magistrate courts hear cases up to $60,000 while district courts hear cases up to $250,000.

Singapore succeeded in combating a more than 5-year-backlog of unresolved cases with a comprehensive reform of the court system in the 1990s. Today most judgments in civil proceedings are given 7 or 8 months after an action was commenced; and even if an appeal is filed, the proceedings usually end within one year. Cases are processed quickly and will not be delayed for any reason. Singapore has some of the strongest legal rights for protecting investors in the world. It is ranked second in the world behind New Zealand for investor protection. Singapore has the fastest time of enforcing contracts in the world—150 days. The cost as a percentage of the claim of enforcing a contract averages 25%. Company winding-up proceedings, bankruptcy, and application for advocates and solicitors are all heard exclusively by the high court. Recently, commercial civil courts have been set up to deal with specialized business matters. Alternative dispute resolution (ADR) has become a common approach in many cases, especially international commercial ones. Singapore strictly enforces intellectual property protection in accordance with international laws. A special department in the police was created to oversee prosecution of offenders.

Singapore ranks number one in the world for ease of doing business, according to the World Bank's Doing Business 2010 report. The overall freedom to conduct a business is well protected under Singapore's
regulatory environment. Starting a business takes only 3 days, compared to the world average of 35 days. Obtaining a business license takes much less than the world average of 18 procedures and 218 days. Bankruptcy is straightforward. Singapore also ranks fourth in the world for ease of starting a business. In 2009, Singapore introduced reforms to make it easier to start a business, get construction permits, and register property. It also improved online procedures used to start a business. It takes an average of 3 days to start a business in Singapore. The country ranks second in the world for ease of obtaining construction permits. In 2009, it introduced risk-based construction approvals. It ranks third in the world behind only Australia and the United States for ease of employing workers. It ranks ninth in the world for ease of obtaining credit; the United States ranks 10th. Singapore is also one of the easiest countries to export from in the world with very low per container shipping costs.

**Sociocultural Environment**

Singapore is considered a multicultural and cosmopolitan country although the dominant culture is Chinese (76%). It does not profess to be a melting pot and instead thrives on diversity as an inherent reality of the community with four ethnicities contributing: Chinese, Malay, Indians, Europeans, and other regional cultures termed as “others.” Hence, Singapore does not have a single identity but can be considered a multiracial society, which draws on various ethnicities and the specific values they bring. In addition, uniquely Singaporean traits and habits have emerged to create what may be loosely termed a Singaporean culture, which includes strong materialism, *kiasuism* (desire to never want to lose or to try to get the best out of each situation), being highly competitive, resorting to individualism at times, and a willingness to accept and comply with a rather heavy-handed, autocratic government.

Geographically, the country is an island, which is mostly flat with a hilly region in the center and mangrove swamps to the north and west. The population lives in densely constructed housing estates called “satellite” towns, each having its own centralized commercial and shopping facilities. In addition, there are industrial estates scattered around the island with the largest being in Jurong in the western third of the island. The architecture is modern and highly functional. The central business
The island has been modernized and much of the village life of the past has been dismantled. The traditional ethnic concentrations exist today as tourist attractions and retain their distinct ambience: Chinatown (New Bridge Road), Little India (Serangoon Road), and the Arab Enclave (Jalan Besar and Arab Street). In the new Singapore, the population has been relocated into the housing estates and now, minority Malays and Indians live side by side with the Chinese majority.

The four official languages are Mandarin, Malay, Tamil, and English. The commonly used “Market Malay” has been replaced with English as the bonding medium and is learned by all in school. Each student is also required to be proficient in his mother tongue. Mandarin was selected to replace the various Chinese dialects (actually regional languages) such as Hokkien, Teochew, Cantonese, Hakka, and Hainanese. The Indian community mainly speaks Tamil but has smaller groups of Punjabi, Sindhi, Gujarati, Bengali, Malayalam, Telugu, and Kannada speakers. Singaporean Malays mostly speak the Malaysian type of Bahasa (literally language) and less of the Indonesian type. A uniquely special blend of Singapore English (Singlish) has emerged and has its roots in the colloquial use of the language by various ethnic groups. Sentences end with distinct exclamations such as la, ah, ley, and what. Grammar is replaced with short curt sentences that are more Chinese-type phrases. Examples are “you coming or not?” and “I cannot come, la.” The government has made serious efforts to encourage the speaking of “proper” English in order to sustain global competitiveness. Religious tolerance is the mainstay of Singapore society and essential to the country’s stability. The constitution provides for religious freedom and the main faiths of Buddhism, Taoism, Islam, Christianity, and Hinduism and their places of worship—temples, mosques, and churches—often exist side by side. The major religious festivals are national holidays: Chinese Lunar New Year (Chinese traditional), Vesakh Day (Buddhist), Hari Raya Puasa and Hari Raya Haji (Muslim, Malay), Thaipusam (Hindu, Tamil), Deepavali (Hindu), Christmas (Christian), and New Years Day (all). Emphasis is placed on communal and racial harmony, and strong legal measures have been placed to ensure this.

Singaporean society is differentiated both by ethnicity and wealth. All ethnic groups have succeeded in upward social mobility but the Malays
remain less privileged and a cause of national concern, given the fact that brethren neighbors Malaysia and Indonesia are sensitive to this. The Singapore government has laid down five basic “shared values” to develop a distinct Singapore identity: nation before community and society above self, family as the basic unit of society, community support and respect for the individual, consensus not conflict, and racial and religious harmony. Singapore is also known for its strict law enforcement procedures for combating crime and other offences. While popular opinion holds that the country is extremely rigid and rule-bound—with heavy fines and caning as punishments—the legal framework has contributed to Singapore’s stability and security. Expatriates continue to cite safety as one of the most attractive features of living in Singapore. Women can move about freely even late at night without the fear of being harassed. Singapore’s overall crime rate for the year 2007 was 709 cases per 100,000, the third lowest in 10 years. According to a survey by Mercer Human Resource Consulting (2008), Singapore tops the Asia-Pacific list of cities for personal safety.

Singapore is also a high-tech society and most people are gadget savvy. For example, 8 in 10 people in Singapore own cell phones. Dining and shopping are the two most popular activities in Singapore.

Business Culture and Intricacies

Singapore’s business approach is an amalgamation of modern Western practices coupled with traditional Eastern values. Time is kept and punctuality valued, so meetings begin and end on time. It has been said that Singaporeans are always rushing and is a hurried nation. Singapore businesses operate with hours similar to those in the West; usually a business will be open at 9 a.m. to 5 p.m., Monday through Friday. Occasionally firms will be open Saturday mornings. Singaporeans are motivated and competitive. English is the official language of business and government but Mandarin, Malay, and Tamil are also official languages. Being a multicultural society, greetings will depend on the ethnicity of the individual. Handshakes are the most common form but variations do exist. For the Singaporean Chinese, a slight bow is the traditional greeting although this is not expected of foreigners. A not-too-firm handshake is acceptable. Chinese are not uncomfortable shaking hands with women. The Singaporean Malays are more conservative and sensitive to physical contact.
between the sexes. Men usually shake hands and then place their right hand on their heart as an indication of their sincerity. The women do the same with the same gender and at times with men as well, but the touch would be short and rather cursory. It is best to wait and see if the female hand is extended first. The Singaporean Indians will also shake hands but traditional women may fold their hands with palms brought together and with a slight bow. Once again, it is best to wait and see if a hand is extended to you. Business cards are considered very important and one should inspect them thoroughly before putting them away. Giving gifts is not considered normally acceptable because they may be seen as a bribe even if the act is innocent. However, exchanging gifts at special occasions is valued as a sign of closeness of family and partnership.

Addressing people in Singapore depends on the cultural group they are from. Chinese usually have two or three-part names with the family or surname coming first. The last will be their given (or in the West “first”) names. For example Tan Eng Piow would be Mr. Tan and Eng Piow to friends. Married woman are referred as Madam Goh, or if they are using the husband’s name, they would be called Mrs. Tan. Malays on the other hand do not have surnames or family names. Their given name comes first followed by bin (for males) and binte (for females), which translates to son or daughter of; and this is followed by the father’s name. Hence a typical name would be Ali bin Baksh (Ali, son of Baksh) or Aisha binte Ibrahim (Aisha, daughter of Ibrahim). In business and in private, the individual will be referred to by the first name—so Mr. Ali or Miss. Aisha or simply Ali and Aisha. Singaporean Tamils too have only single names (given) and followed by the father’s name but when written the initial of the father’s name serves as a prefix. So V. Sivakumar would be referred to as Dr. Kumar and the full name on record would be Sivakumar s/o Venkataramany. Females would have names written as Sakuntala d/o Ramamoorthy and would be called Miss Sakuntala or Mrs. Sivakumar.

Status is very important in Singapore culture. The most senior and elderly person is always greeted first in all cases. Older people are treated with respect and individuals of authority and social superiority are treated with much formality, irrespective of ethnicity. The first meeting is usually a meet-and-greet occasion; one should not expect to discuss business. Regular business clothing is usually worn and it is mostly lightweight and less formal due to the hot and humid climate. Business suits are worn for
formal occasions. Women are expected to be a little conservative in their dress, especially at formal events. Women hold many roles in Singapore business and also senior positions in management and government. As in other ASEAN countries, relationships are valued in business by all ethnic groups. Because there is such diversity in Singapore it is important to know the background of the person you are doing business with and adjusting accordingly. Singaporeans want to make sure they are doing business with the right people. It is a good idea to show you are capable of working with them and are competent to get the job done. They do not like losing face. They will control their behavior and actions and modify their communication style in order to avoid embarrassment. In business, losing face is an important concept to understand as it reflects a person’s reputation and social standing; so causing Singaporeans to lose composure, even unintentionally, can be damaging for business. In spite of becoming a modern international country, Singapore remains a high context society. “Yes” does not always mean that the person is in agreement. It can just as easily mean “no” or “maybe” because Singaporeans want to avoid conflict. Do not make long periods of eye contact with Singaporeans, as it is considered rude.

Singaporeans—especially the Chinese—are very flexible and adaptable to changes faster than their counterparts in other ASEAN countries. They may not display much emotions and tend to be composed and in control of themselves in a business situation but can be very relaxed and informal at social gatherings. They tend to avoid confrontation. The preferred approach is to be indirect in communications. It is best to be polite and professional at meetings and discussions. One should not be too direct in asking questions but approach sensitive issues with caution. A calm and gentle approach will pay good dividends. Managers in Singapore will often think with the group in mind. However, they will also be very assertive if need be. They like to be treated with respect by their subordinates. They often show interest in an employee’s personal life and will aid him in bad times if necessary. Singaporeans are also aggressive bargainers. Negotiations will take a considerable time and it is important not to rush them as it is considered a bad business practice. Showing impatience in negotiating is considered a sign of weakness.22
Web Resources

Country and History

Ministry of Defense Singapore
http://www.mindef.gov.sg

Singapore Government Portal
http://www.gov.sg

Singapore Ministry of Information, Communications and the Arts

Singapore Official Statistics
http://www.singstat.gov.sg

Singapore Prime Minister Office
http://www.pmo.gov.sg

People, Culture, and Health

National Library of Singapore
http://infopedia.nl.sg

Singapore Ministry of Health
http://www.moh.gov.sg

Singapore Tourist Promotion Board
https://app.stb.gov.sg

Government, Infrastructure, and Technology

Information Technology of Singapore
http://www.sedb.com/edb/sg

National Library of Singapore
http://infopedia.nl.sg
Singapore Prime Minister’s Office
http://www.pmo.gov.sg

**Economy and Education**

Economic Development Board of Singapore
http://www.edb.gov.sg/edb/sg

Monetary Authority of Singapore
http://www.mas.gov.sg

Singapore Ministry of Information, Communications and the Arts

Singapore Official Statistics
http://www.singstat.gov.sg

**Business Environment and Trade Practices**

Economic Development Board of Singapore
http://www.edb.gov.sg/edb/sg

Ministry of Law Singapore
http://app2.mlaw.gov.sg

Singapore Accounting and Corporate Regulatory Authority
http://www.acra.gov.sg

Singapore EnterpriseOne
http://www.business.gov.sg

Singapore Official Statistics
http://www.singstat.gov.sg
Local Media

AsiaOne
http://www.asiaone.com

Business Times
http://www.businesstimes.com.sg

The Straits Times
http://www.straitstimes.com

Channel NewsAsia
http://www.channelnewsasia.com
CHAPTER 10

Thailand

Country at a Glance

<table>
<thead>
<tr>
<th>Size</th>
<th>513,120 sq km (slightly larger than Spain)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate</td>
<td>Tropical, rainy, and warm; seasonal monsoons</td>
</tr>
<tr>
<td>Capital</td>
<td>Bangkok</td>
</tr>
<tr>
<td>Political structure</td>
<td>Constitutional monarchy</td>
</tr>
<tr>
<td>Leader</td>
<td>Prime Minister Abhisit Wetchachiwa</td>
</tr>
<tr>
<td>Official languages</td>
<td>Thai, English</td>
</tr>
<tr>
<td>Other languages spoken</td>
<td>Chinese, Malay, Mon-khmer, Lao</td>
</tr>
<tr>
<td>Population</td>
<td>65,998,436 (July 2010 est.)</td>
</tr>
<tr>
<td>Age breakdown</td>
<td>0–14 (20.8%), 15–64 (70.5%), 65+ (8.7%)</td>
</tr>
<tr>
<td>Major religion</td>
<td>Buddhism (95%)</td>
</tr>
<tr>
<td>Other religions</td>
<td>Islam, Christianity, Hinduism, Sikhism</td>
</tr>
<tr>
<td>Major industries</td>
<td>Tourism, textiles, agricultural processing, beverages</td>
</tr>
<tr>
<td>GDP</td>
<td>$540.1 billion (2009 est.)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>$8,200</td>
</tr>
</tbody>
</table>

General Background

Thailand is the only Southeast Asian country and Association of Southeast Asian Nations (ASEAN) member to have never been colonized by a European power, and is today one of the most important trading nations within ASEAN. Its economy is the second largest, highly diversified with strong export industries. It is the fourth-richest nation in ASEAN according to its gross domestic product (GDP) per capita after Singapore, Brunei, and Malaysia. It is the third-largest country in ASEAN and about the size of California, but with a population of around 66 million; it is one of the most densely populated countries in the world. Thailand has a well-developed infrastructure, a free-enterprise economy, and is friendly to enterprise and investment. It is the largest rice exporter in the world, the second-largest producer of tapioca, and a leading producer of gemstones, notably sapphires. It also has a strong manufacturing sector and is a major tourist destination.

