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THE RESULTS OF A SURVEY ON THE VIEWS WHICH ASIA FOCUSED BUSINESS PEOPLE HOLD ON THE BUSINESS ENVIRONMENT OF ASIA

This survey was conducted during December 2010 with the objective to determine the perceptions which business people hold on the business environment in various Asian countries. It is one in an ongoing series which allow the perceptions to be monitored over time.

Responses are invited from a wide range of organisations which have an interest in Asia, and the resultant responses are quite interesting. As is our custom, there is very little interpretation of the results, rather just a reporting, and leaving it to the reader to provide the interpretation.

The survey was conducted by Glen Robinson and Mitchell Brown of AFG Venture Group. Glen Robinson has advised and assisted many companies which wished to establish or enhance their commercial presence in Asia, and he can be contacted at glen.robinson@afgventuregroup.com

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INTRODUCTION

AFG Venture Group has continued the annual project commenced 8 years ago by Asean Focus Group in which Asian focussed business people are surveyed to gauge the perception which these people have towards Asia as a commercial target for investment and trading. It has been undertaken annually so that some year by year comparisons can be made. It should be noted that generally the comments are those of the Respondents and not necessarily the companies which they represent.

As is usual, we have applied the minimum of interpretation to the results, just providing the facts as we find them and preferring to leave it to the reader to provide the interpretation in the light of his, or other, experience.

We believe this is an important study because there is little empirical information which provides insights into the experiences and perception of business people who operate in a number of Asian environments on a day to day basis. Given the increasingly global focus of companies, the ethnic and geographic boundaries are becoming quite blurred.

The western world is recovering from the effects of the Financial Crisis, but once again we have chosen not to focus on this financial phenomenon, but we have chosen instead to continue to focus on the target countries of Asia.

We offer our thanks for the cooperation and assistance given by the various Bilateral Business Councils, the Chambers of Commerce, but importantly the individual Respondents who took the trouble to complete the survey information.

We trust the results are of interest and are useful to you in your organisation in developing its forward plans.

1. POLITICAL AND ECONOMIC BACKDROP

This year has been an extremely interesting one both politically and economically. The Financial Crisis which has permeated the globe and dominated the financial press, the continued emergence of China as an international investor, and the finalisation of the Asean Australia & NZ Free Trade Agreement (AANZFTA), and the plethora of cross border regional Free Trade Agreements have dominated the international news, but there are many other, more localised matters which have dominated local news:

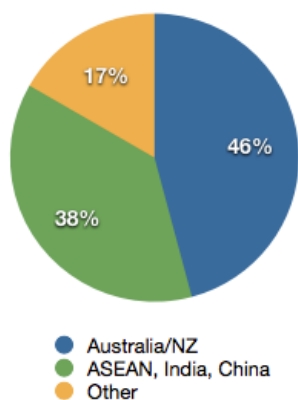
- continued deregulation of the Indian economy
- the emergence of Indonesia as a growing and robust economy, and the continuing moves to internationalise business arrangements
- the potential disruption and uncertainty caused by the actions of North Korea and the reactions which they precipitated
- continued political uncertainty in Thailand
- interesting move to develop free trade arrangements, both within and external to the region
- growing confidence and interest in the Asean Charter

There were other more localised events which certainly had an impact on the various local economies and the attractiveness of that economy to individual investors.

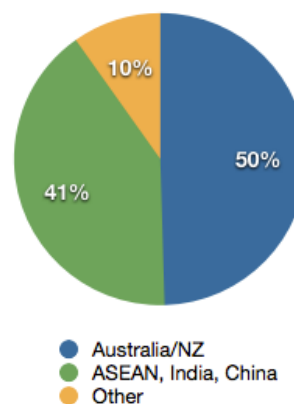
2. LOCATION OF RESPONDENTS

The location of the Operational Head Office and the location of the Respondent is as below.

