



Asiance

## **NEWSLETTER**

# **YOUR GATEWAY TO THE ASEAN MARKETS**

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# **05/2022**

**ARE DISTANT  
EXPORTS DEAD?  
WHAT ARE THE  
OPTIONS TO GROW  
INTERNATIONALLY?**



# DISCLAIMER

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Kuala Lumpur, May 15th, 2022



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# WHO WE ARE

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Consulting and trading firm registered in Kuala Lumpur, Malaysia in 2022

Founder and Managing Director, Mr. Germain THOMAS, has 15 years of business experience in Southeast Asia in various sectors such as construction, building materials, interior finishes, IAQ, M&E engineering, automation, facilities management, security, etc. with applications in healthcare, industry, sports, education, residential, commercial, etc.

Multilingual, French Foreign Trade Advisor and active member of many relevant business networks across the region, we offer you professional and independent one-stop-solution services.

## OUR SERVICES

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We can help you to:

- Understand better the business environment in Southeast Asia
- Deliver market studies and intelligence
- Identify projects, partners, suppliers
- Specify and distribute your solutions to a wide network of developers, architects, designers, consultants, end-users
- Manage social media campaigns, PR
- Organize events and site visits
- Identify investment opportunities
- Recruit the right team
- Get local authorizations, licences, permits
- Protect your brand and IP rights

# INTRODUCTION

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The Covid-19 pandemic and the war in Ukraine have structurally reshuffled the cards for international trade and supply chains.

These crises have highlighted the **weight** of certain countries (and the **dependence** of others) at the global level for mass consumption products such as cereals and fertilizers, vegetable oils, rare earths, etc .

**Logistics costs** have exploded since October 2019. Sending a 20-footer from Europe to Asia has gone from around 1,000 EUR to 4-5,000 EUR over the past 2 years, making European products with low added value **uncompetitive** compared to their Asian competitors. Then if we add **delivery delays** and **import taxes** in most ASEAN countries, it becomes difficult for a European SME to gain market shares in Asia, regardless of government subsidies.

- 1.Does this mean the death of distant exports and the advent of regional trade? (intra European, intra American, intra Asian, etc.)
- 2.So what are the possible options for European companies willing to grow internationally?



# ARE DISTANT EXPORTS DEAD?

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Not quite, because the impact of the logistics cost on **high value-added products** is lower, especially in sectors such as luxury, aeronautics, biomedical, semiconductors, etc.

We have noticed a rapid adaptation of companies to supply challenges with a **re-impatriation** of certain purchases to a **more restricted radius** than before. What was bought on the other side of the world in 2019 because it was "cheap" is now sourced locally or regionally as much as possible, despite **higher prices** but with a guarantee of being delivered within more **acceptable deadlines**.

But what has been outsourced for 30 years is no longer necessarily produced in Europe, and the use of alternative products/components/ingredients requires time and R&D, and therefore **additional budgets**.



# POSSIBLE OPTIONS FOR INTERNATIONAL DEVELOPMENT

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Distant export (beyond European borders) remains an option for goods with high added value, niche products or major brands. Carrying out in-depth market studies and identifying the **right local partners/distributors** remain the major guarantees of success. Controlling **distribution channels**, knowing where your containers are in real time and their true date of arrival at the port of destination are also key.

We do not export to Asia as we do in Europe. **Sea-freight** remains the most common mode of transport, while waiting for the intercontinental railway to really develop. The **packaging** must be suitable for transport by container, unlike trucking used in Europe. This is all the more critical since prices increased for 20 and 40 footers. It is necessary to be able to put a **maximum of goods per container**, superimpose the pallets or others in order to “make profitable” the cost of the sea freight.

Exchanges are made in **different currencies** even if the Euro and the US Dollar are mostly accepted. The **risk of non-payment** is greater, and legal actions less available. The **terms of payment**, especially on public contracts, are longer than in Europe. It should not be surprising to be paid within 200 or 300 days on infrastructure projects in Malaysia, Indonesia, Philippines, Vietnam. This **has to be anticipated** when making an offer to a public call for tender and for your project cashflow management.