The Thai people migrated from southern China around the 6th century and belong to the Tai tribes, but early civilization existed there as far back as the Stone Age period. Bronze Age settlements from 2000 BC have also been discovered but early records are of the Ban Chiang people who lived in the northeast from 5 BC to AD 3, followed by the Mons who lived in Central Thailand in the 9th century and who brought Buddhism from India. They were overrun by the Khmers from the east in the 11th century and by the 13th century, Khmer power waned and small Thai kingdoms sprang up. The first Thai kingdom was the Sukhothai, established in 1238 in the Central Plains, from which sprang an independent Thai culture. At around the same time another equally important Thai kingdom, Lanna, arose in Chiang Mai to the north. Both were overshadowed however by the Ayutthaya kingdom, which remained dominant for 417 years and became a great commercial and religious center. It rivaled the Hindu kingdom of Angkor in neighboring Cambodia with its Theravada Buddhism. Trade with China, India, Persia, and Arabia flourished and soon European traders were drawn to it. The first to arrive were the Portuguese in 1511, followed by the Dutch, French, and British.

Ayutthaya fought numerous wars mainly against the Burmese. In 1767, it fell to Burmese forces and was destroyed. The remaining forces under General Chakri fought a 15-year war with the Burmese, Vietnamese, and Lao. He was finally crowned as King Rama I and was the founder of the
current Chakri dynasty. The capital was moved from Thonburi to Bangkok and the present-day Kingdom of Siam was born. Although successor kings were wary of western powers, King Rama IV (King Mongkut, 1851–1868) and King Rama V (King Chulalongkorn, 1868–1910) adopted many Western ideas and reformed Siam’s political system. They resisted European domination through the 19th century by playing one European power against another. In 1932, a bloodless coup ended absolute monarchy in Siam. King Rama VII (King Prajadhipok) abdicated the throne to his 10-year-old nephew. The revolution by military and government officials was born out of dissatisfaction with the economic and political systems that a national assembly and constitutional monarchy were established. In 1939, the country was renamed Thailand and military rule was interspersed with some form of democracy. During the Second World War, Thailand was pressured to support Japan and grant free passage to Japanese forces for the invasion of Malaya and Singapore.

Since then Thailand has experienced over 20 coups and counter-coups, which were interspersed with short-lived attempts at creating a democratic state. Unrest and instability prevailed. As the 20th century progressed, democracy became increasingly popular in Thailand and small steps were taken to set up civilian democratic institutions. This culminated in the election of 1988 when Chatichai Choonhaven became the first democratically elected prime minister in over a decade. In 1991, another peaceful coup ended his reign but this was followed by bloody demonstrations in 1992 and civilian rule was restored. In 1997, the Thai baht collapsed, dealing a severe blow to the economy as the Asian financial crisis erupted. Recovery came through an International Monetary Fund (IMF) rescue package. In 2001, the populist Thaksin Shinawatra came to power. His reform policies were met with accusations of authoritarianism and corruption. But in 2005 he was reelected with an even greater majority. The opposition mounted mass demonstrations demanding his resignation. In February 2006, Thaksin dissolved parliament and called snap elections in April. The elections were boycotted by the opposition and annulled by the judiciary. The military took over in nonviolent coup in September 2006, suspending parliament and repealing the 1997 Constitution. A caretaker government was appointed and multiparty elections were held in 2007. A new constitution was also approved that year. The pro-Thaksin party won again and Samak Sundaravej became
the prime minister. However, he too was forced out of office by the Constitutional Court and was replaced by Somchai Wongsawat, Thaksin’s brother-in-law. Finally, in December 2008, the leader of the Democratic Party Abhisit Wetchachiwa became prime minister. Thailand has been gripped by political unrest with pro-Thaksin “red shirts” and progovernment “yellow shirts” participating in mass demonstrations and violence.

**Business Environment:**

**Political, Economic, and Legal Systems**

**Political System**

Thailand has been a constitutional monarchy since 1932. The king is the head of state but has no legislative powers and plays only a ceremonial role. Thais consider him as a divine being and accord him tremendous respect. His opinion carries tremendous weight and though he refrains from participating in politics and government, he has interceded in national affairs as a moderator. The present monarch, King Bhumibol Adulyadej (Rama IX), is the world’s longest serving head of state (since 1946). The prime minister is the head of government and is elected for a 4-year term (limited to two terms). In accordance with the 2007 Constitution, he is the leader of the party most able to organize a majority coalition in parliament. The legislature is bicameral. The senate’s (wuthisapha) 150 members: 76 are elected by the provinces and 74 are appointed by judges and independent government bodies; senate members serve a 6-year term. The House of Representatives (Sapha Phuthaen Ratsadon) has 480 seats out of which 400 are elected from 157 multiseat constituencies and 80 are elected on proportional party-list basis and serve a 4-year term. The judiciary consists of the Constitutional Court, the Supreme Court of Justice, and Supreme Administrative Court. All judges are appointed by the king and appointments to the constitutional court are made upon the advice of the senate. The nine constitutional court judges are all drawn from the supreme court of justice and the supreme administrative court, as well as from among experts in law and the social sciences outside the judiciary.

Thailand’s political arena has a variety of players: the monarchy, the military, and the numerous political parties. The communists are banned in Thailand. The government has been headed by six different people in
the past 3 years and there is an ongoing conflict between the royalists, the military, and the urban and rural populations. All these players have been jockeying for power and as a result political volatility remains. The ruling Democrat Party seems to enjoy the support of the military, the judiciary, and the royal family while the opposition Pheu Thai Party (PTP), unofficially led by Thaksin, now in exile, has the support of the rural masses. The main divide is the widespread belief among the masses that the government primarily serves Thailand’s wealthy elite and its allies, including the powerful military. This issue has erupted in a series of protests and counterprotests by supporters of both sides (yellow shirts and red shirts) and at times these have turned violent leading to loss of life, damage to property, and closure of parts of Bangkok and even its airport. There is also an ongoing insurgency in the southern part of the country where the Muslim minority has felt neglected and has separatist aspirations. The government has been trying to resolve this often violent conflict through peace initiatives and reconciliation and is considering establishing a self-administered zone in the three provinces of Pattani, Yala, and Narathiwat.2

Economic System

The economy of Thailand is the second largest in ASEAN, after Indonesia. It is also the fourth richest nation according to GDP per capita, after Singapore, Brunei, and Malaysia. It is considered a middle-income ASEAN economy in line with Malaysia. Thailand is a major trading nation and has a well-developed infrastructure. Most importantly, it is a free market economy, which encourages private enterprise, and is generally open to foreign investment. Historically, rice growing has been the bedrock of Thailand’s economy. As Thailand continues its industrialization and modernization efforts, it has become less dependent on agriculture, and export of goods and services has increased multifold. Agriculture now accounts for only 12% of GDP while industry and services account for 44% each. Exports today account for more than half of Thailand’s GDP but this sector employs only 20% of the workforce; 42% are employed in agriculture; and 38% in the services sectors.

The contribution of Thailand’s agricultural sector declined steadily from the 1970s due to the rapid growth of the manufacturing and services sectors. This was a deliberate move initiated by the government during a
period of political stability. Agriculture still accounts for four of the country's top exports: rice, canned fish, frozen tiger prawns (shrimp), and rubber and continues to serve as the foundation of booming manufacturing ventures such as food processing. Major agriculture products are rice, cassava (tapioca), rubber, corn, sugarcane, coconuts, soybeans, fruits, and vegetables. The country also exports logs and sawn timber and has allocated 15% of its forests for timber production. Thailand has a large mining sector and the main minerals are fluorite, gypsum, lead, lignite, natural gas, tantalum, tin, and tungsten. Thailand is the world's second largest exporter of gypsum after Canada. Tin production has declined and it is today a net importer of tin. The fisheries sector is productive and promising. It is the third largest marine fishing nation in Asia after Japan and China.

The government has encouraged trade liberalization by lowering tariffs and reducing cost of importing capital goods. It has also promoted private sector investment and industrial development. Seven government agencies were assigned to supervise the industrial sector. Manufacturing grew at an average rate of 12% annually in the 1960s and 10% in the 1970s. The economy experienced strong growth through the 1980s and 1990s, due in part to the fact that Thailand has a low rate of educational obtainment, so many companies that needed low-cost unskilled labor invested in Thailand. Incentives were also provided for foreign direct investment (FDI). Thailand is today becoming a center of automobile manufacturing for the ASEAN market. Among the ASEAN nations, Thailand is the largest producer of petrochemicals as well as cement and textiles. Textiles and garments remain its largest industry and second-largest source of exports after electronics. Since 1985, electronics has been Thailand's leading manufacturing export sector. Other industries are agricultural processing, light manufacturing (such as jewelry and appliances), computers and parts, integrated circuits, furniture, plastics, and beverages.

Tourism is the mainstay of the services sector and Thailand has become a world-class tourist destination. It contributes about 6% of the GDP, which is the highest among ASEAN nations, and employs 38% of the labor force. Tourist arrivals grew from 389,000 in 1967 to over 14 million in 2007, making it the 18th most-visited country in the World Tourism rankings. Tourist arrivals from Asia and the ASEAN region as well as domestic tourism have been growing. Medical tourism is increasing by about 2 million a year. Thailand has been ranked as the second “Best Value Destination” by
Another major part of the service sector is banking services, which has experienced severe upheaval because of political unrest. A master plan was introduced to help consolidate and regulate the industry.

The Thai economy suffered a severe blow during the Asian financial crisis in 1997. Prior to that, the country enjoyed growth averaging 9%, which was led by manufacturing. Success was also due to the abundant and inexpensive labor and natural resources, fiscal conservatism, open foreign investment policies, and encouragement of the private sector. After the crisis, Thailand received substantial loans from the IMF and has since recovered substantially. To help jump-start the economy in 2001, Thailand created several megaprojects valued at up to $50 billion in total to improve infrastructure and recover jobs. The emergence of China, Vietnam, and India as countries of low-cost labor has slowed Thailand’s recent economic growth. The future of Thailand’s economy seems to be heading toward a postindustrial economy based on skilled labor and services. However, this hinges on Thailand’s ability to improve its education system. In recent years (2002–2007), Thailand has averaged a 5% growth in its economy each year. In 2009, the economy contracted by –2.2% but in 2010, a slight expansion of around 3% is expected. The Thai currency has appreciated against the U.S. dollar, hurting exports. It is a cause

![Figure 10.1. GDP by sector in Thailand.](source)
A. Imports

B. Exports

Figure 10.2. Major trading partners of Thailand.

for concern. The country’s investment environment has been adversely affected by the political uncertainty as has the tourism trade.

**Legal System**

The legal system in Thailand is the civil law system, with heavy influences from British, Japanese, French, and German laws. The 1997 Constitution provides for an independent judiciary and the guarantee of basic civil liberties. There are four major courts: The Constitutional Court, the Court of Justice, the Administration Court, and the Military Court. The constitution provides for the establishment of a constitutional tribunal to adjudicate disputes among the courts. The court system in Thailand is divided into three levels: the Court of First Instance, the Court of Appeal and the Supreme Court. The supreme court (Sandika) is the highest court and its decisions are final. The only decisions that may be appealed are criminal decisions, where the defendant may appeal for clemency from the king. The courts of first instance are scattered throughout the country. In the provinces, they are divided into provincial, juvenile, and district courts. They include the general courts, the juvenile and family courts, and specialized courts for labor, tax, intellectual property, international trade, and bankruptcy. Military courts deal primarily with military justice but have broader jurisdiction when martial law is in force. There is no appeal of decisions by military courts. Judges in Thailand are appointed (and removed) by the king. All appointments are subject to initial approval by a judicial commission. There is no trial by jury in Thailand. The doctrine of strict compliance with judicial precedent does not apply as the laws are based on codes. Islamic courts hear civil cases concerning members of the Muslim minority.6

Thailand ranks 55th in the world for ease in starting a business; only seven procedures are necessary to start one. It takes an average of 32 days to begin a business, and the cost as a percentage of income is low at 6%. Enforcing contracts is easy to do in Thailand. The average claim takes roughly 15 months to process; legal fees as a percentage of the claim are low at 12%. Thailand is one of the easiest countries in the world to obtain construction permits. It is easy to hire and fire workers. Getting credit is not difficult. However, legal protection in Thailand is below average when compared to the rest of the world.7
Sociocultural Environment

Thailand literally means “the land of the free” (prathet thai). It is not a homogenous nation per se but is fast becoming due to assimilation and the evolution of a national identity. The Thai majority (75%) consists of the Central Thais (along the Chao Phraya Delta), the Northeastern Thai-Lao (near the Lao border), the Northern Thai, and the various Thai-speaking minorities such as the Shan, the Phuan, and the Yaw peoples. Thai Chinese (14%) are an important minority as they play a dominant role in the economy. They have integrated harmoniously into Thai society, much more than the Chinese have in other ASEAN countries. The Chinese too are divided into subgroups such as Hokkien, Teochew, Hakka, Cantonese, and Hainanese. The remaining 11% are Thai Malays (3.5%), who are Muslims and live in the south near the Malaysian border; the non-Thai speaking communities (5%) such as the Semang, the Htin, the Khamu, and the Moken (sea gypsies) as well as the hundreds of thousands of refugees from Vietnam, Cambodia, and Myanmar that Thailand has accommodated for many years; and the remaining 3% are the hill tribes in the North and include the Hmong, the Akha, the Karen, the Lisu, the Lahu, and the Yao.

Thai cultural identity is based on the Buddhist religion, which has been their way of life for 800 years, and the Monarchy, which has been part of Thai society for 700 years. The Thais are also proud of their nation, which has never been colonized. They revere their king. He is a national symbol of unity and identity. Thailand is the largest Buddhist nation in the world and it is the state religion. Over 95% of the people practice Theravada Buddhism. Thai culture is closely associated with Buddhist teachings of tolerance, compassion, and rightful living. Buddhism is expressed in every aspect of a Thai’s daily life. Every male is expected to participate in monkhood at some stage in life and many do it more than once. The period in the cloth is left to the individual and can range from a few days to years. Some do become ordained monks. Life in Thai communities revolves around Buddhist temples and monks. All religious celebrations are national holidays and include the Songkran (the Thai Lunar New Year) in April, when images of the Buddha are cleansed and monks are offered special alms; Vaisakh in May, which is when the Buddha was born, attained enlightenment, and reached nirvana; and
Megha in February, which celebrates the Buddha’s preaching to monks and involves a candlelit procession in temples. Thai Buddhism has been strongly influenced by traditional beliefs and customs, which involve ancestor and spirit worship. Hinduism and Confucianism have also influenced Thai religious practices. Islam is practiced by the Malay minority in the south who are mainly Sunnis. There are also Christians (less than 1%), Hindus, and Sikhs who are mostly in the cities.

