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ASIAN PERCEPTIONS

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

This survey was conducted during December 2007, with the objective to evaluate the perceptions which Australian and New Zealand business hold about Asia, with specific reference to Thailand, as a commercial target and business partner. It is one in an ongoing series which allow the perceptions to be monitored over time.

The survey was conducted by Glen Robinson and Mitchell Brown of Asean Focus Group. Glen Robinson is a founder and has been an executive director of AFG for over 17 years, and as such has advised and assisted many companies which wished to establish or enhance a commercial presence in Asia. He can be contacted on glen.robinson@aseanfocus.com.



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1. INTRODUCTION

There is a plethora of information in relation to economic predictions, political and academic analysis, but few insights into the experiences and perceptions of the business people who operate in a number of Asian environments on day to day basis. Many of these business people are expatriate's and hence are looking at their local environment through a foreigner's eyes. Those perceptions can be very enlightening as the concerns and views of the commercial environment are probably of significant interest to other business people.

Asean Focus Group undertakes this project to gauge the perceptions which Australian and New Zealand business people have towards Asia generally as a commercial target. It has been undertaken for the last 5 years and is constructed so that year by year comparisons can be made.

The target participants are those executives from organizations which have some commercial contact with Asia, whether it be an operating investment, a trading perspective or perhaps providing services.

This year we have included an in-depth discussion on Thailand and given the recent political background this is interesting.

The overall response rate has been incredibly encouraging to the point where there is sufficient base information to present the results in various subcategories. The reason there has been such a high level of response may reflect the added focus on the region due to the expanding economies generally, the political turmoil in Thailand or the maturing of the Western markets. Whatever the reason, it has allowed a very respectable result.

The New Zealand responses have been aggregated with those from Australia as the results from the two countries are very consistent.

We offer thanks for the cooperation and assistance given by the Australia Thailand Business Council, the New Zealand Thailand Chamber of Commerce, Austcham, and importantly the participants who took the trouble to complete the survey information.

2. POLITICAL & ECONOMIC BACKDROP

It is probably superfluous to attempt to undertake an economic or political analysis of the region, as there is a mass of good quality information available. However there are some features which probably should not escape mention as they would have a significant impact on individual economies in the region, some of these may include:

- ✓ Deregulation of the Indian economy and the encouragement of inwards FDI
- ✓ The increasing acceptance of Indonesia as a sound business partner
- ✓ Political upheaval in Thailand
- ✓ First signs of the decline of the Chinese domination
- ✓ The growth and breadth of Free Trade Agreements
- ✓ The efforts of the Vietnamese authorities to deregulate and open the economy to market forces
- ✓ Significant regional investments from the Middle East
- ✓ The continued hope that the Philippines will attract foreign commerce
- ✓ Malaysian increased interest in FTAs with Pakistan, India, USA,
- ✓ Moves toward more "integration" of ASEAN
- ✓ The authorities in many countries are "reviewing" (tightening) their inwards foreign investment environment, including Thailand, Indonesia, Japan and Korea.

3. PROFILE OF THE PARTICIPATING COMPANIES

The sectors in which the participants operate have been summarised in the following table:

SECTOR	% of total
Agriculture	4%
Construction/Materials	4%
Energy	4%
Manufacturing/Industrial	16%
Mining	5%
Subtotal (Processing)	29%
Advisor/consultant	24%
Distribution/Logistics	6%
Education	5%
Financial and HR services	13%
Retail	3%
Telecommunications	4%
Subtotal (Services)	55%
Other	16%
Total	100%