Location of Operational Head Office



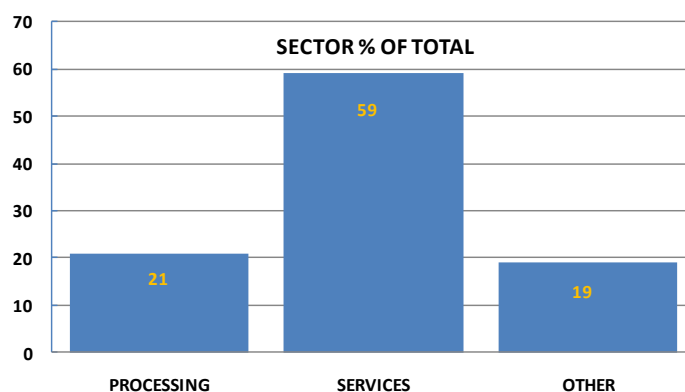
Location of Respondents



It is noted that the Operational Head Office is not necessarily the location of the organisations head office or the location of the Respondent.

3. SECTORAL PROFILE

The sectors in which the Respondents operate has been summarised in the following graphic in which the commercial activities are dominated by the service sector.



4. COMPANY SIZE

The Respondents described the relative size of their companies:

We did not attempt to define “size” but left it to the Respondent to describe the company as it was perceived. The results show a skew to the smaller companies.

COMPANY SIZE				
	Australia/NZ	ASEAN, India, China	Other	Total
SMALL	23%	15%	9%	46%
MEDIUM	12%	12%	3%	28%
LARGE	10%	11%	4%	26%
TOTAL	45%	38%	17%	100%

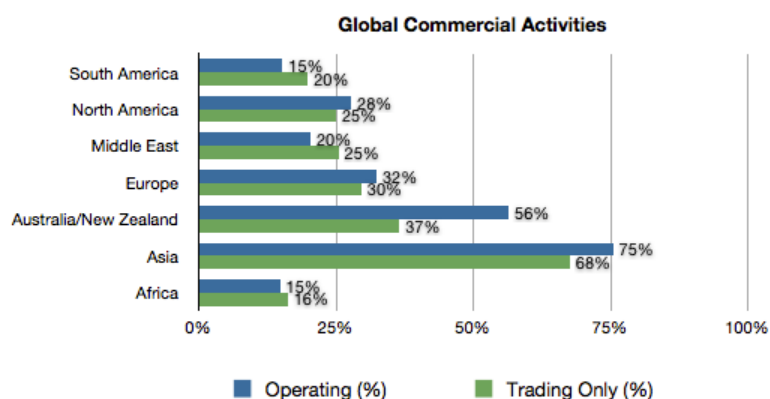
5. COMMERCIAL ACTIVITIES

The nature of the survey is such that all Respondents have some interest in Asia, even though there may not be commercial contact as yet. Approximately 7% of the Respondents are in the category of not yet having a commercial presence in the region.

In relation to the type of activity categorised as Trading or Operating, the location in which those activities were undertaken was investigated.

Global Trading and Operating Activities

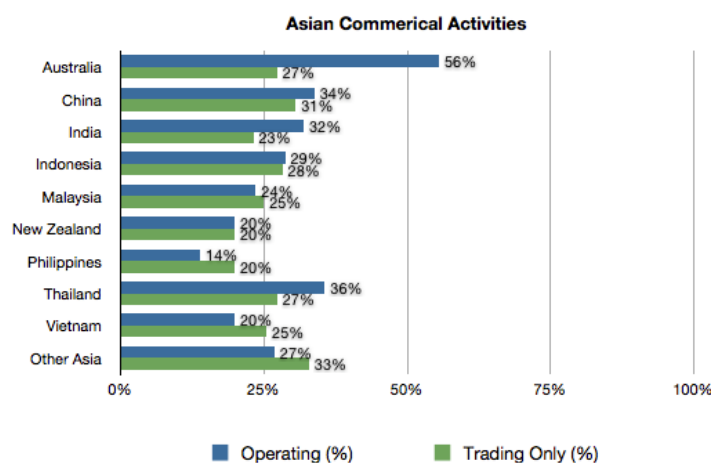
In response to the question related to their global activities, the locations and activity are shown below. Almost 70% of the Respondents have a trading relationship in Asia, but only 20% have a trading relationship in Africa. Similarly 75% have an operation in Asia, but only 10% have an operation in Africa or South America.