The main language of Thailand is Thai, which originates from the Tai tribe of Yunnan in southern China and belongs to the Sino-Tibetan family. It is one of the oldest languages in Southeast Asia. The language includes many words from Sanskrit and Pali, the classical languages of Hinduism and Buddhism. It is the official language and is spoken by almost all the people in Thailand, though there are several regional dialects and variations. English is considered as the second language in Thailand and is taught in universities and public schools and generally understood and spoken in and around Bangkok. Other minor languages are Chinese, Malay, Mon-Khmer, Lao, and different regional dialects like Phuan, Lua, and Shan.

The family is important in Thai culture and Thailand is among the first countries in the world to designate a family day. Often large extended families will live together in the same house and the eldest male is the head of the household. Thais have high respect for parents and the elderly, and children are taught from childhood to follow the advice of their elders. Family ties and filial piety play an important role. By and large, Thais live up to the description of their country as the “land of smiles” as they are easygoing and have a unique approach to life. Their culture promotes living in the moment and enjoying life to the fullest. The Thai word for fun is sanuk and their approach is to make whatever they do to have some element of sanuk in it. Another concept unique to Thai culture is mai pen rai (it’s nothing really), which allows them to remain happy with a smile even when faced with adversity or when things go wrong. This makes them optimistic when dealing with unforeseen situations. Thais also value friendship. They distinguish between acquaintances and real friends who will stand by them in difficult times. To perpetuate friendship, Thais use kinship terms such as uncle, older brother, and younger sister (depending on age) to address friends, as if they were blood siblings. Making people feel welcome is important to
Business Culture and Intricacies

Thai business culture is also based on the Buddhist principles of peace and nonconfrontation. Working hours in Thailand are typical of most ASEAN nations: 9 a.m. to 5 p.m. with an hour for lunch, usually from 12 p.m. to 1 p.m. Some offices work from 9 a.m. to 6 p.m. Most Thais take part of April or early May off to return to their family homes in the provinces for the New Year holidays. They are not overly concerned with being punctual for meetings. Due to the congestion of traffic in Bangkok, people are late most of the time anyway and many do not mind waiting. Estimations of time can at times be vague and inaccurate. Appointments should be made in advance. A list of those attending is a good document to send before the meeting, along with a proposed agenda, and information regarding the company. The first meeting will always be for relationship building. Small talk is often made both before and after a meeting.

Thais greet each other in a unique and traditional way called the *wai*. This involves putting the palms together in a prayer-like way (with the fingers pointing to the sky), giving a slight bow, and saying "sawadee," which means "well-being." The wai is used both on arrival and departure. Younger Thai people will often do this first when meeting an elder. It is best to respond to a *wai* with the same gesture and as a replacement to the handshake. One does not respond to a *wai* from a service person or a child. A *wai* to an elder or a superior goes a long way and will be appreciated. The *wai* may be made while sitting, standing, or walking. As English is the second language, most meetings will be in English; otherwise, an interpreter may be needed. Most Thais (except those educated in the West) are very uncomfortable speaking English. Thai is a tonal language with five different tones. Thai pronunciation will require getting used to as they are unable to pronounce some letters such as “l” which comes out as an “n.” So “central” may be heard as “centurn.” Some concentration while listening is advisable. One needs to take into consideration the fact that some English words and phrases are difficult for Thais to understand. Speaking slowly will help.

Thais have both a given and a surname or family name but all Thais have a nickname, and one is permitted or invited and even encouraged to
use it once some familiarity has been established. A typical name would be Kittipong Laosethakul, whose nickname is Nock. *Khun* is the prefix used in place of Mr. or Ms., hence he would be addressed as Khun Kittipong (use given name) or his title Professor Kittipong or Dr. Kittipong. The colleague may also be referred to as Khun Nock, Professor Nock or Dr. Nock. Similarly, expect Thais to call you by your given name with a prefix, such as Khun David or Dr. David. Royal titles are applied as prefixes. As in other ASEAN countries, business cards are important. Give and receive the card with your right hand and to the most senior person in the room first. Be polite when receiving a business card and acknowledge some aspect of it. In Thailand, too, gifts are not opened when given.

It is not in the Thai nature to show emotions overtly for fear that it may cause a loss of face. It is not advisable to give sharp objects like knives and scissors as these symbolize a “cutting” of the friendship. A small gift from your country will be much appreciated as it indicates thoughtfulness on your part. Gold and yellow colors should be avoided as they signify royalty. Marigold and carnations are associated with funerals. Sharing is an important element of Thai and Buddhist culture, so be prepared to be invited to partake in all activities including snacks, meals, and outings.

Shoes are removed before entering homes and even in some guest houses, shops, or offices. The feet are considered the lowest part of the body, thus less sacred. One does not step over people’s legs. Pointing things or lifting them with the feet is not polite. Do not touch others with your feet or step over food when people sit to eat on the floor. Touching someone’s head is not acceptable as it is considered sacred and the highest part of the body, literally and figuratively. Patting a child on the head is thought to be dangerous to the well-being of the child. One does not touch spirit houses, altars, and religious symbols. Ladies must never touch a Buddhist monk or hand things directly to him. Buddha images are revered and should not be used as ornaments, furniture, or for commercial promotion. Never pass in front of someone kneeling in prayer. Pointing is considered rude and it is best to use the whole hand to gesture the direction that the object requiring attention is. Staring at someone is considered offensive in Thai and especially Chinese society. Public displays of affection are still not acceptable though this may be changing among the younger generation.

Thais are personal in their approach to life and expect them to be so in business. So a personal relationship built on trust and respect will
achieve wonders. They often ask personal questions, but only because they want to know you better. Social invitations should never be turned down, especially prior to meetings. This is a good way of getting to know who your partner is. Invitations can be to play golf, eat dinner, or go to the theater. Eating is a major activity in Thailand and the cuisine is very different from Western food. Dress is always conservative. As in other ASEAN countries, Thailand is a high-context society. Messages are often communicated indirectly and watching a person's face for subtle hints is important in dealings. Thais do not like being shamed or losing face and do not want to cause others to lose face either. Hence, criticism is indirect. They are generally soft and gentle people and polite both in social and professional environments. However, they do not like impolite and confrontational behaviors.

Social rank is defined by age, wealth, and personal and political power. One's status can be *phu yai* (big people) or *phu noi* (small people) and when meeting someone new, a quick assessment is usually made to ascertain the status of the other person. A set of questions may be asked to confirm the status and the lesser status individual will be expected to defer to the higher. Thai people place emphasis on seniority. Elders are referred to as *Pee* meaning older brother or sister. The younger are referred to as *Nong* meaning younger brother or sister. In business organizations, respect for elders is still important and their advice is often expected to be obeyed. Like other ASEAN cultures, hierarchy is important to Thai culture. What a person does for a living often reflects their place in the social hierarchy.

Thais are respectful and courteous in the workplace. They are also nonconfrontational. Public anger is thought to upset the spirits and should be avoided at all costs. They often consult together in groups because they do not like making decisions alone. Meetings proceed slowly and many of the first meetings will be used to get to know each other. Patience is called for to create a comfort zone for all involved. Do not become angry or show disappointment. This could cause the business relationship to fail. Open criticism of the King and his family is illegal. In fact, Thais will not tolerate even mild comments about them.10
Web Resources

Country and History

National Statistics Office of Thailand
http://web.nso.go.th

Tourism Authority of Thailand
http://thai.tourismthailand.org

People, Culture, and Health

Thailand Ministry of Public Health
http://eng.moph.go.th

Tourism Authority of Thailand
http://thai.tourismthailand.org

Government, Infrastructure, and Technology

Thailand Ministry of Transport
http://vigportal.mot.go.th

Thailand National Assembly

Economy and Education

National Statistics Office of Thailand
http://web.nso.go.th

Thailand Ministry of Agriculture and Cooperatives
http://www.moac.go.th

Thailand Ministry of Education
http://www.moe.go.th/English
Thailand Ministry of Finance
http://www2.mof.go.th

Thailand Office of the National Economic and Social Development Board
http://www.nesdb.go.th

Business Environment and Trade Practices
National Statistics Office of Thailand
http://web.nso.go.th

Thailand Board of Investment
http://www.boi.go.th

Thailand Office of the National Economic and Social Development Board
http://www.nesdb.go.th

Local Media
Bangkok Post
http://www.bangkokpost.com

Business Day
http://www.bday.net

Mass Communications Organization of Thailand
http://www.mcot.net/EnglishNews

The Nation
http://www.nationmultimedia.com
CHAPTER 11
Vietnam

Country at a Glance

<table>
<thead>
<tr>
<th>Size</th>
<th>331,210 sq km (slightly larger than New Mexico)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate</td>
<td>Tropical and monsoon in south; dry season in north</td>
</tr>
<tr>
<td>Capital</td>
<td>Hanoi</td>
</tr>
<tr>
<td>Political structure</td>
<td>Communist state</td>
</tr>
<tr>
<td>Leader</td>
<td>President Nguyen Minh Triet</td>
</tr>
<tr>
<td>Official language</td>
<td>Vietnamese</td>
</tr>
<tr>
<td>Other languages spoken</td>
<td>English, Chinese, French, Khmer, Mon-Khmer, Malayo-Polynesian</td>
</tr>
<tr>
<td>Population</td>
<td>88,576,758 (July 2010 est.)</td>
</tr>
<tr>
<td>Age breakdown</td>
<td>0–14 (26.1%), 15–64 (68.3%), 65+ (5.6%)</td>
</tr>
<tr>
<td>Major religion</td>
<td>None (80%)</td>
</tr>
<tr>
<td>Other religions</td>
<td>Buddhism (9.3%), Catholicism (6.7%)</td>
</tr>
<tr>
<td>Major industries</td>
<td>Food processing, garments, shoes, machine building, mining</td>
</tr>
<tr>
<td>GDP</td>
<td>$256.9 billion (2009 est.)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>$2,900</td>
</tr>
</tbody>
</table>

General Background

Vietnam is the third largest nation in the Association of Southeast Asian Nations (ASEAN) grouping, after Indonesia and the Philippines. With a population of around 88.6 million, it is the thirteenth most populous country in the world. It is one of ASEAN’s fastest growing economies and is on track to become a developed nation by 2020. ¹ Though it is officially a communist state, it introduced reforms in the 1980s to allow free enterprise as China had done earlier. After recovering from the ravages of war, it has transformed into a global economic force and is among the fastest growing economies in the world. Located on the easternmost part of the Indochina peninsula, Vietnam is equivalent in size to Ohio, Kentucky, and Tennessee combined or slightly larger than Italy. The country is rich in resources such as offshore oil and gas, timber, hydropower, marine resources such as seafood, coal, various minerals, and agricultural produce such as coffee, tea, and rubber. It is receptive to foreign investment and has an extremely hardworking and motivated workforce. It became a member of the World Trade Organization (WTO) in 2006 and is well integrated into the global economy.

Conflict, both internal and external, has shaped Vietnam’s history. The origins of the Vietnamese people can be traced back around the 2000 BC to the 5th century BC to Austronesia tribal groups who migrated to the Red River Delta from the Indonesian archipelago. They mingled with Mongols from China and the first Viet kingdom of Au Lac flourished. In 42 BC China’s Han dynasty overran and designated Vietnam as its southernmost province, Nam Viet, and ruled over it for a thousand years until AD 939 when the Vietnamese finally realized their own dynasties. The Nam Viet dynasties ruled the country for the next thousand years and built a unique and independent society that conquered the Buddhist Champa Empire in the central region of the country in 1471 and part of the Hindu Khmer Empire to the west in Cambodia. By the 13th century the Vietnamese had moved south to the other fertile region of the Mekong Delta. This period was the golden era of the Vietnamese empire. The 17th and 18th centuries saw civil wars between the northern and southern kingdoms, which culminated in reunification in 1802 under Emperor Gia Long of the Nguyen dynasty.
The 16th century saw the arrival of Europeans to the region for trade and conversion. The first to arrive were the Portuguese in 1535 followed by the Spanish, Dutch, and French. From the 1700s Jesuit missionaries from France came to Vietnam and by the 1800s they had become active in local politics. The French were competing with other European powers for economic and military superiority, and to spread their faith in a traditionally Confucian society. By 1885, all of Indochina (Vietnam, Cambodia, and Laos) had been colonized by the French. The local rulers, including the Vietnamese emperor in Hue, were left as figureheads and the French took total direct control of these countries.

The brutal exploitation of the Vietnamese people and their natural resources by the French colonial regime led to intense resistance. The Vietnam Nationalist Party was formed in 1927 and the Indochinese Communist Party in 1930 by Vietnamese intellectuals, many of whom were educated in France. The World War II saw the occupation of Vietnam by Japanese forces in 1940 as the French withdrew. Following Japan’s surrender in 1945, the Viet Minh, a nationalist grouping with communist leanings under the leadership of Ho Chi Minh stepped into the power vacuum, proclaimed independence and took control of Hanoi and much of northern Vietnam. The French returned and tried to reassert colonial authority in 1946 and fought an 8-year war with the Viet Minh guerrillas. This resulted in a humiliating defeat for the French at the battle of Dien Bien Phu in 1954. The country was divided at the 17th parallel: the Democratic Republic of Vietnam (North), which was communist controlled, and the Republic of Vietnam (South), which was pro-West.

The South reneged on the agreement to hold nationwide elections and the North began consolidating their communist state and began a guerilla war in the South aimed at reunification. The North was supported by fellow communists China and the Soviet Union and the South had become increasingly dependent on the United States by the 1960s. In 1965, the first U.S. combat forces were sent to Vietnam and at its peak in 1969, over half a million U.S. soldiers would be in the country. The Vietnam War claimed the lives of 1.3 million Vietnamese and 58,000 Americans. Finally, negotiations began in 1971 and a Peace Agreement was finally signed in Paris in 1973 due to lack of military
progress and domestic opposition to the war in the United States. By 1975, the South was completely defeated and Vietnam was unified in 1976 as the Socialist Republic of Vietnam and admitted to the United Nations the following year.\textsuperscript{2}

Unfortunately the end of the Vietnam War did not bring peace and stability. After border clashes in 1978, Vietnam invaded and occupied neighboring Cambodia and replaced the Khmer Rouge government of Pol Pot. This roused China, which had supported the Khmer Rouge. It in turn invaded Vietnam (although in a limited way) in 1979, to ostensibly teach it a lesson as well as to send a signal to its backers, the Soviet Union to “back off.”\textsuperscript{3} China soon withdrew from Vietnam but Vietnamese troops remained in Cambodia to fight the Khmer Rouge guerillas till 1989. Thirty years of war weakened Vietnam’s economy enormously.\textsuperscript{4} It also suffered international isolation, with only the Soviets supporting it. With the disintegration of the Soviet Union and a settlement of the Cambodian conflict, the improvement of relations between Vietnam and China gathered pace in the 1990s. Vietnam’s relations with Japan normalized in 1993 and the United States in 1995. It became a member of ASEAN in 1995.