# FOREIGN DIRECT INVESTMENTS AND PARTNERSHIPS

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The **establishment** of an office or a factory in the ASEAN region is an option to be closer to Asian customers, to keep or gain market shares thanks to lower production costs and shorter delivery schedule while taking advantage of **regional free trade agreements** and the absence of import taxes. It is not a question of relocating European production but of creating a new offer (perhaps **more adapted to local needs**) for new territories. France is not the only one to promote products made on its territory. The pandemic has accentuated **nationalisms** all over the world and countries like Malaysia, Indonesia, Vietnam, the Philippines tend to prioritise locally-made goods. So an European company is more likely to win Asian markets by producing locally rather than only promoting its “made in Europe” solutions. The **two approaches are complementary** and are visible in the building materials sector, for example. French champions such as Saint-Gobain, Schneider Electric, Legrand, Somfy, Gerflor, Onduline, produce in France but also in their other major markets, particularly in Asia.

Setting up overseas does not necessarily mean a heavy solo investment. Many **opportunities for partnerships** and joint ventures with local champions are to be considered. Sometimes this involves agreeing to be a **minority shareholder** in the host country. The successes of shipowners Louis Dreyfus and the mining company Eramet in Indonesia are good examples of this.

Even partnerships in terms of **R&D** should not remain taboo. Identifying the right local partner remains essential. There is a crying need for R&D partnerships with technology companies in Southeast Asia, especially among SMEs.

The same applies to technical apprenticeship courses, engineering training, biomedical, assistance to the elderly, etc. **Partnerships** between European universities or training institutes and private or public institutions in ASEAN are possible. Even if courses in English are more likely to emerge than in any other European language. The successful establishment of several British Universities in Malaysia is a good example.



# NEW PROCUREMENT CHANNELS

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**Growing internationally goes both ways**, on the one hand you diversify your portfolio of customers, on the other hand you diversify your portfolio of suppliers and subcontractors in order to mitigate country risk and the risk of supply disruptions. Many European companies **have relied solely** on Chinese suppliers for 20 years. It is true that the manufacturing ecosystem in China is incredibly efficient. But this model has shown its **limits** since the Sino-American trade conflict, the boycott of products made by the Uyghurs, the impact of the Zero-Covid policy on factories and seaports, and the rejection of “made-in-China” low-quality goods by many countries.

Finding **new suppliers** in other countries has therefore become essential. It is not a question of leaving China, this market is too big to be ignored, but of considering China as a market as such, independent and different from the rest of Asia. And even though Africa is closer to the heart of French entrepreneurs, its manufacturing sector and infrastructure are still far from the level of those in the **ASEAN region**.

Airbus is now, and for the next 5 years, on crazy production rates for its A320, and subcontractors based in particular in Malaysia are encouraged to follow the pace because the French and European supply chains will not be enough on their own.





# EVENTS

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April and May have been busy with business events thanks to the easing of Covid-19 SOPs in Malaysia.

Asiance joined the following fairs and exhibitions:

- **OTC Asia**, KLCC, offshore oil&gas business is back!
- **DSA**, MITEC, the biggest defense and security exhibition in Asia
- **2nd Future Hospital** Strategy & Development Forum, Intercontinental hotel
- **Engineer & MARVEX**, at KLCC, 1st Malaysia engineering exhibition and conference
- **Séminaire de réflexion** of the CCIFM, Saujana hotel

Online events are still active, Asiance attended the following webinars:

- **MAIA-GIFAS**, about the opportunities for the Malaysian aerospace industry to work with the French supply chain
- **ICDM** about the ESG norms impact on the profile of corporate boards members
- **Ministry of Economy and Finance** about «Indonesia, economic challenges for France» (February)



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# ANY QUESTIONS? CONTACT US

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