Even so, the Respondents are commercially represented in geographically diverse locations.

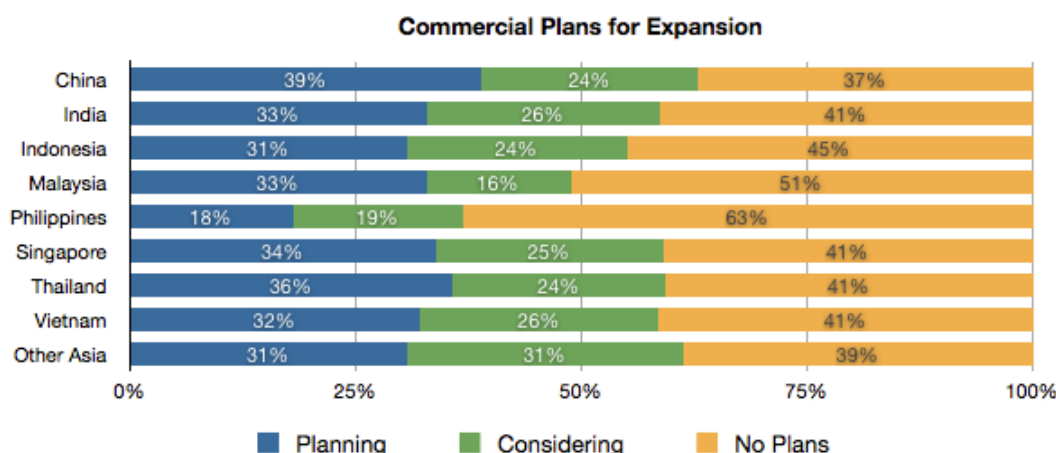
Asian Trading and Operating Activities

The various nominated Asian countries have been long term commercial targets. This analysis shows the percentage of the Respondents which have a commercial relationship with each country. Interestingly, 30% of the Respondents have a trading relationship with China, and 20% had a trading relationship with Philippines. Similarly, 35% have an operating business in China whereas 10% have an operating business in Philippines. There is a broadly based Asian activity by most Respondents.



6. COMMERCIAL EXPANSION PLANS

In response to the question “Are you considering an entry or expansion to the nominated country in the following year” the participants gave the answers as follows:



There is a significant number which are planning or considering an expansion or market entry, as the indications are that over 50 % are in this category. Given the economic conditions at this time, this may be regarded as surprisingly high.

Further those in which the planning has commenced averages over 25% once again, a significant proportion.

It is noted that there is a relatively high number of executives which are considering Asia as a commercial target. This further demonstrates the broadly based nature of the Respondents.

It was decided to compare the expansion intentions over time, so an analysis was taken of the companies which expressed that they were “Considering” or “Planning” an entry or expansion into the various countries [Singapore was not included in 2008]. It may be inferred that the relative high level of “bullishness” has continued and actually may be seen as increasing.

EXPANSION PLANNING OR CONSIDERING			
	2008	2009	2010
CHINA	58%	60%	63%
INDIA	53%	60%	59%
INDONESIA	47%	57%	55%
MALAYSIA	44%	50%	49%
PHILIPPINES	29%	38%	37%
SINGAPORE		48%	59%
THAILAND	42%	52%	60%
VIETNAM	48%	58%	58%
OTHER ASIA	56%	50%	62%