**Business Environment:**
**Political, Economic, and Legal Systems**

**Political System**

Vietnam is officially a communist state but some changes were made to its constitution in 1992. Power is distributed among the triumvirate: the national assembly, the president as head of state, and the prime minister as head of government. The national assembly (Quoc Hoi) is the legislative branch with 493 seats; members are elected by popular vote for a 5-year term. Candidates must in practice be approved by the Communist Party of Vietnam (CPV). However, there is a small group of elected members who are not CPV members. The national assembly meets twice a year and has become actively involved in scrutinizing legislation and seeking to hold the government to account. The president is elected by the national assembly from its members for a 5-year term. The prime minister is appointed by the president from among members of the national
assembly and the prime minister in turn appoints the deputy prime minister. The appointment of the prime minister and deputy prime minister is confirmed by the national assembly.

The real power however remains in the hands of the CPV and its secretary general and the new constitution reaffirms it. Every 5 years a party congress is held to discuss the current direction of the CPV and the government as a whole. The last one was held in April 2006. The party congress will convene for its 11th meeting in January 2011. The Politburo is a 15-member group selected by the party congress. Its job is to oversee policy implementation and military policy. Though there is no legal opposition to the CPV, the party still enjoys widespread support due to the successes it has achieved: defeating the French colonialists, resisting the American intervention, reunifying the country, standing up to Chinese “bullying,” and most importantly, bringing peace and stability. This has allowed economic development and poverty reduction, and raised the quality of life for many. The people enjoy more freedoms than they have in the past due to liberalization and globalization though not as much as is the case in more democratic ASEAN nations. The judiciary consists of the Supreme People’s Court where the Chief Justice is elected by the national assembly on the recommendation of the president for a 5-year term.

**Economic System**

Compared to its neighbors and other ASEAN members, Vietnam started its journey toward economic development rather late due to more than three “lost decades” in the ravages of war. But Vietnam has become one of the fastest growing economies in ASEAN, Asia, and the world. Vietnam decided in the late 1980s to switch from a centrally controlled to an open economy under what it called the *doi moi* (renovation) policy. The major reforms included a market-oriented monetary policy; an outward-looking policy in external economic relations, including a revised foreign investment law; allowing exchange rates and interest rates to respond to the market; reliance on the private sector as an engine of economic growth; allowing some autonomy for state industries, letting state and privately owned industries deal directly with foreign markets for import
and export purposes; and agricultural policies that allow for long-term land use rights and greater freedom to buy inputs and market products.\textsuperscript{6} This shift transformed the country.

The foreign direct investment (FDI) legislation is progressive and has attracted new investments and provided international markets for Vietnam’s exports. Service industries have expanded and provided jobs for those displaced by agriculture’s readjustment. Farmers have responded with greater diversification, and the increase in output has made Vietnam self-sufficient and now a major food exporter. Economic growth averaging at 7\%-8\% has led to reduction in poverty levels and better distribution of income. State-owned enterprises (SOEs) are slowly being privatized through equitization. High rates of savings and investment have allowed capital formation, which has doubled. As external loans were contracted on concessional terms, international reserves have been increasing. Finally, free circulation and use of the U.S. dollar in the Vietnamese economy has provided it with a built-in early warning system of market reactions to macroeconomic policies.

Vietnam’s agriculture sector has steadily declined in terms of its contribution to the gross domestic product (GDP) and now stands at about 20\% but still employs 52\% of the labor force. Vietnam’s strength in agricultural output is built on a large rural labor base. Its agriculture is export focused and dominant crops include coffee, rubber, cashew, cotton, tea, pepper, soybeans, sugar cane, peanuts, bananas, poultry, fish, seafood, and of course rice. Over the past 15 years, Vietnam has significantly increased productivity in rice growing. It has become the second biggest rice exporter in the world.

The mining industry plays an important role in Vietnam’s economy, as mineral trade accounts for a large share of the country’s overall merchandise trade. Vietnam’s identified mineral resources are antimony, barite, bauxite, bismuth, carbonate rocks (limestone and marble), chromite, coal, copper, natural gas, fluorite, gemstones (ruby and sapphire), gold, graphite, iron ore, lead, manganese, nickel, crude oil, phosphate rock (apatite), rare earths, silica sand, silver, tin, titanium, tungsten, zinc, and zircon. Among the identified minerals, bauxite and chromite reserves have been assessed as significant by
world standards. Major mineral commodity imports are petroleum products and steel. Today, Vietnam is the third largest oil producer in ASEAN. It is benefiting from the up cycle in crude oil price. However, the mining sector is still underdeveloped, and many available mineral reserves remain unexploited.

The 1990s saw the emergence of Vietnam as a major player in several manufacturing sectors such as textiles, footwear and garments, agro-processing, electric and electronic industries, plastics, and automobile and motorcycle assembly. The manufacturing industry now contributes 40% of the GDP, yet employs only 15% of the workforce. Industrial output is evenly split between SOEs, private, and foreign sectors. Multinational companies have been active in electronics, textiles, garments and footwear, mainly for export. SOEs produce cigarettes, textiles, alcohol, fertilizer, cement, food, paper, glass, rubber, and consumer appliances for domestic consumption. Local private firms are mainly small and medium enterprises (SMEs) engaged in agricultural processing and light industry. Average output value of Vietnam’s machinery manufacturing industry has grown by over 19% annually. The availability of young and low-cost labor, coupled with government incentives to attract FDI, has made Vietnam an attractive manufacturing center in the region. With increased political pressure from the United States and European Union (EU) over cheap Chinese exports, many manufacturers—already well established in China—are engaging in a “China-plus-one” strategy by looking at Vietnam as a way to diversify.

The services sector contributes a little less than 40% of GDP and employs 33% of the workforce. This sector has been growing at an average rate of 6% annually. The tourism industry has been experiencing unprecedented growth as a destination for ASEAN travelers as well as those from the United States, Europe, China, Japan, and Korea. In 2008, the tourism industry generated more than $4 billion in revenue. In 2009, despite the global recession, the travel and tourism industry is estimated to have contributed 13% of the Vietnam's GDP. The industry is expected to reach $8.7 billion in 2012. World Travel and Tourism Council (WTTC) named Vietnam as the world’s fourth fastest-growing tourist destination. Other industries in the services sector include transportation, banking and finance, communications, education, health and
social services, utilities, sports and recreation, and business services. The shift of labor from agriculture to services is still low when compared with the rest of the world.

Vietnam’s GDP growth was strong in 2005–2007, expanding at an average of 8% per year. Following the financial crisis of 2008, GDP growth slowed to around 6%, which is still impressive considering worldwide economic conditions. Inflation has recently become a key issue for Vietnam. Unemployment, as a result of the financial crisis and a slowing of Vietnam’s growth, could present a problem. The government needs to stimulate growth even as it keeps the deficit manageable and inflation down.

**Legal System**

The legal system in Vietnam is based on communist legal theory and French civil law. Case law does not apply in Vietnam. The legal system is still considered incomplete and behind other world legal systems. In 1981, major reforms were made to the judicial and legal system. The national assembly enacted several laws and codes to replace decrees that were the only legal basis for a long period. An important objective of the legislation was to come on par with international standards to promote international

Figure 11.2. Major trading partners of Vietnam.

transactions as the country opened its doors to the rest of world. At the highest level, the Supreme People's Court of Vietnam is responsible for the uniform application of laws in Vietnam. The chief justice of the Supreme Court of Vietnam is elected by the state's National Assembly. His term corresponds to that of the national assembly but he can be reelected. Other justices of the supreme court are appointed and can be removed by the president and have a 5-year term. The chief justice of the Supreme Court appoints and removes judges of the inferior courts. The people's courts are organized into criminal, civil, labor, economic and administrative divisions. The people's courts are organized into three levels. At the lower level, the people's district courts are responsible for civil, family, and labor disputes as well as for minor criminal cases. People's provincial or city courts handle appeals against decisions of the lower courts. Besides the normal and military courts, the national assembly may establish extraordinary courts.

Contract law is based on civil law. Conciliation and informal dispute resolution is popular, often in family matters. Arbitration can be considered, but only if the mediation process fails. Arbitration is used for commercial disputes only. In addition to this, mediation is also highly recommended as a form of alternative dispute resolution (ADR). Vietnam ranks 116th in the world for ease of starting a business. There are 11 procedures and it takes about 50 days to start a business. Investors are not well protected in Vietnam and it ranks very low at 172nd out of 183 countries surveyed on investor protection and is one of the worst in this regard in ASEAN. The current corporate tax rate is 28%. However, recent government efforts to stimulate the economy resulted in lowering the tax rate for small and medium-sized businesses.

Sociocultural Environment

Viet is the Chinese generic term for the peoples to the south of the core region of China and “Nam” means south. Vietnam is by and large a homogeneous country with the majority of people (85%) being ethnic Vietnamese (Kinh). Linguistically, they belong to the Mon-Khmer group, which has strong Chinese lexical influences. Vietnamese language is considered a tonal one having separate tones for each syllable of a word. Vietnamese writing is called quoc ngu, which is the Roman alphabet with accent marks. This was created by the French, who replaced the Chinese characters used
earlier. China has influenced Vietnamese culture from early times. Chinese political and social institutions were adapted to suit local needs. Influences also came from Vietnam’s conquest of the Buddhist and Hindu empires of Champa in central Vietnam and Khmer in southern Vietnam. French colonial rule brought European influences especially those related to Catholicism and the Latin alphabet. Finally, Vietnamese culture was also influenced by years of communism and related socialist values.

The Kinh live mainly in lowland areas such as the Red River Delta, the central coastal delta, the Mekong Delta and major cities. Vietnam’s 54 ethnic minority groups that form 15% of the population are scattered over mountainous areas. They are commonly called the Montagnards, a term coined by the French. Almost all the minorities came from China. The most significant minority groups are the Cham, Chinese, Hmong, Khmer, Muong, and Tai and none of these groups number more than a million, which is less than 2% of the population. Most of these minority groups have their own spoken languages, and some have their own writing systems, but all children in Vietnam today receive instruction in the national language. Other languages with significant use include Chinese, English, French, Khmer, and the tribal languages of Mon-Khmer and Malayo-Polynesian. Religious practices among highland minorities tend to be rooted in animistic beliefs. Most worship a pantheon of spirits, but a large number are Catholics or Protestants. For years the mountain people lived in isolation and were suspicious of lowlanders. They maintained only limited communication and trade with lowlanders. Now assimilation efforts by the government have brought about some integration.

Vietnam is deeply rooted in the traditional wet rice culture and has been sustained for 3,000 years. The village is the basic unit, which creates the main cultural space and environment of the Vietnamese. Each village is a separate entity with its own population, customs, and even its own deity enshrined in a communal house. The village provides the individual with security in a potentially hostile environment. Within its web of social relations, one’s place and duties are defined precisely even in the language. For instance, the use of kinship terms as personal pronouns in the Vietnamese languages indicate the social, hierarchical, or age relationship of the two speakers. Vietnamese culture is based on rural life in which each individual has an obligation and duty to his family, kin, and village community.
As in all communist societies, religion was suppressed by the socialist government until 1989 when restrictions were lifted. In 2007, the government recognized Buddhism, Catholicism, Protestantism, Islam and two indigenous religions that emerged during the colonial period as official religions: Cao Dai and Hoa Hao. Mahayana Buddhism is the dominant tradition in Vietnam and approximately 50%–70% of Vietnamese consider themselves as nominally Buddhist. In reality, they practice a mix of the three East Asian traditions enshrined in Buddhism, Taoism, and Confucianism. This includes early practices based on animism as well as traditional spirit worship. Christianity was introduced by Portuguese Catholic missionaries in the 16th century and strengthened during French rule by the Jesuits. Catholicism is the religion with the second largest following in Vietnam. About 10% of the population are considered Catholic and are concentrated in Bui Chu Phat Diem in Ninh Binh province in the North and Ho Nai Bien Hoa in Dong Nai province in the South. Protestantism remains obscure and most Protestants live in the Central Highlands, numbering about four hundred thousand. Most Muslims belong to the Cham ethnic minority group and number only 50,000. The Cao Dai sect was first introduced in 1926. It has about two million followers in South Vietnam. The Hoa Hao sect originated in 1939 and has more than a million followers living in the western part of South Vietnam. Both these sects are hybrids of Buddhism and other beliefs including Taoism, Christianity, and several other world religions.

The main contributor to Vietnamese life has been Confucian teachings and ancestor worship. The tenets of Confucianism are based on five relationships: ruler and subject, husband and wife, parents and children, brothers and sisters, and friend and friend. Confucianism places a strong emphasis on the values of duty, loyalty, honor, piety, seniority, and sincerity. The patriarchal family is the centerpiece of a Vietnamese person’s life. This includes immediate and extended family members. Often multiple generations will live under the same roof. The father is the head of the household. Respect for parents and ancestors are a key virtue.

Vietnamese worship their dead ancestors to honor them. This is derived from the belief that after death the spirits of the departed continue to influence the world of the living. The soul is believed to become restless and likely to exert an unfavorable influence on the living, unless it is venerated in the expected manner. The welfare and continuity of the
family group are believed to be more important than the interests of any individual member. Great rituals are performed on death anniversaries.

The French introduced Western values of individual freedom and sexual equality, which undermined the traditional Vietnamese social system. In urban areas Western patterns of social behavior have become increasingly common, especially among the educated and wealthy. The government has officially recognized equality of the sexes and women have begun to obtain employment in professions previously dominated by men. In rural areas, the concept of male superiority remains.

The most important ritual event in the Vietnamese calendar is the Têt, or Lunar New Year, when families gather to usher in the new beginning as well as to pay homage to ancestors. Têt means the first morning of the first day of the new year. It is like the Chinese tradition when homes are cleaned to get rid of bad fortune associated with the old year. Families paint their homes to give it a new look. Everyone gets new clothes and new shoes. Old debts are paid and differences between family and friends resolved. People are very careful about what they do on New Year’s Day as the events on this auspicious day determine your luck for the rest of the year. Therefore, everything and everyone you are in touch with on New Year’s Day should symbolize good fortune. Gifts are exchanged and local temples visited. Other significant holidays are Buddha’s birthday, Wandering Soul’s Day, and the Moon Festival also called the Mid-Autumn Festival.