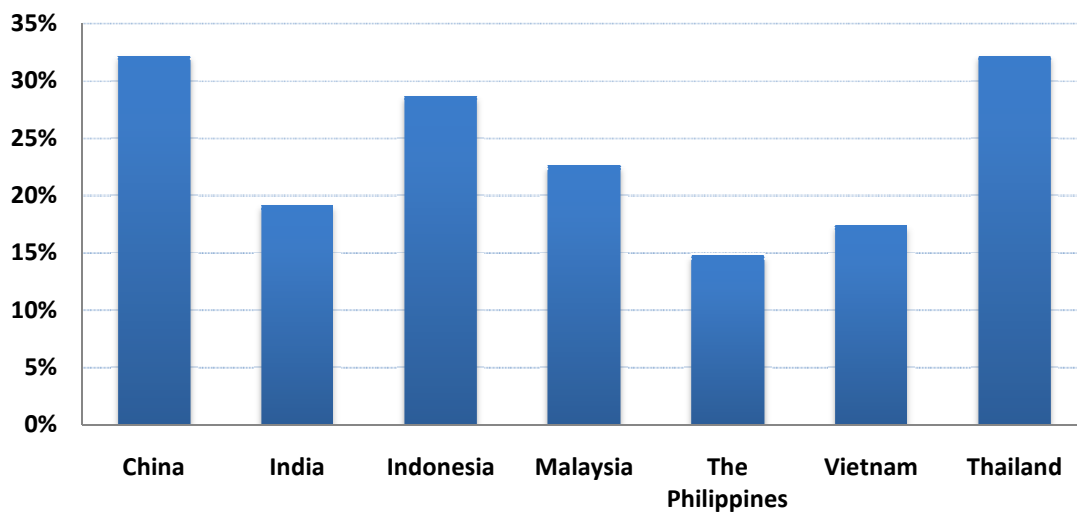
Company Size

Of these, the participants indicated the relative size of their company (or business) in the home country as being:

Company Size	
Small	23%
Medium	30%
Large	28%
Do not operate in Aus / NZ	19%

Geographic Location

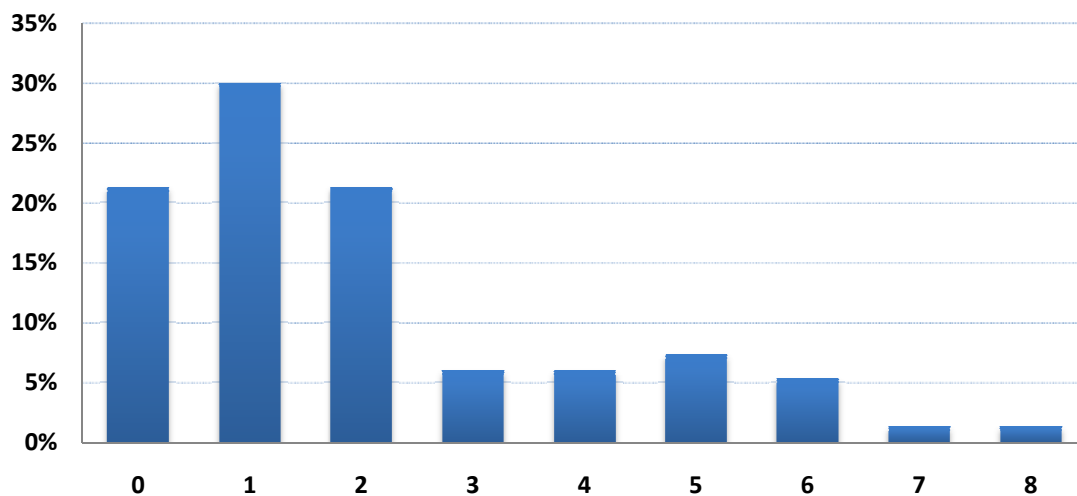
The countries in which the participants have commercial activity is summarised in the following table:



It should be noted that 35% of participants operate in other Asian countries as well as those listed above.