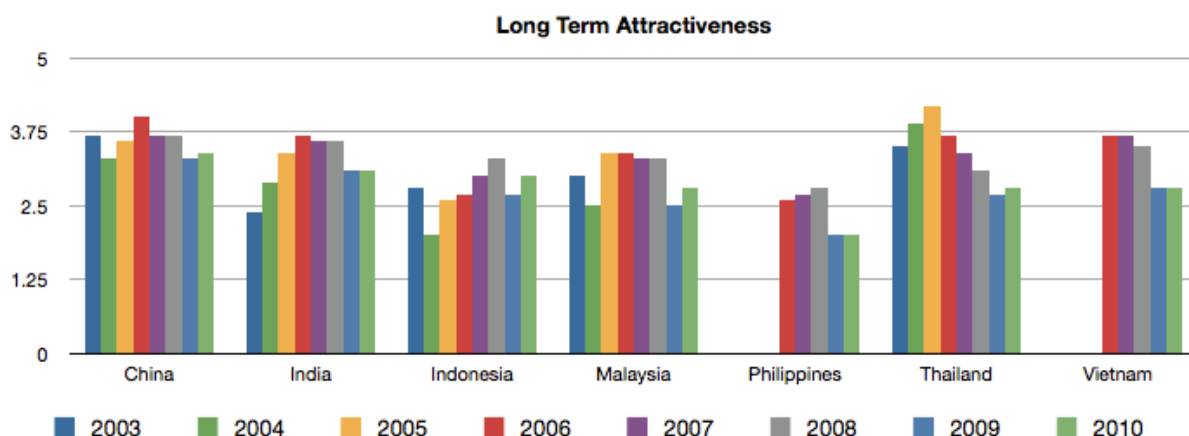
7. ATTRACTIVENESS OF VARIOUS COUNTRIES

The relative attractiveness of each country has been analysed from various perspectives. The Respondents rated the nominated countries on a scale in which 5=very attractive and 1=very unattractive, and once again, the Respondents used their own definition of “Attractiveness”, and the results are shown. While the average “Attractiveness” is of interest, the distribution of the responses within any one country could also be of interest. The results of that analysis indicate that 11.4% of the Respondents rate China as “Not Good” through to 25.9% rate it as “Good”. Similarly for the Philippines, 36.7% rate it as “Not Good” and 0.6% rate it as “Good”. At the end of 2010, China is the most attractive, closely followed by India and Indonesia

RELATIVE ATTRACTIVENESS						
	NOT GOOD 1	2	OK 3	4	GOOD 5	AVE.
CHINA	11.4	13.0	22.3	27.5	25.9	3.4
INDIA	14.1	20.0	28.1	19.5	18.4	3.1
INDONESIA	11.7	26.1	29.3	15.4	17.6	3.0
MALAYSIA	17.5	22.6	35.0	16.4	8.5	2.8
PHILIPPINES	36.7	31.4	26.0	5.3	0.6	2.0
THAILAND	18.6	20.8	32.8	15.9	12.0	2.8
VIETNAM	15.5	25.1	32.1	19.8	7.5	2.8

Long term Trend

This analysis has been undertaken each year since 2003 [Philippines and Vietnam since 2006] in order to track the changes in “attractiveness”, and the Respondents applied the 5= Very attractive through to 1=very unattractive.



	China	India	Indonesia	Malaysia	Philippines	Thailand	Vietnam
2003	3.7	2.4	2.8	3.0		3.5	
2004	3.3	2.9	2.0	2.5		3.9	
2005	3.6	3.4	2.6	3.4		4.2	
2006	4.0	3.7	2.7	3.4	2.6	3.7	3.7
2007	3.7	3.6	3.0	3.3	2.7	3.4	3.7
2008	3.7	3.6	3.3	3.3	2.8	3.1	3.5
2009	3.3	3.1	2.7	2.5	2.0	2.7	2.8
2010	3.4	3.1	3.0	2.8	2.0	2.8	2.8

With that as background, there are some interesting factors which can be highlighted:

- The marked decline evident in 2009 in every country has been arrested.
- There has been an upturn in attractiveness in China, Indonesia, Malaysia, and Thailand, and it is India, Philippines and Vietnam which have remained the same as 2009
- Indonesia and Malaysia show significant increases in attraction

Investment Incentives

Most countries offer some form of investment incentives to encourage the foreign investors, and these can take several forms. The question was posed to rate the quality of investment incentives by applying the 5=Very Attractive through to 1=Very Unattractive, and then averaging those results. The table below shows China has an average rating of 2.59, and 17% of the Respondents rated it as a 1 [not good] and 10% rated it as a 5 [very good]. Once again the distribution of the ratings has been included in the analysis