Business Culture and Intricacies

Vietnamese business draws heavily on Confucian principles. These values have been passed down from ancient times when they were part of China. Vietnam has a 5-day workweek and working hours extend from 7:30 a.m. to 5 p.m. with an hour’s break for lunch. Some businesses are open on Saturday mornings but not regularly. As in other ASEAN countries, the Vietnamese are less rigid about time than Western societies. Their life is set more by monsoons and seasons than by the clock and by dynasties than by months and years. Like the Chinese, they are more flexible and take a longer timeview of life as opposed to being constrained by a structured time frame. They may be suspicious of urgency when required to make decisions and commit themselves to business deals. One should take into consideration these values when making time frames or
deadlines. Patience is a virtue when dealing with Vietnamese people as the basis of their culture is Confucianism, which places strong emphasis on patience. Appointments to see someone should be made several weeks in advance. It is customary to be introduced by a third party as it is part of their culture to do business with close friends and kin. Persons outside the known circle will require some introduction to establish the context in which they can be co-opted into the kinship.

A brief handshake is given at the start and finish of the meeting, although not everyone will use it. Never shake hands with a member of the opposite sex unless they do so. Women may just nod or bow slightly as a form of greeting. Business cards should be given and received with both hands and their exchange is quite an important ritual. It details an individual's position, and title for status is an important part of Confucian culture. Do not put the card immediately into your pocket without acknowledging the giver's title, credentials, and status. Using the appropriate title in addressing others is important.

Vietnamese names are like Chinese names with the surname appearing first. The given name follows. However, Vietnamese prefer to use the given name with a prefix in formal situations. So a person with the name Nguyen Van Giau will be referred to as Mr. Giau and similarly they would address David Parker as Mr. David. Titles are very important in Vietnam, so one must use the formal title of Deputy Minister or Deputy Director followed by their name when addressing a person of authority. Within their circles Vietnamese use a local greeting “chao-ong” (hello, mister) when addressing a man and “chao-ba” (hello, miss) when addressing women. Gifts are normally exchanged at the end of the meeting. Unacceptable gifts include handkerchiefs; anything that is color black or white; yellow flowers or chrysanthemums, as is the case in all Chinese Confucian cultures. Acceptable gifts are fruits, sweets, flowers, and incense. Always wait to be shown where to sit at the table. Dishes should be passed and received with both hands. Holding a bowl close to the face is considered normal. Upon completion of eating, the chopsticks are put on top of the rice bowl to signal that you are finished.

Vietnam is rather conservative and business attire reflects this. Business suits and formal dresses may be worn for meetings but the hot weather may make it more comfortable to wear just a shirt and tie, which is quite acceptable
for regular meetings. They are more casual in the South where it is warm and humid and open-necked shirts with short sleeves are acceptable.

Confucianism is the main source of inspiration for Vietnamese society (although communism has prevailed) and as such relationships, hierarchy, seniority, age, and status are important as is the need to maintain harmony and avoid confrontations and conflict. Propriety and respect are of importance in relationships in a personal and business context. Vietnamese spend a lot of time getting to know you before proceeding on business matters. Their society is structured along relationship lines and most people are interconnected in some way. These relationships carry obligations, which are taken very seriously. The obligations can be categorized on the basis of the relationship such as between family members, clans, friends, and business partners. The needs of the group often override those of the individual. Collectivism extends to accommodating others, consenting to decisions one may not agree with and even not expressing strongly held views in deference to the group.

In such a high-context society, communication is often indirect and gestures and nonverbal signs are used to convey unpalatable messages. A direct refusal with a “no” is seldom used as it is offensive and disrespectful. This is indicative of the greater value that is placed on the relationship rather than the issue in contention. Vietnamese go out of the way to avoid direct confrontation. Consensual decision making is ingrained in Vietnamese social, political, and business priorities. All parties with a voice feel they have a veto and a voice in the decision-making process and must therefore be shown the respect of being consulted.

Display of emotions that reveal impatience, anger, frustration, and contempt is unacceptable as it is seen to be disharmonious. The concept of “face” is important to the Vietnamese. Face is associated with a person’s reputation and dignity. Companies and individuals can save or lose face. Foreigners may inadvertently cause someone to lose face, so it is important to choose your words carefully. Tact, discretion, sensitivity, and respect are an effective way of dealing with acrimonious situations. The main objective is not to cause embarrassment to the local counterpart or associate. They have numerous linguistic devices to help “save face” and these may include depreciatory terms to describe the self and complimentary terms to help out the other. Humility is of great value
in Confucian culture. Respect for elders remains a much-valued virtue. People are not comfortable with close proximity or touch.

Never say or make a promise that cannot be carried out, as the Vietnamese take what is said very seriously. Public displays of affection are not appreciated. Touching someone of the opposite sex in public is seen as bad etiquette. Pointing is considered rude, as is standing with your hands on your hips and crossing your arms. Although communist policies brought in a measure of gender equality, Vietnam is still a male-dominated society. Women in business and government, however, are respected although they may not be in their personal lives. Foreign women professionals are always treated with respect. Vietnamese managers and employees are becoming more familiar with Western management styles and culture.11

Corruption remains an issue when doing business in Vietnam but the current government has made it a priority to stem this. Transparency International ranked Vietnam 121st out of 180 countries in their Corruption Perception Index 2008.

Web Resources

Country and History

Socialist Republic of Vietnam
http://www.chinhphu.vn

People, Culture, and Health

Vietnamese Culture
http://english.cinet.vn

Vietnam Ministry of Health
http://www.moh.gov.vn

Government, Infrastructure, and Technology

Socialist Republic of Vietnam
http://www.chinhphu.vn
Economy and Education

General Statistics Office of Vietnam
http://www.gso.gov.vn

Ministry of Agriculture and Rural Development
http://www.agroviet.gov.vn

Business Environment and Trade Practices

General Statistics Office of Vietnam
http://www.gso.gov.vn

Vietnam Ministry of Finance
http://www.mof.gov.vn

Vietnam Ministry of Foreign Affairs
http://www.mofa.gov.vn

Vietnam Ministry of Planning and Investment
http://www.mpi.gov.vn

Vietnam Business Portal
http://www.business.gov.vn

Local Media

Thanh Nien News
http://www.thanhniennews.com

Vientian Times
http://www.vientianetimes.com

Vietnamnet Bridge
http://english.vietnamnet.vn
The preceding chapters have thrown light on Association of Southeast Asian Nations’ (ASEAN) tremendous diversity. This is a grouping whose member countries have different histories, ethnic makeup, cultures, political and social systems, and levels of development in economic and trade terms. Singapore and, to a lesser extent, Malaysia are both more advanced in economic development (based on gross domestic product [GDP] per capita) and still registering high economic growth rates, notwithstanding significant cyclical variations because of their openness to international trade. Brunei has a high level of development, too, but should be set apart as it is highly dependent on oil production and exports and has not been able to transform its oil revenues into sustained economic growth during the past decade. A second group of countries includes those with a substantial level of development (intermediate position) and satisfactory growth.
rates of GDP, even though their performances were seriously dented by the Asian financial crisis of 1997–1998. These are Thailand, Indonesia, and the Philippines. Finally, most of the new members of ASEAN have a much lower level of development but are registering high economic growth rates in a typical “catch-up” process. These are Vietnam, Laos, Myanmar, and Cambodia. Despite having suffered a massive blow in the 1997–1998 financial crisis, ASEAN remains a major trading block in the world.

Business Environment:
Political, Economic, and Legal Systems

Political Environment

Political stability is a prerequisite for commerce and economic development. Despite pockets of instability and economic difficulty, ASEAN countries now make up one of the most stable and prosperous regions in the developing world. The political system in each country differs as a result of diverse historical experiences. The political regimes vary greatly.

Table 12.1. Demographics and Political Structure of ASEAN

<table>
<thead>
<tr>
<th>Country</th>
<th>Population (million)</th>
<th>GDP (million)</th>
<th>Median age</th>
<th>Political system</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>0.4</td>
<td>14,500</td>
<td>28.1</td>
<td>Constitutional sultanate</td>
</tr>
<tr>
<td>Cambodia</td>
<td>14.5</td>
<td>27,920</td>
<td>22.5</td>
<td>Multiparty democracy under a constitutional monarchy</td>
</tr>
<tr>
<td>Indonesia</td>
<td>240</td>
<td>962,500</td>
<td>27.9</td>
<td>Republic</td>
</tr>
<tr>
<td>Laos</td>
<td>7</td>
<td>14,220</td>
<td>19.5</td>
<td>Communist state</td>
</tr>
<tr>
<td>Malaysia</td>
<td>26</td>
<td>383,600</td>
<td>25.1</td>
<td>Constitutional monarchy</td>
</tr>
<tr>
<td>Myanmar</td>
<td>48</td>
<td>57,490</td>
<td>26.5</td>
<td>Military junta</td>
</tr>
<tr>
<td>Philippines</td>
<td>98</td>
<td>324,400</td>
<td>22.7</td>
<td>Republic</td>
</tr>
<tr>
<td>Singapore</td>
<td>4.6</td>
<td>243,200</td>
<td>39.6</td>
<td>Parliamentary republic</td>
</tr>
<tr>
<td>Thailand</td>
<td>66</td>
<td>540,100</td>
<td>22.7</td>
<td>Constitutional monarchy</td>
</tr>
<tr>
<td>Vietnam</td>
<td>89</td>
<td>256,900</td>
<td>27.4</td>
<td>Communist state</td>
</tr>
</tbody>
</table>

The five ASEAN founders have the most developed political systems. Indonesia and the Philippines are both republics. Malaysia and Thailand are constitutional monarchies. Singapore is a parliamentary republic. Brunei is a constitutional sultanate. Cambodia is a constitutional monarchy with a multiparty system. Myanmar is ruled by a military junta but has realized the need for liberalization of trade and is acting on it. Laos and Vietnam are officially still communist states. However, like China, both countries have initiated liberal trade policies and welcome foreign investment. Each ASEAN member has declared respect for law and order and adherence to the principles of the United Nations Charter. The governments of ASEAN countries are all engaged in a catch-up process for their country’s...
development. Their “primary objectives are not to create an environment conducive (only or mostly) for foreign businesses but for their own companies. Most ASEAN governments realize that foreign direct investment (FDI) is a useful means to accelerate this catch-up process.”

**Economic Environment**

The ASEAN countries have experienced steady growth of their economies although individually they have had different levels of growth. Industries in each state are at different stages of development but overall growth is a constant in all the ASEAN members. Since 2003, most ASEAN economies have grown at 5%–6% per annum. The volume of trade has been increasing in the 13%–18% range and investment has surged at an annual average of 37%. This is despite the global economic downturn. Regulations are different in each country and cost-competitiveness varies greatly.

For sustained economic growth to take place it is imperative that a high degree of economic freedom exists, entrepreneurial activity is

---

**Figure 12.1. ASEAN and selected trade partners share of world GDP.**

allowed and innovation to flourish. It is clear that the ASEAN countries are headed toward economic liberalization, though they still have some way to go to reach global standards. Countries that rate low are Cambodia, Indonesia, Vietnam, Laos, and Myanmar. Many administrative procedures are cumbersome and need to be streamlined.5 It has been reported that traders find it advantageous to simply pay the tariffs than to struggle with administrative costs and delays. There is a need too to increase entrepreneurial activity, promote innovation, and invest in research and development. Stamping out corruption is essential to ease setting up of businesses and thus further prosperity.

**Legal Environment**

The legal systems of ASEAN members are different and strongly influenced by historical experiences of colonization. Some are based on the English common law, while others are influenced by continental Roman and Napoleonic legal systems or draw inspiration from Dutch continental law, *adat* (customary) laws, and Islamic law. In some ASEAN countries (mainly Malaysia and Brunei), there are also Muslim Syariah courts exercising jurisdiction over Muslims on certain matters.6 Brunei, Malaysia,
and Singapore follow the common law system inherited from the British. Thailand has in place the civil law structure. The Philippines has a hybrid system. Indonesia’s legal system is mainly based on the Dutch system.

Postcolonial development has also influenced the evolution of the law in various ASEAN countries. Where English has remained the language of commerce and government (Singapore, Malaysia, and Brunei), developments of the law, both legislative and judicial, in England have been reflected in the former colonies. This has not been the case with many civil law countries. For example, Indonesia’s principal codes are 18th-century Dutch codes and legal developments in the Netherlands have not been reflected in Indonesia. Political and nationalistic factors have retarded development of the law in countries like Myanmar, Laos, and until recently, Vietnam and Cambodia.

Donor institutions such as the World Bank and the Asian Development Bank (ADB) have launched various law reform projects in several ASEAN countries. The success of these projects has been questioned, especially by those who are skeptical about the role of law in development. Harmonization of laws and regulations that govern trade and investment is a work in progress for ASEAN members. A key issue has been the protection of intellectual property and administration of contracts.

Technological Environment

The levels of technology vary widely among ASEAN member countries. Singapore is by far the most advanced, followed by Brunei, Malaysia, and Thailand; Indonesia, the Philippines, and Vietnam come next; and at the tail end are Cambodia, Laos, and Myanmar. Table 12.3 lists the levels of technology for each of the 10 countries in the areas of production, pollution and waste disposal, transport, communications, and finance. The community has set up a body to coordinate efforts at upgrading science and technology (S&T) in member countries. Called the ASEAN Science and Technology Network (ASTNET), it has focused on being a gateway to interconnect ASEAN S&T information resources to internal S&T and industrial databases.7 Regional cooperation in S&T is increasing not only within ASEAN but also with Japan, China, and South Korea. The European Union (EU) and the United States have been collaborating with ASEAN countries in technology transfer.
The region needs strong infusion of technology and holds potential for investment and technology transfer, provision of machinery, equipment and services, and training of technical and management professionals.

### Sociocultural Environment

The cultures of ASEAN countries are as diverse as their ethnic communities and historical experiences. The histories of the countries overlap and interweave on countless fronts. With each country having a unique blend of ethnicities, religions, and languages, Southeast Asia is a sundry mix matched by few other areas on the planet. While foreign cultural influences have facilitated much change, the region’s own culture still shines through. The region has an indigenous culture that is alive to date. Common characteristics can still be identified due to the similar cultural origins of the various nations in the region, which housed a variety of animist cultures.

The region’s geography influences the culture directly. The closeness of the rich cultures of China and India have helped mold the entire area. The proximity of the nations to each other affects the state of affairs.
between them. The lushness of the land they live on impacts their capabilities to compete in the global economy, and influences their culture and level of dependency. Finally, a sense of harmony is found throughout the region. Most people will attempt to work toward a harmonious solution to an issue even if it means saying things that they do not mean. Discordance is avoided even if it has consequences.

The plethora of languages that exist in Southeast Asia is a testament to the diversity of the region. Languages range from the Sinitic languages spoken by the Chinese population to the Tai languages, which include the national languages of both Thailand and Laos. Colonial languages, including French, Dutch, Portuguese, and Spanish are spoken here. English is emerging as Southeast Asia’s lingua franca.