Operating in Multiple Countries

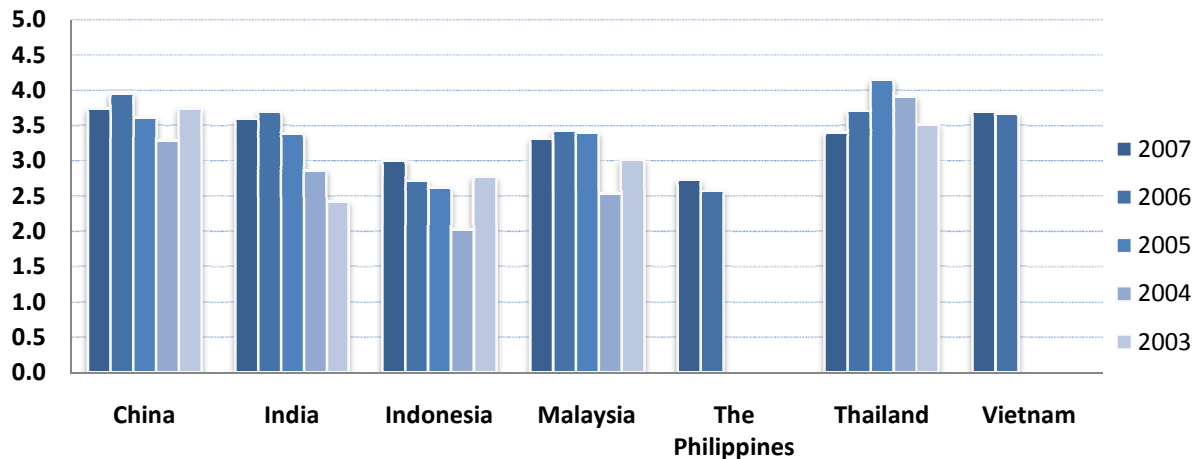
The number of countries in which our participants operate is shown in the following graph, and the average number is 2.05 countries per participant



However, if we exclude participants with no commercial contact in Asia (20%), the average increases to 2.6 countries per participant.

4. COMMERCIAL APPEAL OF SEVERAL COUNTRIES

The commercial appeal of five countries - China, India, Malaysia, Indonesia and Thailand - has been monitored since 2003, and the Philippines and Vietnam were first included in the 2006 survey. Participants were asked to rate each country on the basis of 1 being very unattractive through to 5 being very attractive, and averages were determined for each country.



It is relevant to note that the participants have used their own perceptions of attractiveness. It is also noteworthy that the graph does not seek to draw comparisons between the countries, but is intended as a means of tracking the attractiveness of an individual country over time.

With that background, there are several interesting points which can be drawn from the responses:

- Thailand has continued its decline in attractiveness probably due to the political uncertainty
- China and India appear to have peaked but remain attractive commercial targets.
- Interest in Malaysia seems to have peaked
- Indonesia continues to come back into favour.
- The Philippines remains at a particularly low level of commercial attractiveness
- Vietnam continues to be very attractive.

5. FOCUS ON THAILAND

We have selected Thailand for a more detailed analysis in order to gauge the effect the political disruption may have had on the business community's aspirations and commercial intentions.

5.1 POLITICAL BACKDROP

Once again, this has been a tumultuous year in relation to the political landscape in Thailand. The coup in September 2006 was reported as being approved by 80% of the population. The installed government was generally praised for its economic conservatism and its middle of the road appearance, however that praise and acceptance quickly dissipated and it was roundly criticised for its inaction and inappropriate direction.

Shortly after being installed, they made announcements in relation to foreign investment regulations, and foreshadowed restrictions in real estate, retail businesses, foreign currency transactions, and importantly, restrictions to the foreign ownership of local companies. This caused considerable consternation among the expatriate community. Many of those regulatory pronouncements were not turned into law, and a sense of confusion settled over the commercial world. The draft of the new Constitution was accepted by popular vote in August 2007 and as a consequence, an election was conducted on December 23 to democratically elect the civilian government

The English-language newspapers were extremely vocal in their condemnation of the authorities throughout the year, and the political backdrop of was not conducive to placid commercial activity.

This survey was conducted during December 2007, a time when the outcome of the election is not known and hence the prognosis for the ensuing year or two would be pure speculation.

5.2 COMMERCIAL PROFILE

The participant results have been categorised as:

INVESTOR - a company which has an investment in Thailand

TRADER - a company which has some form of commercial contact,

NO CONTACT - a company which is Asia interested but not yet dealing commercially with Thailand.

