

OWW Capital wishes its readers a happy, healthy and prosperous 2010

ASEAN-CHINA FTA kicks in

The Association of South East Asian Nations (ASEAN)-China free trade area (FTA) covering a market of 1.7 billion consumers - rivalling that of the European Union (EU) and the North American Free Trade Area - came into effect on 1 Jan 2010.

For ASEAN the likely sectors to benefit are services, infrastructure, manufacturing and other regional based support services such as supply chain, IT, etc. China on the other hand will be eyeing ASEAN's raw materials like palm oil, timber and rubber, and opening up regional markets for its manufactured products, steel and textiles.

When the idea was mooted in 2002, China and ASEAN, both export-oriented economies, were targetting the US and EU markets so neither side took the other's market as its most important target market. However, following the recent global economic crisis, much has changed. Firstly, China's massive stimulus programme continued to support the excess manufacturing capacity built up over decades. Secondly, China continued to peg its currency to the falling USD giving its exports a competitive advantage. Thirdly, Chinese exporters which faced increasing protectionism from its traditional markets started penetrating ASEAN markets. As a result ASEAN, which used to run trade surpluses with China previously, had a US\$74 billion trade deficit with China for the first 9 months of 2009.

Fear has gripped some ASEAN countries. Industry groups in Indonesia and the Philippines are frantically pressing their governments to keep tariffs on vulnerable sectors such as textiles, petrochemicals, footwear, electronics, steel, auto parts, food and drinks, engineering services and furniture until 2012. Others such as Vietnam just devalued its currency by 5 per cent, to keep it competitive with China.

China had in 2009 proposed a US\$10 billion investment fund to help build badly needed roads, railways and ports in South-east Asia, and a US\$15 billion fund to give Asian nations low-interest development loans. But this is paltry compared to the potential damage its exporters could wreck on ASEAN export oriented companies.

While there is hope that ASEAN companies could capitalise on ASEAN-China FTA by exporting into the growing Chinese market, the biggest reprieve could yet come in the form of a stronger USD. And that's provided China does not respond by devaluing the renminbi.

Indonesia Attraction: Resource, Infrastructure, Consumer

Indonesia, the largest economy in Southeast Asia, the fifth-largest economy in Asia and the world's fourth most populous country after China, India and the US, is beginning to look attractive as an investment destination. Rich in natural resources, Indonesia is a key supplier of raw materials to China, India, Middle East and other emerging markets. Also, as the world's largest exporter of thermal coal, it is strategically located close to China and India, two of the fastest growing energy markets in the world.

Indonesia grew 6% in 2007 and 2008 and is expecting more than 4% growth in 2009. This is due to resilience in domestic consumption which comprised more than 60% of the economy, unlike its export dependent neighbours. President Yudhoyono's re-election victory in July 2009 has bolstered political stability and improve growth prospects in the next five years. Inflation is curbed to nine-year low, although the country still faces many challenges such as poverty and corruption, and currency stability remains an issue.

Indonesia has unveiled plans to spend nearly US\$140 billion on new infrastructure over the next five years - more than doubling its expenditure on new roads, power plants and ports. To mobilise private capital for investing, the government has made its first participation into a private equity fund that focuses on alternative energy, water treatment and agri-technology. Indonesia received US\$10.6 billion of foreign direct investment (FDI) in 2009, whereas China and India attracted 7.3 and 2.7 times respectively more FDI in 2009.

Indonesia, with an abundance of commodities and resources (and ready global buyers for them), an urgent need to build infrastructure and a large domestic consumption market to drive the economy, offers investment opportunities in three realms: Resource, Infrastructure and Consumer sectors.

US\$750M for a piece of Mobile Internet

In November 2009, Google announced that it will acquire Admob, a US West Coast based mobile advertising platform company, for US\$750 million. The news qualifies as one of the largest Tech M&A transactions in 2009 and also one of the largest acquisitions by Google. Most important of all, it illustrates the fact that Tech behemoths like Google are turning their attention to the Mobile Internet, eyeing its opportunities and potential.

Having dominated the world of online advertising with Adword and Adsense, Google's desire to stake out in the arena of mobile advertising have garnered much buzz and attention, not least from regulators who are currently reviewing the proposed acquisition to evaluate if it will result in Google gaining an unfair/oppressive position and stifle market competition. All this goes to highlight there is growing recognition that Mobile Internet will eventually become a mainstream communication, commerce and media platform alongside the Internet and traditional media.

In view of the notable transaction, and backed up by empirical data from OWW portfolio [Buzzcity](#) which operates in the same space, it is clear that the medium term outlook for companies targeting the Mobile Internet is extremely promising. It will be a matter of time before Mobile Internet becomes ubiquitous. The proliferation of mobile handsets across the world is empowering a new generation of users to join the digital age and opens up societies, promotes economic progress, creates employment opportunities. Along the way, we will also witness the emergence of new corporate leaders that will fulfil the above objectives and deliver ample rewards to their investors and shareholders.

Online Games Thrives Despite Recession

2009 has been a tough year for businesses due to the global economic slowdown. However the online-game industry continues to thrive and even benefit from the economic crisis. Online game continues to be one of the cheapest forms of entertainment suited to the lifestyle of younger demographic group. Despite relatively lower disposable income or loss of jobs during the recession, gamers actually spend more time playing online games due to strong community bonding. Growing broadband access and proliferation of cybercafes also helped online gaming grow.

OWW portfolio company, [Asiasoft](#) Corporation Public Company Limited (SET: AS), is a leader in online games in Southeast Asia, with presence in Thailand, Singapore, Malaysia and Vietnam serving over 18 million registered gamers. The company key market is in Thailand with 80% market share of the cybercafes in Thailand and more than 10,000 cafes in South East Asia. Despite economic slowdown and periods of political instability in Thailand, the company's revenue in Thailand has grown in 2009.

About OWW

OWW Capital Partners Pte Ltd ("OWW") (www.oww.com.sg), formerly known as OCBC, Wearnes & Walden Management (Singapore) Pte Ltd, was established by OCBC Bank, WBL Corporation and Walden International in 1991. In October 2006, the management team of OWW acquired WBL Corporation's interests and the company assumed its current name.

OWW focuses on expansion stage companies in the enterprise and consumer services sectors within the South East Asia and North Asia regions.

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