Southeast Asia boasts immense religious diversity. In some places, the ancient local religions still exist. These religions are animist style in which everything is oriented toward the seasons and nature. The civilizations and religions of both East and West have had lasting impacts. The largest and most universalistic religions of the world, including Hinduism, Buddhism, Confucianism, Islam, and Christianity, are practiced here. None of the region’s cultures have been untouched. Even the most traditional societies have been impacted heavily by the rapid spread of Western culture. Foreign influences have altered the religious landscape of the region. Sunni Islam has put down strong roots in Malaysia and Indonesia. Theravada Buddhism flourishes in Myanmar, Thailand, Cambodia, and Laos. Buddhism and Confucianism are resurging in communist Vietnam. The Philippines is the only Catholic country in ASEAN.

Physical features of the ASEAN countries differ greatly, leading to differences in culture. Some countries, such as Myanmar and Thailand, are part of the mainland continent. Others like Indonesia and the Philippines are vast archipelagoes strung out into the South China Sea and the Indian and Pacific Oceans. Then there is Singapore, which is just a single small island. These differences in geographic structure require different strategies not only for national issues, such as defense for instance, but also for transportation, communication, education, health, and foreign affairs.8

However, the growing integration of the region’s economies, primarily facilitated by ASEAN, is causing the convergence of cultures even more. Table 12.4 compares the sociocultural attributes of the 10 ASEAN
countries. The diverse cultures in ASEAN are a result of varying historical experience and diverse ethnic groups that have cultivated their own sets of values and conduct over the centuries. The world view of each country is influenced by cultural and religious beliefs. The lesser developed ASEAN countries—Cambodia, Laos, Myanmar, and Vietnam—practice Buddhism, which encourages acceptance of one's fate and this has helped in overcoming adversity. These countries have coped well in times of uncertainty as compared to the more developed ASEAN countries like Brunei, Malaysia, and Singapore.

Despite deep-rooted cultural differences, the countries share societal and social similarities. Respect and trust are the by-products of a good relationship that requires an investment in patience during relationship building. One must try to be calm so as not to undermine and cause embarrassment to the other(s). As in all social relationships, group consensus is important in all aspects of communication, and discussion takes place to achieve harmony in a collective manner. As a result, individuals identify themselves with groups and families. An individualistic approach will be detrimental to a hierarchal culture that commands one to understand the other's position.

In spite of the differences, there is a clear convergence of cultures too. Almost all have experienced the same broad influences from China, India, and Europe. Similarities within the region include a forward-looking attitude, willingness to cooperate and seek consensus for common good, and a conviction that “any human activity takes place in a broader context where causality plays a major role.” All countries and their people are eager to improve their quality of life and welcome investment and business opportunities. English is widely spoken in all the ASEAN countries. It is possible to conduct most business in English although it does help to speak a little of the local language. Speaking a bit slower and avoiding using slang or complicated words will facilitate communication.

**Business Culture and Intricacies**

ASEAN people tend to be forward looking, try to operate on a consensus, and have strong family values. The supreme emphasis on family is found not only at home but also in the workplace. It is important to build a relationship either directly or through contacts or agents. One
### Table 12.4. ASEAN Sociocultural Attributes

<table>
<thead>
<tr>
<th>Country</th>
<th>Group orientation</th>
<th>Time orientation</th>
<th>Power distance</th>
<th>Authority</th>
<th>Communication</th>
<th>Family ties</th>
<th>Uncertainty avoidance</th>
<th>Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>Collective</td>
<td>Polychromic</td>
<td>High</td>
<td>Masculine</td>
<td>Indirect</td>
<td>Strong</td>
<td>High</td>
<td>Islam</td>
</tr>
<tr>
<td>Cambodia</td>
<td>Collective</td>
<td>Polychromic</td>
<td>High</td>
<td>Masculine</td>
<td>Indirect</td>
<td>Strong</td>
<td>Low</td>
<td>Theravada Buddhism</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Collective</td>
<td>Polychromic</td>
<td>High</td>
<td>Masculine</td>
<td>Indirect</td>
<td>Strong</td>
<td>Low</td>
<td>Islam</td>
</tr>
<tr>
<td>Laos</td>
<td>Collective</td>
<td>Polychromic</td>
<td>High</td>
<td>Masculine</td>
<td>Indirect</td>
<td>Strong</td>
<td>Low</td>
<td>Mahayana Buddhism and Hinduism</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Collective</td>
<td>Polychromic</td>
<td>High</td>
<td>Masculine</td>
<td>Indirect</td>
<td>Strong</td>
<td>High</td>
<td>Islam</td>
</tr>
<tr>
<td>Myanmar</td>
<td>Collective</td>
<td>Polychromic</td>
<td>High</td>
<td>Masculine</td>
<td>Indirect</td>
<td>Strong</td>
<td>Low</td>
<td>Theravada Buddhism</td>
</tr>
<tr>
<td>Philippines</td>
<td>Collective</td>
<td>Polychromic</td>
<td>High</td>
<td>Masculine</td>
<td>Indirect</td>
<td>Strong</td>
<td>Low</td>
<td>Catholicism</td>
</tr>
<tr>
<td>Singapore</td>
<td>Collective</td>
<td>Monochromic</td>
<td>High</td>
<td>Masculine</td>
<td>Indirect</td>
<td>Strong</td>
<td>High</td>
<td>Mix of Western and Asian values</td>
</tr>
<tr>
<td>Thailand</td>
<td>Collective</td>
<td>Polychromic</td>
<td>High</td>
<td>Masculine</td>
<td>Indirect</td>
<td>Strong</td>
<td>Low</td>
<td>Theravada Buddhism</td>
</tr>
<tr>
<td>Vietnam</td>
<td>Collective</td>
<td>Polychromic</td>
<td>High</td>
<td>Masculine</td>
<td>Indirect</td>
<td>Strong</td>
<td>Low</td>
<td>Confucianism</td>
</tr>
</tbody>
</table>
### Table 12.5. Attributes of ASEAN Business Culture

<table>
<thead>
<tr>
<th>Country</th>
<th>Business cards</th>
<th>Hierarchy and respect</th>
<th>Greetings</th>
<th>Gift giving</th>
<th>Conflict avoidance</th>
<th>Trust and relationships</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>Important and treated with high level of respect</td>
<td>High</td>
<td>Handshake is common</td>
<td>Common but not opened</td>
<td>High</td>
<td>Important and very personal</td>
</tr>
<tr>
<td>Cambodia</td>
<td>Important and treated with high level of respect, preferably in dual languages</td>
<td>High</td>
<td>Handshake is common</td>
<td>On special occasions (e.g., New Year)</td>
<td>High</td>
<td>Important and personal</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Important and treated with high level of respect, preferably in dual languages</td>
<td>High</td>
<td>Handshake is common</td>
<td>Common but not opened</td>
<td>High</td>
<td>Important and Personal</td>
</tr>
<tr>
<td>Laos</td>
<td>Important and treated with high level of respect</td>
<td>High</td>
<td>Handshake is not common</td>
<td>Common but not opened</td>
<td>High</td>
<td>Important and personal</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Important and treated with high level of respect</td>
<td>High</td>
<td>Handshake is common</td>
<td>Depends on ethnicity</td>
<td>High</td>
<td>Important and personal</td>
</tr>
<tr>
<td>Myanmar</td>
<td>Important and treated with high level of respect, preferably in dual languages</td>
<td>High</td>
<td>Handshake is common</td>
<td>Common but not opened</td>
<td>High</td>
<td>Important and very personal</td>
</tr>
<tr>
<td>Philippines</td>
<td>Important but not treated with high level of respect</td>
<td>High</td>
<td>Handshake is common</td>
<td>Common but not opened</td>
<td>High</td>
<td>Important and very personal</td>
</tr>
<tr>
<td>Singapore</td>
<td>Important and treated with high level of respect</td>
<td>High</td>
<td>Handshake is common</td>
<td>Not acceptable</td>
<td>High</td>
<td>Important and personal</td>
</tr>
<tr>
<td>Thailand</td>
<td>Important and treated with high level of respect, preferably in dual languages</td>
<td>High</td>
<td>Handshake is common</td>
<td>Common but not opened</td>
<td>High</td>
<td>Important and personal</td>
</tr>
<tr>
<td>Vietnam</td>
<td>Important and treated with high level of respect, preferably in dual languages</td>
<td>High</td>
<td>Handshake is common</td>
<td>Common but not opened</td>
<td>High</td>
<td>Important and personal</td>
</tr>
</tbody>
</table>
should not try doing everything alone and partnerships can be rewarding. Yet finding the “right” partner can be trying. So do take time in locating and confirming a partner or associate. A partner will bring along connections, knowledge of language, and intricacies of the business and industry. It is important to assess the partner accurately as replacing him may be difficult in some ASEAN countries such as Indonesia, Myanmar, and Cambodia. Also, do not expect the locals of one ASEAN country to be familiar or fully conversant with the other countries.

Small misunderstandings at meetings where someone may lose face can have severe consequences. It is best not to hurry through negotiations and decisions in ASEAN countries. Patience is golden. Things do not happen as quickly as one would like. Be prepared to spend time and money in establishing yourself and developing your business.

In Western societies, the organization whether it is a company or corporation matters most and gets priority and attention. This is not always so in ASEAN societies. Often people and families matter more. Hence there is a greater need to understand business as well as culture and political environment. Sixty percent of companies in Asia are family controlled. There will be times when profit may not be the priority for the owners or when market share would take a back seat. Management decisions may also be made based on emotions rather than rational processes. In some lesser developed countries, corporate governance is also not up to par as the culture is one of secrecy, not transparency. This is changing as business environments modernize. The problem of corruption still needs to be confronted. It is caused mainly by low salaries of government staff. Singapore is a shining example where salary hikes have curbed rampant corruption. However, it will be wrong to conclude that corruption-free business cannot be done.10

Much like the cultural landscape, the political landscape too is complex because of the number of different systems in the region. This complicates diplomatic interaction. ASEAN members need to balance diplomacy not only with other members but also with their old colonial rulers. Democracy is relatively new to these countries and will take time to reach Western standards. The level of freedom in an individual country varies along with the level of enforcement of laws.11 It will be a folly to assume that government authorities and political leaders always represent the wishes of the people. A proper stakeholder analysis will
help understand motives of each party. It is wise to make many contacts within the industry as well as government. All ASEAN countries are trying to catch up with other developed countries by strengthening their political systems. They take a cautious approach to dispute resolution and do not confront conflicts always, preferring to “push them to the side.” They also tend to focus more on regional affairs, sometimes losing sight of the larger picture.

ASEAN countries have different exchange rate policies. The region itself has fragmented markets. Seventy percent of businesses feel that transportation issues are still a problem for the region. Some steps have been taken to improve the infrastructure. Between the countries there is a large degree of variance on a number of economic and business issues. Regulations and cost competitiveness vary greatly. Long-term stability of costs is not guaranteed. Partnerships with a domestic firm need to take into account all financial and economic factors before making a decision.

Intellectual property rights (IPR) is still an issue for ASEAN. However, it is considered less of a problem than in other Asian countries. Most international companies feel that IPR laws are adequate but the enforcement is not. Currently ASEAN countries are taking measures to strengthen and improve IPR enforcement, protection, administration, legislation, and the tracking of IPR public records.

Business Potential and Starting a Business

Like the rest of the Asian emerging countries, the outlook for ASEAN remains positive compared with that of the developed countries. ASEAN offers substantial opportunities for businesses, traders, and investors. The combined ASEAN market exceeds the EU and the United States. As the majority of trade has been external to the countries, intra-ASEAN investment and trade has been lagging. There is a distinct advantage for establishing a presence within ASEAN that allows a company to capitalize on lowering of trade barriers within ASEAN Free Trade Area (AFTA) as well as to take advantage of the trade agreements that ASEAN has concluded with the United States, EU, China, India, Japan, and South Korea.

ASEAN countries need to develop their infrastructure. Except for Singapore, parts of Malaysia and Thailand, most countries have to develop their transportation systems (road, rail, air, sea, as well as mass-transit systems),
communication (and information) systems, water and sewage systems, and power supply and grids. These include construction of roads and bridges; dams, reservoirs and sewers; sanitation and waste disposal units; hospital, clinics and health care facilities; fire prevention facilities; schools and educational facilities; electrical delivery systems; and management as well as training of staff to run these. ASEAN is considering establishing a fund to channel the region’s savings into infrastructure investments.

Agriculture remains the mainstay of many ASEAN economies, especially Cambodia, Indonesia, Laos, Myanmar, the Philippines, Thailand, and Vietnam. These countries, Malaysia, and Brunei all have huge forest resources. Except for Singapore, ASEAN countries are also food producers. In addition to staples such as rice, livestock, vegetables, and fruits, these countries are also big fish and seafood producers. Hence there exists a need for food-processing technology, equipment, systems, plants, and packaging and export development methodology. This includes processing of forestry, timber, wood and wood products, and sustainable forest management. Figure 12.3 depicts business potential.

Manufacturing is fast becoming a major growth area in ASEAN countries as industrialization is taking place at a rapid pace. Only Singapore is advanced in industry and is followed by Malaysia, and Thailand. The remaining nine ASEAN countries are still developing their industrial sectors. Cambodia, Laos, and Myanmar are the least developed. ASEAN has set up an ASEAN Industrial Cooperation Scheme (AICO) to promote

![Figure 12.3. ASEAN business potential by sectors.](image)

---

**Figure 12.3. ASEAN business potential by sectors.**
joint manufacturing industrial activities between ASEAN-based companies offering tariff and nontariff incentives to promote investment from technology-based industries and enhance value-added activities. Opportunities exist in oil and gas; petrochemicals and plastics; aviation; automobiles and automobile parts; mining and minerals; agro-processing, including rubber, palm oil, and timber; electrical and electronic products; power generation; transportation; drugs and pharmaceuticals; textiles and garments; furniture and furnishings; building construction; security and defense; pollution-control equipment; medical equipment; digital broadcasting; and machinery and automation equipment. Figure 12.3 shows the potential of the industry of each country and Figure 12.4 lists the potential in each country's industries. Singapore has much potential in high-technology manufacturing and research.

Figure 12.3 shows the potential of the industry of each country and Figure 12.4 lists the potential in each country's industries. Singapore has much potential in high-technology manufacturing and research.