	INVESTMENT INCENTIVES					AVE.	2009 RESULT
	NOT GOOD 1	2	OK 3	4	GOOD 5		
CHINA	26%	26%	28%	13%	8%	2.50	2.59
INDIA	34%	31%	24%	9%	2%	2.20	2.59
INDONESIA	23%	37%	31%	6%	4%	2.32	2.12
MALAYSIA	18%	32%	39%	7%	3%	2.45	2.46
PHILIPPINES	49%	27%	15%	8%	1%	1.85	2.00
THAILAND	22%	21%	32%	16%	8%	2.67	2.60
VIETNAM	24%	28%	30%	16%	2%	2.44	2.38

Within that group of countries, Thailand, closely followed by Malaysia is seen as having the most attractive investment incentives, and Philippines are the least attractive. It is interesting that there has been a shift in the perceived attractiveness from 2009 to 2010.

Ease of Company Establishment

The ease which a company can be established can be a significant issue in developing a corporate expansion strategy. The question was posed to rate the ease by which a company can be established in the various countries, by applying the 5=Good through to 1=Not Good, and then averaging those results. Once again the distribution of the ratings has been included in the analysis

	EASE OF ESTABLISHMENT					AVE.	2009 RESULT
	NOT GOOD 1	2	OK 3	4	GOOD 5		
CHINA	32%	33%	28%	6%	1%	2.10	2.31
INDIA	35%	33%	24%	4%	4%	2.10	2.36
INDONESIA	27%	30%	33%	6%	4%	2.30	2.16
MALAYSIA	11%	25%	39%	16%	8%	2.85	2.85
PHILIPPINES	32%	30%	22%	12%	4%	2.26	2.11
THAILAND	9%	31%	26%	21%	13%	2.97	2.57
VIETNAM	28%	36%	26%	9%	2%	2.22	2.16

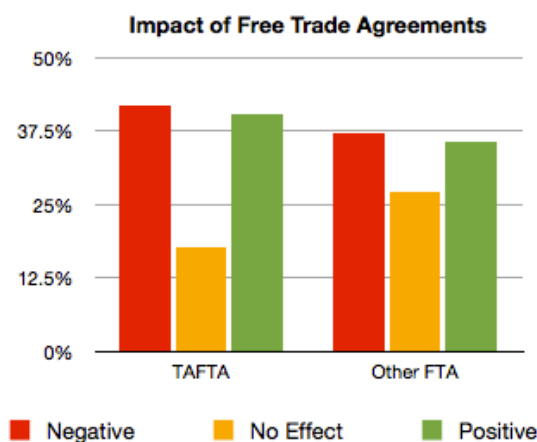
The table shows that Thailand and Malaysia are rated very highly, and India and China rated the lowest. It is interesting that there has been a shift in the perceived attractiveness from 2009 to 2010.

8. FREE TRADE AGREEMENTS

There has been considerable activity in creating Free Trade Agreements which are broadly based and include investment rules, trading and tariff considerations, and market entry factors, for both goods and services.

