Every year, the US business magazine Fortune selects 500 global companies based on their annual revenue. Despite its many limitations, the Fortune Global 500 rankings provide a useful reference to the economic power and global competitiveness of each country. The 2018 results show that six Southeast Asian companies made the Fortune Global 500. Thailand, Malaysia and Indonesia had one each and three are from Singapore. When compared with other Asian countries, these numbers are small. China had 161 companies on the list, Japan 55 and Korea 17. When standardized by the size of each economy, the number of Fortune 500 companies per USD 1 trillion dollars of GDP is 2.2 for Thailand, 3.2 for Malaysia, 1.0 for Indonesia and 9.3 for Singapore. This is similar to 2.7 in India, yet significantly smaller than 10 each for China, Japan and Korea.

Looking at individual Southeast Asian companies on the Fortune Global 500 list reveals further insights into the region’s corporate sector. The top company in the region is Thailand's oil and gas giant PTT, ranked 163rd with a revenue of USD 58.8 billion. The second place went to Malaysia's Petronas, ranked 191st with a revenue of USD 52 billion. The th-
ird place was taken by Indonesia’s Pertamina, ranked 253rd with a revenue of USD 43 billion. Three Singaporean companies made the list, yet only one can be reasonably considered a genuine Singaporean firm while the others include an asset-holding investment group hailing from Switzerland and an electronic company co-headquartered in California, US. The only remaining Singaporean company is Wilmar International, a commodity trading company specialized in palm oil. It ranked 248th on the Fortune Global 500 with a revenue of USD 44 billion.

The four Southeast Asian companies have certain commonalities. Two features stand out. First, all the companies are in some form of natural resources, mostly in the oil and gas sectors, but also agricultural commodities such as palm oil. Second, they are all state-owned enterprises (SOEs) except for Singapore’s Wilmar International. The heavy presence of SOEs is closely interlinked to the region’s large endowment of natural resources.

The strong concentration in petroleum and agricultural commodities among the region’s global companies reflects the resource wealth of the region and also suggests that Southeast Asia has successfully utilized its comparative advantage. At the same time, it also indicates that the region’s corporate competitiveness is constrained by its weak technological capacity, especially in core manufacturing. Southeast Asia has actively and successfully used foreign direct investment (FDI) for its industrialization. The rise of globally competitive export-oriented manufacturing in Thailand and Malaysia has been heavily relied on capital and technology from Japan and other advanced economies. Although this model has worked well for the past decades, these countries now face the challenge of industrial upgrading. Nonetheless, it has been difficult for local firms to move up the value chain. While globally-competitive local suppliers have indeed emerged in some industries, the core manufacturing sectors have been dominated by foreign companies. Some agricultural and food product industries are exceptions where local companies have developed successful global businesses as lead firms.

The issue of global competitiveness of Southeast Asian companies is directly related to the debate on whether the Southeast Asian economies have fallen into the middle-income trap. Most countries in the region are already middle-income countries or at the doorstep of becoming one. The challenges arise when the region’s countries try to transit to upper-middle-income and high-income status. The regional governments take this issue seriously and have responded to the challenge by developing national strategies that focus on innovative manufacturing often supported by infrastructure development. Thailand 4.0, Making Indonesia 4.0, and Industry4WRD: National Policy on Industry 4.0 are some of the examples.
The success of these strategies will depend on many factors, yet critical is the performance of private firms, especially large ones. If we exclude small and medium enterprises (SMEs), private and large firms are one of the three groups that constitute the region’s corporate landscape. There are SOEs that dominate the energy, raw material, and in some countries infrastructure sector. The other group is made up of foreign affiliates or joint-ventures which have led export-driven industrialization in some countries. The division of labor is such that locally-owned large private firms in the region tend to be concentrated in sectors not dominated by the other two groups. They often operate in the heavily regulated industries of finance, broadcasting, and telecommunications, and other domestic-market-focused sectors such as retail, real estate, construction, and often utilities. Many have developed into conglomerates and major regional corporations. As mentioned earlier, some conglomerates are in food and beverage, which is one of the few industries where local firms export and expand, especially to the regional markets using indigenous technology and brands. Also important will be start-ups that have recently emerged to dominate new industries thanks to an unprecedented level of combination of IT and services.

Some Southeast Asian private companies have indeed ventured into indigenous manufacturing industries, and one of the most recent examples would be Vietnam’s Vingroup. Started as a real estate developer, it is the country’s largest private conglomerate with a revenue of USD 5.3 billion as of 2018. Vingroup has produced automotive (Vinfast) and smartphone (Vinsmart) products under its own name since 2018. Other private firms in the region see promising business opportunities in new service industries ushered in by regional integration and the development of information technology. The emergence of a regional market under the ASEAN Economic Community (AEC), for instance, offers growth opportunities for the region’s low-cost carrier (LCC) industry. Air Asia, Malaysia's leading LCC, is a leading Southeast Asian LCC with global competitiveness which has been ranked as top LCC in the world for 10 consecutive years. Southeast Asia as a region has huge potential as an LCC market due to its large population, a growing middle class, economic integration and the region’s thriving tourism industries. The growth of the Southeast Asian LCC industry, which occupies 60% of the region’s air traffic, preceded the government-led AEC negotiations, but it is expected to benefit considerably from the creation of the ASEAN Open Skies policy which is currently in progress. IT-enabled new service industries are another domain where new types of Southeast Asian private companies have emerged. Ride-hailing services are a good example. Grab, an industry leader in Southeast Asia based in Singapore, has developed into serving most of the Southeast Asian markets with the combination of IT and service. Grab is the third largest global ride-hailing service and acquired Uber’s Southeast Asia business in
2018. Grab has entered a fierce competition with Go-Jek, an Indonesian company, in regional markets such as Thailand, Vietnam, and the Philippine.

The role of the government in the middle-income to high-income transition differs significantly from its role in the initial take-off. The government can create a conducive environment by investing in tertiary education and R&D capability and improving the institutional system to address the middle-income challenges. Yet the most demanding part of the process will be taken up by the private sector. The conducive environment created by the government will matter only when it actually enables and encourages private firms to improve productivity and engage in innovation. Any discussion on Southeast Asia’s transition to high-income status needs to put more emphasis on the role of indigenous private firms, be they large corporations or SMEs. It is often the case that our knowledge and understanding with respect to private firms within the middle-income challenge is considerably limited compared to our knowledge of government policies or plans of international development institutions. This is one area where considerably more attention is needed.