Figure 12.4. ASEAN business potential by industries.
The service sector is the least developed in most of the ASEAN countries except Singapore and—to an extent—in Brunei, Malaysia, and Thailand. On average, the services sector contributes 40%–50% of GDP in ASEAN countries. Services that have potential in Cambodia, Indonesia, Laos, Myanmar, the Philippines, Thailand, and Vietnam are finance and banking; hospitality; travel and tourism; logistics and supply chain; public services (e.g., health care, education, skills training, management, human development); wholesale and retail; medicine and health care; engineering; computer software and solutions; transportation, including air and shipping; information technology and business services; information (e.g., media and marketing) communications and broadcasting; and water and wastewater treatment services. ASEAN has progressed toward liberalization of trade in services within the region through the ASEAN Framework Agreement on Services (AFAS). It has also completed agreements on trade in services with China, Korea, and India.15

Numerous opportunities also exist for participation in the ASEAN Mekong Basin Development Cooperation (AMBDC). This is a combined effort at developing the riparian zone known as the Greater Mekong Subregion, which runs through China, Myanmar, Thailand, Laos, Cambodia, and Vietnam. The AMBDC was established to coordinate and ensure stable and sustainable development of the region, build infrastructure, and utilize resources fully. Resources include agriculture, forestry, tourism, hydropower, and environmental protection. There are 46 projects at various stages of implementation. The flagship project is the Singapore-Kunming Rail Link (SKRL) connecting Singapore to southern China.

Table 12.6 lists ranking on ease of doing business as evaluated by the World Bank in 2010.16 Singapore tops the list. Thailand and Malaysia are on the second rung with Vietnam at third place. Other countries are ranked low. Table 12.7 lists the various steps in starting a business in ASEAN countries. Indicated are the number of days taken, procedures needed, and costs of registering the business. Again, Singapore is way ahead of the rest, followed by Malaysia, Thailand, and Myanmar. Next are the Philippines, Vietnam, and Indonesia. Cambodia, Laos, and Brunei are lagging behind. Conditions are expected to change as countries realize the need to make it easier for investors and businesses to begin operating in their country.
Table 12.6. Ease of Doing Business in ASEAN Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>World rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>96</td>
</tr>
<tr>
<td>Cambodia</td>
<td>145</td>
</tr>
<tr>
<td>Indonesia</td>
<td>122</td>
</tr>
<tr>
<td>Laos</td>
<td>167</td>
</tr>
<tr>
<td>Malaysia</td>
<td>23</td>
</tr>
<tr>
<td>Myanmar</td>
<td>NA</td>
</tr>
<tr>
<td>Philippines</td>
<td>144</td>
</tr>
<tr>
<td>Singapore</td>
<td>1</td>
</tr>
<tr>
<td>Thailand</td>
<td>12</td>
</tr>
<tr>
<td>Vietnam</td>
<td>93</td>
</tr>
</tbody>
</table>


Table 12.7. Starting a Business in ASEAN: Registration Process, Procedures, and Costs

<table>
<thead>
<tr>
<th>Country</th>
<th>No. of days</th>
<th>No. of procedures</th>
<th>Costs (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>117</td>
<td>18</td>
<td>3,800</td>
</tr>
<tr>
<td>Cambodia</td>
<td>85</td>
<td>9</td>
<td>834</td>
</tr>
<tr>
<td>Indonesia</td>
<td>67</td>
<td>9</td>
<td>610</td>
</tr>
<tr>
<td>Laos</td>
<td>100</td>
<td>7</td>
<td>65–305</td>
</tr>
<tr>
<td>Malaysia</td>
<td>11</td>
<td>9</td>
<td>1,000</td>
</tr>
<tr>
<td>Myanmar</td>
<td>42</td>
<td>2</td>
<td>—</td>
</tr>
<tr>
<td>Philippines</td>
<td>52</td>
<td>15</td>
<td>330*</td>
</tr>
<tr>
<td>Singapore</td>
<td>3</td>
<td>3</td>
<td>295</td>
</tr>
<tr>
<td>Thailand</td>
<td>32</td>
<td>7</td>
<td>365–1,130</td>
</tr>
<tr>
<td>Vietnam</td>
<td>63</td>
<td>11</td>
<td>110–120</td>
</tr>
</tbody>
</table>

*Based on a minimum capital of US$111

Looking Ahead: Opportunities and Challenges

ASEAN is becoming a single market and production base. There will be continuing free flow of goods and services and a freer flow of investment with the realization of the ASEAN Economic Community by 2015, if not earlier. The net results: lower business transaction costs, greater regional synergies, higher value-creation, and more competition and dynamism as a player in the global supply chain. However, ASEAN is less integrated than the EU and North American Free Trade Association (NAFTA). Intra-ASEAN trade stands at 25%, compared with 51% in NAFTA and 68% in the EU.

Large companies remain important players because of their resources, market access, and expertise. These companies continue to depend on small and medium enterprises (SMEs) for goods and services for both the domestic and export markets. Directly, therefore, SMEs have been an important source of higher production and, indirectly, of export earnings in ASEAN. SMEs in ASEAN make up more than 90% of all domestic firms and employ 75%–90% of the nonagriculture domestic workforce. There exists abundant opportunities for companies to tap into the SMEs to further their business interests.

The key to success in ASEAN is in the choice of location or country and selection of partners, be they distributors, subcontractors, agents, representatives, or investors. It is important to take into consideration that many political, economic, and financial variables vary widely from one country to another and the reality is that many partnerships “rely on personal relationships and mutual trust that cannot be encapsulated in such variables.”

The biggest challenge remains the different levels of development of member countries. The fear is that this could lead to uneven distribution of benefits. Due to differences in history and culture, there could be a lack of ownership of the community. This is a distinct possibility if the people of each nation do not feel part of the broader economic community. The level of commitment to the ASEAN identity varies according to the political situation in each country even though ASEAN is based on mutual economic benefit. It is feared that the structure of ASEAN is inherently weak as there are no enforcement provisions. The ASEAN agreement is held together mostly based on consensus, cooperation and noninterference. There is a need to foster synergies between
member countries and convergence of their economies is expected to take many years.

The most conspicuous effect ASEAN has had is the contribution it has made to achieving political stability in the region. The grouping has enabled dialogue between the members and allowed for resolution of disputes in a harmonious manner. This in turn has made the region an attractive destination for investment, trade, and commerce both from outside the region as well as within the community.

Web Resources

**Countries and Statistics**

Association of Southeast Asian Nations
http://www.aseansec.org/

The World Bank
http://www.worldbank.org

**People, Culture, and Health**

ASEAN Culture and Information
http://www.asean-infoculture.org

ASEAN Tourism
http://www.asean-tourism.com

United Nations Educational Scientific and Cultural Organization
http://portal.unesco.org

**Economy and Education**

Asian Development Bank
http://www.adb.org
Southeast Asian Ministers of Education Organization
http://www.seameo.org

United Nations Educational Scientific and Cultural Organization
http://portal.unesco.org

**Business Environment and Trade Practices**

ASEAN Business Advisory Council
http://www.seameo.org

ASEAN Cooperation
http://aseancooperation.com

World Trade Organization
http://www.wto.org
Notes

Introduction

1. World Bank (n.d.).
4. International Monetary Fund (n.d.).
5. Gateway to the European Union (n.d.).
6. Economy Watch (n.d.).
8. Central Intelligence Agency (n.d.).
12. globalEDGE (n.d.).
15. Nations Online (n.d.).
17. World History Encyclopedia.

Chapter 1

2. Ibid.
3. ASEAN Economic Community (2009a).
5. UN ESCAP (2009).
7. ASEAN Economic Community (2009b).
9. Indonesia, Thailand, Malaysia, Singapore, the Philippines, Vietnam, and Myanmar.
10. Apotheker et al. (2005).
12. ASEAN (2010).

Chapter 2

2. Infoplease (n.d.).
3. Asia Society (n.d.).
4. BBC news (n.d.).
5. BBC News (n.d.).
10. Infoplease (n.d.).
19. globalEDGE (n.d.).
23. globalEDGE (n.d.).

Chapter 3

3. BBC news (n.d.).
8. globalEDGE (n.d.).
Chapter 4
2. Asia Society (n.d.).
3. Asia Society (n.d.).
7. ASEAN Law Association (n.d.).
8. ASEAN Law Association (n.d.).
10. Deloitte (n.d.).
11. BBC News (n.d.).
13. globalEDGE (n.d.).

Chapter 5
1. BBC News (n.d.).
6. ASEAN Law Association (n.d.).
9. globalEDGE (n.d.).
10. globalEDGE (n.d.).

Chapter 6
1. Asia Society (n.d.).
7. ASEAN Law Association (n.d.).
8. BBC News (n.d.).
9. globalEDGE (n.d.).
10. globalEDGE (n.d.).
Chapter 7

2. Asia Society (n.d.).
3. BBC News (n.d.).
4. BBC News (n.d.).
6. BBC News (n.d.).
7. globalEDGE (n.d.).
10. globalEDGE (n.d.).
11. globalEDGE (n.d.).

Chapter 8

11. globalEDGE (n.d.).

Chapter 9

3. BBC News (n.d.).
16. Asia Harvest (n.d.).
18. Asia Society (n.d.).
22. globalEDGE (n.d.).

Chapter 10

1. Asia Society (n.d.).
2. U.S. Department of State (n.d.).
10. globalEDGE (n.d.).

Chapter 11

1. Foreign and Commonwealth Office. (n.d.).
2. U.S. Department of State (n.d.).
5. Foreign and Commonwealth Office. (n.d.).
8. Deloitte (n.d.).
11. globalEDGE (n.d.).
Chapter 12

1. Apotheker et al. (2005).
3. Apotheker et al. (2005).
7. Schuller et al. (2008).
17. ASEAN Economic Community (2009b).
References


References


Index

A page number followed by an “f” refers to a figure on that page.

A
addressing senior officials/colleagues
  Brunei, 20
  Indonesia, 48
  Malaysia, 83
  Myanmar, 98
  Philippines, 117
  Singapore, 133
  Thailand, 150–51
  Vietnam, 168
Association of Southeast Asian Nations (ASEAN). See also specific countries
business culture, 32, 181–85, 183f
business environment, 174–79, 174f, 175f, 176f, 177f, 179f
business opportunities, 185–89, 186f, 187f, 189f, 190–91
challenges, 190–91
economic environment, 9–12, 11f, 12f
founder of, 42
levels of development, 173–74
map, 5f, 173f
market potential/development, 7–9
overview, 5–7, 6f
sociocultural environment, 179–81, 182f
web resources, 191–92
attitudes. See values and beliefs

B
Brunei
  background, 14
  business culture, 19, 20–21
  business environment, 15–19, 17f, 18f
data, 13f
  map, 13f
sociocultural environment, 19–20
web resources, 21–24
business attire
  Indonesia, 49
  Laos, 64
  Myanmar, 98
  Singapore, 133–34
  Thailand, 152
  Vietnam, 168–69
business cards
  Brunei, 20
  Cambodia, 33
  Indonesia, 48–49
  Laos, 64
  Malaysia, 83
  Myanmar, 98
  Philippines, 117
  Singapore, 133
  Thailand, 151
  Vietnam, 168
business culture
  ASEAN, 181–85, 183f
  Brunei, 19, 20–21
  Cambodia, 32–34
  Indonesia, 48–49
  Laos, 63–66
  Myanmar, 98–99
  Philippines, 116–18
  Singapore, 132–34
  Thailand, 150–52
  Vietnam, 167–70
business environment
  ASEAN, 174–79, 174f, 175f, 176f, 177f, 179f
  Brunei, 15, 17, 19
  Indonesia, 41–46, 44f, 45f
  Laos, 56–61
business environment (continued)
Malaysia, 72–78, 76f, 77f
Myanmar, 91–96, 94f, 95f, 99
Philippines, 107–13, 110f, 111f
Singapore, 124–30, 127f, 128f
Thailand, 142–47, 145f, 146f
business opportunities, ASEAN, 185–88, 186f, 187f, 189f, 190–91

C
Cambodia
background, 26–27
business culture, 32–34
business environment, 27–31, 29f, 30f
data, 25f
map, 25f
sociocultural environment, 31–32
web resources, 34–37
challenges
Indonesia, 41
Malaysia, 72
Myanmar, 90–91
Philippines, 106–7
Thailand, 141–42
Vietnam, 158
class, social
Brunei, 19
Indonesia, 47–48
Laos, 63
Malaysia, 80
Myanmar, 97
Philippines, 115, 116
Singapore, 131–32
Thailand, 149–50
Vietnam, 166, 167
communications. See also addressing senior officials/colleagues
Brunei, 21
Cambodia, 32, 33
Indonesia, 49
Laos, 64–65
Malaysia, 83–84
Myanmar, 99
Philippines, 117–18
Singapore, 134
Thailand, 152
Vietnam, 169–70
country size
Brunei, 14
Cambodia, 26
Indonesia, 40
Laos, 54
Malaysia, 70
Myanmar, 90
Philippines, 104
Singapore, 122
Thailand, 140
Vietnam, 156
demographics, ASEAN, 174f
economic environment, ASEAN, 9–12, 11f, 12f
economic system
Brunei, 15–17, 17f, 18f
Cambodia, 28–29, 29f, 30f
Indonesia, 42–43, 44f, 45f
Laos, 57–58, 59f, 60f
Malaysia, 74–75, 76f, 77f
Myanmar, 92–94, 94f, 95f, 99
Philippines, 108–10, 110f, 111f
Singapore, 126–27, 127f, 128f
Thailand, 140, 143–45, 145f, 146f
Vietnam, 159–62, 162f, 163f
egalitarianism response. See also sociocultural environment
Thailand, 150
Vietnam, 170
ethnicities
Brunei, 19
Indonesia, 46–47
Laos, 61–62, 63
Malaysia, 78–79
Myanmar, 96
Philippines, 113–14
Singapore, 130–31
Thailand, 148
Vietnam, 164, 165
executive structures
Brunei, 15
Cambodia, 27
<table>
<thead>
<tr>
<th>Country</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>46</td>
</tr>
<tr>
<td>Laos</td>
<td>62, 63</td>
</tr>
<tr>
<td>Malaysia</td>
<td>80</td>
</tr>
<tr>
<td>Myanmar</td>
<td>97</td>
</tr>
<tr>
<td>Philippines</td>
<td>115, 116</td>
</tr>
<tr>
<td>Singapore</td>
<td>130–31</td>
</tr>
<tr>
<td>Thailand</td>
<td>148</td>
</tr>
<tr>
<td>Vietnam</td>
<td>165</td>
</tr>
</tbody>
</table>