Impact of FTAs

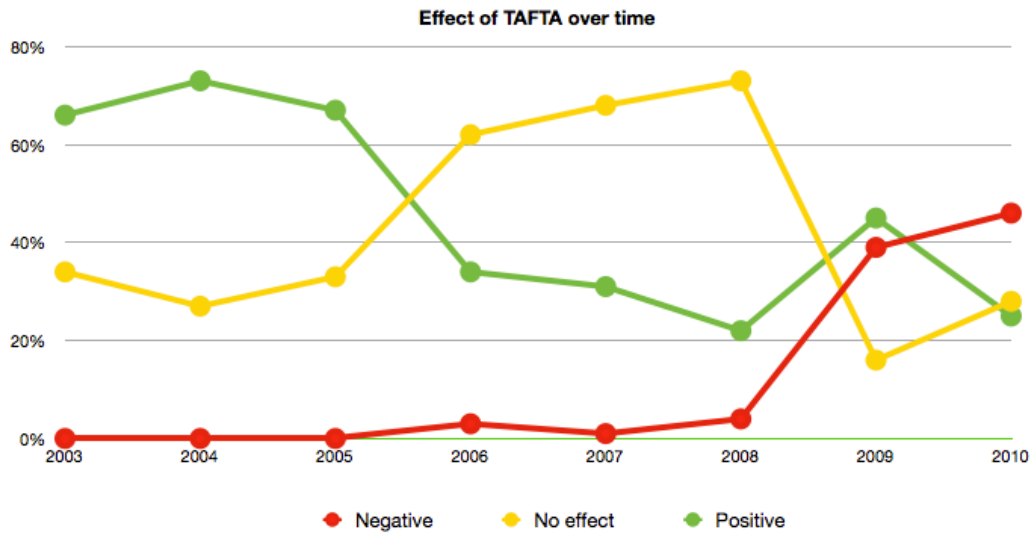
Two questions were posed in order to assess the impact of FTA, the first related specifically to the Thailand-Australia Free Trade Agreement, and the second related to other FTAs. To the question “How has the Free Trade Agreement affected your commercial relationships?” the responses are as follows:



The results are significant in that there is not an overwhelming positive impact of existing FTAs.

Long Term Trend

Of considerable interest is the development of realisations over time. The perceptions which are held about the Thailand-Australia Free Trade Agreement [TAFTA] are relevant and it has been tracked since 2003. The responses of “do not know” were removed and the resultant analysis is shown.



The TAFTA came into effect in Jan 2005. It is interesting that in relation to the benefits, the EXPECTATIONS had been very high but the ACHIEVEMENT had been low. However, in these last several years, the opinions had moved to a more deliberate response which has markedly reduced the “no effect”.

Another analysis in which the positive response is tracked over time is shown below. The %age of Respondents who indicated that they saw the TAFTA providing positive benefits are shown.

RESPONSE TO TAFTA OVER TIME		
		POSITIVE RESPONSE
EXPECTATION	2003	67
	2004	75
	2005	68
ACHIEVEMENT	2006	37
	2007	33
	2008	22
	2009	45
	2010	25

The results are more dramatic as the positive responses to TAFTA during the expectation period are quite different to those after the introduction of TAFTA

Future of FTAs

In response to the question “do you believe that your country should continue to develop FTAs” the responses were a massive endorsement for their continued development

- YES 83%**
- DO NOT KNOW 6%**
- NO 11%**

This is an interesting response in the context of the experience with FTAs

9. BILATERAL BUSINESS COUNCILS.

Both the governments and the business communities in most countries support Business Councils [BC] or Chambers of Commerce [CC] in order to impart information on commercial activities and opportunities in target countries and to gain feedback from specific industries. These organisations can play a significant and important role in providing information to members as well as providing a conduit to government.

Membership Expectations

The Respondents were asked to nominate the benefits or outcomes which they expect to receive from their participation in Business Councils and Chambers of Commerce, and multiple responses were received. The results are shown in the following table.

MEMBERSHIP EXPECTATIONS			
	2008	2009	2010
INFORMATION	59%	72%	76%
CONTACT WITH EXPERIENCED PEOPLE	47%	71%	74%
MEET CUSTOMERS	48%	72%	62%
MAKE POSITIVE CONTRIBUTION	30%	47%	48%
SOCIAL	19%	26%	26%
OTHER	5%	6%	10%

10. SUMMARY & CONCLUSION

This survey was undertaken in December 2010, and was directed to those executives of companies and organisations which had a real or potential interest in Asia. It was a broadly based study with the participation invited from a range of industries and countries, and the results indicate that this has been achieved. The response rate was encouraging.

The region continues to attract commercial attention, despite the political vagaries of several countries and the continued threat of “terrorist” activities in the region. The attempt of some governments in emerging and developing markets to open their economies and attract international activity continues to be successful.

We trust that this survey provides some insights into the perceptions and experiences which are held by those Asian experienced business people.