**G**

geography, ASEAN, 179–80

<table>
<thead>
<tr>
<th>Country</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>20</td>
</tr>
<tr>
<td>Cambodia</td>
<td>33</td>
</tr>
<tr>
<td>Indonesia</td>
<td>48</td>
</tr>
<tr>
<td>Malaysia</td>
<td>83</td>
</tr>
<tr>
<td>Myanmar</td>
<td>99</td>
</tr>
<tr>
<td>Philippines</td>
<td>117</td>
</tr>
<tr>
<td>Singapore</td>
<td>133</td>
</tr>
<tr>
<td>Thailand</td>
<td>151</td>
</tr>
<tr>
<td>Vietnam</td>
<td>168</td>
</tr>
</tbody>
</table>

**gift giving**

<table>
<thead>
<tr>
<th>Country</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>20</td>
</tr>
<tr>
<td>Cambodia</td>
<td>32</td>
</tr>
<tr>
<td>Indonesia</td>
<td>48</td>
</tr>
<tr>
<td>Laos</td>
<td>65–66</td>
</tr>
<tr>
<td>Myanmar</td>
<td>99</td>
</tr>
<tr>
<td>Vietnam</td>
<td>170</td>
</tr>
</tbody>
</table>

**globalization response**

<table>
<thead>
<tr>
<th>Country</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>20–21</td>
</tr>
<tr>
<td>Cambodia</td>
<td>34</td>
</tr>
<tr>
<td>Indonesia</td>
<td>49</td>
</tr>
<tr>
<td>Laos</td>
<td>65–66</td>
</tr>
<tr>
<td>Myanmar</td>
<td>99</td>
</tr>
<tr>
<td>Vietnam</td>
<td>170</td>
</tr>
</tbody>
</table>

**greetings**

<table>
<thead>
<tr>
<th>Country</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>20</td>
</tr>
<tr>
<td>Cambodia</td>
<td>32</td>
</tr>
<tr>
<td>Indonesia</td>
<td>48</td>
</tr>
<tr>
<td>Laos</td>
<td>63–64</td>
</tr>
<tr>
<td>Malaysia</td>
<td>82, 83</td>
</tr>
<tr>
<td>Myanmar</td>
<td>98</td>
</tr>
<tr>
<td>Philippines</td>
<td>116–17</td>
</tr>
<tr>
<td>Singapore</td>
<td>132–33</td>
</tr>
<tr>
<td>Thailand</td>
<td>150</td>
</tr>
<tr>
<td>Vietnam</td>
<td>168</td>
</tr>
</tbody>
</table>

**H**

history. See people

**I**

identity/orientation

<table>
<thead>
<tr>
<th>ASEAN</th>
<th>181</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>19–20</td>
</tr>
<tr>
<td>Cambodia</td>
<td>31, 32</td>
</tr>
</tbody>
</table>

Indonesia, 41
Laos, 56
Malaysia, 72
Myanmar, 91
Philippines, 107
Singapore, 124
Thailand, 142
Vietnam, 158–59

Indonesia

background, 40–41
business culture, 48–49
business environment, 41–46, 44f, 45f
data, 39f
map, 39f
sociocultural environment, 46–48
web resources, 50–51
infrastructure development, ASEAN, 185–86
issues of concern
Cambodia, 29
Myanmar, 92
Philippines, 108
Singapore, 125
Thailand, 142–43

Judge appointments

<table>
<thead>
<tr>
<th>Country</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>44</td>
</tr>
<tr>
<td>Laos</td>
<td>59, 61</td>
</tr>
<tr>
<td>Myanmar</td>
<td>96</td>
</tr>
<tr>
<td>Philippines</td>
<td>112</td>
</tr>
<tr>
<td>Singapore</td>
<td>129</td>
</tr>
<tr>
<td>Thailand</td>
<td>147</td>
</tr>
<tr>
<td>Vietnam</td>
<td>164</td>
</tr>
</tbody>
</table>

judicial structures

<table>
<thead>
<tr>
<th>Country</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>15</td>
</tr>
<tr>
<td>Cambodia</td>
<td>28</td>
</tr>
<tr>
<td>Indonesia</td>
<td>42</td>
</tr>
<tr>
<td>Laos</td>
<td>56</td>
</tr>
<tr>
<td>Philippines</td>
<td>108</td>
</tr>
<tr>
<td>Singapore</td>
<td>125</td>
</tr>
<tr>
<td>Thailand</td>
<td>142</td>
</tr>
<tr>
<td>Vietnam</td>
<td>158</td>
</tr>
</tbody>
</table>

judiciary independence

| Myanmar     | 96      |
| Thailand    | 147     |
jurisdiction levels
- Brunei, 17
- Indonesia, 44
- Laos, 61
- Malaysia, 76, 78
- Myanmar, 96
- Philippines, 112
- Singapore, 129
- Thailand, 147
- Vietnam, 164

Malaysia, 72–73
- Myanmar, 91
- Philippines, 107
- Singapore, 124–25
- Thailand, 142
- Vietnam, 158

languages/dialects
- ASEAN, 32, 180, 181
- Brunei, 19
- Cambodia, 31–32
- Indonesia, 46–47, 48
- Laos, 62, 64
- Malaysia, 79, 80, 81, 83
- Myanmar, 96
- Philippines, 106, 114, 117
- Singapore, 131, 132
- Thailand, 149, 150
- Vietnam, 164, 165

Laos
- background, 54–56
- business culture, 63–66
- business environment, 56–61
data, 53f
- map, 53f
- sociocultural environment, 61–63
- web resources, 66–67
- legal environment, ASEAN, 177–78, 188, 189f

legal system
- Brunei, 17, 19
- Cambodia, 29, 31
- Laos, 59, 61
- Malaysia, 76, 78
- Myanmar, 96
- Philippines, 112–13
- Singapore, 129–30
- Thailand, 147
- Vietnam, 162, 164

legislature structures
- Brunei, 15
- Cambodia, 27–28
- Indonesia, 41, 42
- Laos, 56

management styles
- ASEAN, 184
- Cambodia, 33
- Indonesia, 49
- Laos, 65
- Philippines, 118
- Singapore, 134
- Vietnam, 170

market potential/development,
- ASEAN, 7–9

meetings
- Cambodia, 33
- Indonesia, 49
- Laos, 64
- Philippines, 117
- Singapore, 132, 133
- Thailand, 150, 152
- Vietnam, 168

Myanmar
- background, 90–91
- business culture, 98–99
- business environment, 91–96, 94f, 95f, 99
  - data, 89f
  - map, 89f
  - sociocultural environment, 96–97
  - web resources, 100–101

natural resources
- Brunei, 14
- Cambodia, 26, 27
Indonesia, 41, 43
Laos, 54
Malaysia, 74
Myanmar, 90
Philippines, 104
Thailand, 140
Vietnam, 156, 160–61

negotiation methods
ASEAN, 184
Brunei, 21
Cambodia, 33
Indonesia, 49
Laos, 65
Malaysia, 85
Philippines, 118
Singapore, 134
Vietnam, 169–70

O
openness to foreign participation
ASEAN, 181
Brunei, 16
Cambodia, 31
Indonesia, 43
Malaysia, 74–75
Myanmar, 92
Philippines, 110
Singapore, 126
Thailand, 144
Vietnam, 160, 161
opportunities, business, 185–88,
186f, 187f, 189f, 190–91
organizational hierarchy
ASEAN, 181
Cambodia, 33
Indonesia, 49
Laos, 64, 65
Malaysia, 83, 84
Myanmar, 99
Philippines, 117, 118
Thailand, 152
orientations, business approach
ASEAN, 181–82
Brunei, 20
Indonesia, 48
Malaysia, 82
Myanmar, 98
Philippines, 116
Singapore, 132

Thailand, 150
Vietnam, 167

P
people
Brunei, 14
Cambodia, 26–27
Indonesia, 40–41
Laos, 54–56
Malaysia, 70–72
Myanmar, 90–91
Philippines, 104–6
Singapore, 122–23
Thailand, 140–42
Vietnam, 156
Philippines
background, 104–7
business culture, 116–18
business environment, 107–13,
110f, 111f
data, 103f
map, 103f
sociocultural environment, 113–16
web resources, 118–20
political environment, ASEAN,
174–76, 174f, 184–85
political system
Brunei, 15
Cambodia, 27–28
Indonesia, 41–42
Laos, 56–57
Malaysia, 72–74
Myanmar, 91–92
Philippines, 107–8
Singapore, 124–26
Thailand, 142–43
Vietnam, 158–59
population
Brunei, 14
Cambodia, 26
Indonesia, 40
Laos, 54
Malaysia, 70
Myanmar, 90
Philippines, 104
Singapore, 122
Thailand, 140
Vietnam, 156
priorities. See values and beliefs
R
relationships
ASEAN, 181–82
Brunei, 20, 21
Cambodia, 31, 32
Indonesia, 49
Laos, 64, 65
Malaysia, 84
Myanmar, 99
Philippines, 117
Singapore, 134
Thailand, 151–52
Vietnam, 168, 169
religions/religious practices
ASEAN, 180
Brunei, 19
Cambodia, 31
Indonesia, 40, 46
Laos, 54, 62
Malaysia, 70, 71, 78, 80, 81
Myanmar, 96–97
Philippines, 104, 114–15
Singapore, 131
Thailand, 140, 148–49
Vietnam, 157, 165, 166
sectors (agriculture, industry, services)
ASEAN, 185–88, 186f, 187f
Brunei, 15–16, 17f
Cambodia, 27, 28–29, 29f
Indonesia, 43, 44f
Laos, 57–58, 59f
Malaysia, 74, 76f
Myanmar, 92–94, 94f
Philippines, 109–10, 110f
Singapore, 126–27, 127f
Thailand, 143–45, 145f, 147
Vietnam, 160–62, 162f
Singapore
background, 122–24
business culture, 132–34
business environment, 124–30, 127f, 128f
data, 121f
map, 121f
sociocultural environment, 130–32
web resources, 135–37
social dress
Laos, 64
Thailand, 152
social structure/classes
Brunei, 19
Indonesia, 47–48
Laos, 63
Malaysia, 80
Myanmar, 97
Philippines, 115, 116
Singapore, 131–32
Thailand, 149–50
Vietnam, 166, 167
sociocultural environment
ASEAN, 179–81, 182f
Brunei, 19–20
Cambodia, 31–32
Indonesia, 46–48
Laos, 61–63
Malaysia, 78–82
Myanmar, 96–97
Philippines, 113–16
Singapore, 130–32
Thailand, 148–51
Vietnam, 164–67
stability, political
Cambodia, 28
Indonesia, 41
Singapore, 124
structures, business environment
Brunei, 15–16, 17, 17f
Cambodia, 28, 29
Indonesia, 42, 44
Laos, 57, 59
Malaysia, 74, 76
Myanmar, 92, 96
Philippines, 108–9, 112
Singapore, 126, 129
Thailand, 143, 147
Vietnam, 159–60, 162
T
technological environment, ASEAN, 178–79, 179f
Thailand
background, 140–42
business culture, 150–52
business environment, 142–47, 145f, 146f
data, 139f
map, 139f
sociocultural environment, 148–51
web resources, 153–54
time orientations
Brunei, 19, 20
Cambodia, 32–33
Indonesia, 48
Laos, 63
Malaysia, 82
Myanmar, 98
Philippines, 116
Singapore, 132
Thailand, 150
Vietnam, 167–68
trade
ASEAN, 185, 188
Brunei, 16, 18f
Cambodia, 28, 30f
Indonesia, 42, 43, 45f
Laos, 58, 60f
Malaysia, 74, 75, 77f
Myanmar, 94, 95f, 99
Philippines, 109, 110, 111f
Singapore, 126, 128f
Thailand, 140, 143–44, 146f
Vietnam, 160, 161, 163f
traditions/customs
Brunei, 19
Indonesia, 46
Laos, 62
Malaysia, 80, 81
Myanmar, 97
Philippines, 114–16
Thailand, 149, 151
Vietnam, 165, 167
treatment of foreign investors/business organizations
Indonesia, 44, 46
Laos, 61
Philippines, 112–13
Singapore, 129–30
Thailand, 147
Vietnam, 164

V
values and beliefs
Brunei, 19–20
Cambodia, 31, 32
Indonesia, 46
Laos, 62, 63
Malaysia, 80
Myanmar, 97
Philippines, 114–15, 116
Singapore, 130–31
Thailand, 148–49
Vietnam, 166–67
Vietnam
background, 156–58
business culture, 167–70
business environment, 158–64, 162f, 163f
data, 155f
map, 155f
sociocultural environment, 164–67
web resources, 170–71

W
web resources
ASEAN, 191–92
Brunei, 21–24
Cambodia, 34–37
Indonesia, 50–51
Laos, 66–67
Malaysia, 85–87
Myanmar, 100–101
Philippines, 118–20
Singapore, 135–37
Thailand, 153–54
Vietnam, 170–71
worldview
ASEAN, 181
Brunei, 19–20
Indonesia, 47
Laos, 62, 63
Malaysia, 80
Myanmar, 97
Philippines, 114–15, 116
Singapore, 130–31
Thailand, 148–49
Vietnam, 166–67
Announcing the Business Expert Press Digital Library

Concise E-books Business Students Need for Classroom and Research

This book can also be purchased in an e-book collection by your library as

- a one-time purchase,
- that is owned forever,
- allows for simultaneous readers,
- has no restrictions on printing, and
- can be downloaded as PDFs from within the library community.

Our digital library collections are a great solution to beat the rising cost of textbooks. e-books can be loaded into their course management systems or onto student’s e-book readers.

The BUSINESS EXPERT PRESS digital libraries are very affordable, with no obligation to buy in future years.

For more information, please visit WWW.BUSINESSEXPERT.COM/LIBRARIES. To set up a trial in the United States, please contact SHERI ALLEN at sheri.allen@globalepress.com; for all other regions, contact NICOLE LEE at NICOLE.LEE@IGROUPNET.COM.

OTHER TITLES IN OUR INTERNATIONAL BUSINESS COLLECTION

Series Editors: Tamer Cavusgil, Michael Czinkota, and Gary Knight

Export Marketing Strategy: Tactics and Skills that Work by Tamer Cavusgil, Shaoming Zou and Daekwan Kim

Born Global Firms: A New International Enterprise by Gary Knight and Tamer Cavusgil

Conducting Market Research for International Business by Tamer Cavusgil, Gary Knight, John Riesenberger and Attila Yapak

Emerging Trends, Threats and Opportunities in International Marketing: What Executives Need to Know by Michael Czinkota, Ilkka Ronkainen and Masaaki Kotabe

The Internationalists: Masters of the Global Game by Catherine Scherer

Managing International Business in Relation-Based Versus Rule-Based Countries by Shaomin Li

International Social Entrepreneurship by Joseph Mark Munoz

Successful Cross-Cultural Management: A Guidebook for International Managers by Parissa Haghirian

Understanding Japanese Management Practices by Parissa Haghirian

A Strategic and Tactical Approach to Global Business Ethics by Lawrence A. Beer.