The distribution of these participants was reasonably even:

Investor	47%
Trader	29%
No Contact	24%

Additionally, most of these companies have had investments in place for some considerable time:

Less than 1 Year	9%
One to Five years	23%
Five or more years	68%

We believe this may be interpreted to mean that the responses are based on experience and not necessarily gossip or hearsay.

5.3 CHANGING PERCEPTIONS OF COMMERCIAL VALUE

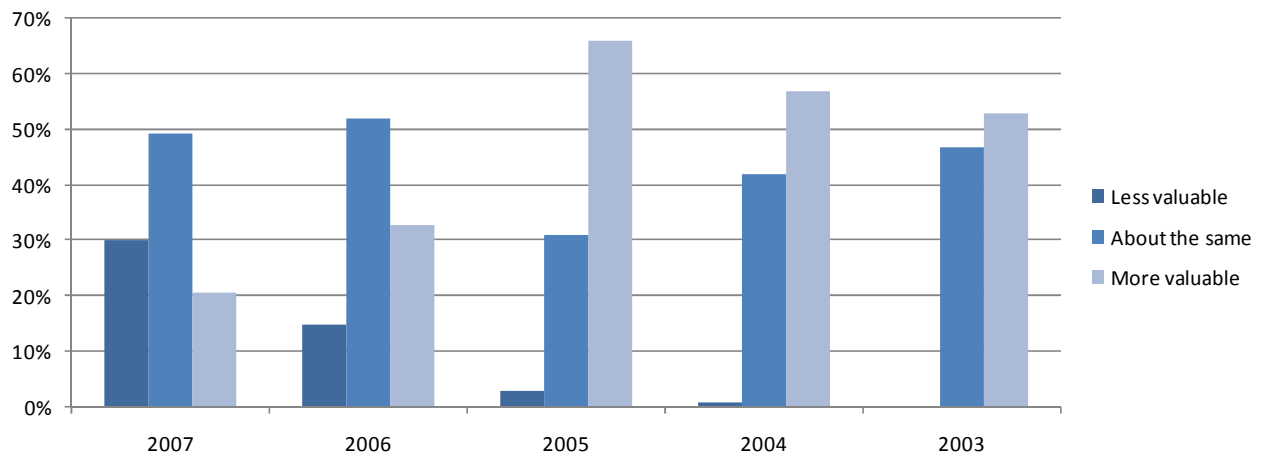
The participants were asked their rate their view of the commercial value of Thailand compared with two years previously:

	Investor	Trader	No Contact
Less valuable	30%	25%	36%
About the same	42%	52%	58%
More valuable	27%	23%	6%
	100%	100%	100%

However, when the results are compared to previous years, a different result emerges. This analysis includes the Investors and Traders which were compared with the results of previous years.

Perceptions of Thailand: 2003-2007

It is notable that 30% of those doing business in Thailand believe that its commercial value has declined compared to 3 years ago.



Effect of Political Upheaval

Investors indicated that the political upheaval affected their commercial activity as follows

Reduced by 10% or more	43%
Increased by 10% or more	3%
None	42%
Unsure	12%

5.4 INVESTMENT PLANS

In response to the question: "Do you plan to expand or invest in Thailand in the next year?"; the responses across the groups were as follows:

	Investors	Traders	No Contact
Yes	74%	58%	6%
No	20%	23%	69%
Uncertain	6%	19%	25%

It is notable that existing Investors were overwhelmingly planning to grow their investments, and the existing Traders are intending to expand even in the short term.

The investment intentions of investors are reasonably clear, however, the views of the other participants, when asked whether they would consider Thailand as an **investment** target are as follows:

	Trader	No Contact
Yes	32%	9%
No	45%	81%
Uncertain	23%	9%

The conclusion can be drawn that the political upheaval has certainly reduced domestic activity, and has some effect on the commercial outlook in Thailand. The existing Investors have every intention of continuing to grow; the Traders are planning expansion, and a significant proportion of those traders regard Thailand as an investment target.

5.5 FREE TRADE AGREEMENT

There has been considerable interest and activity in the development of FTAs, many of which a range of commercial activities including investment, trading and market entry considerations.

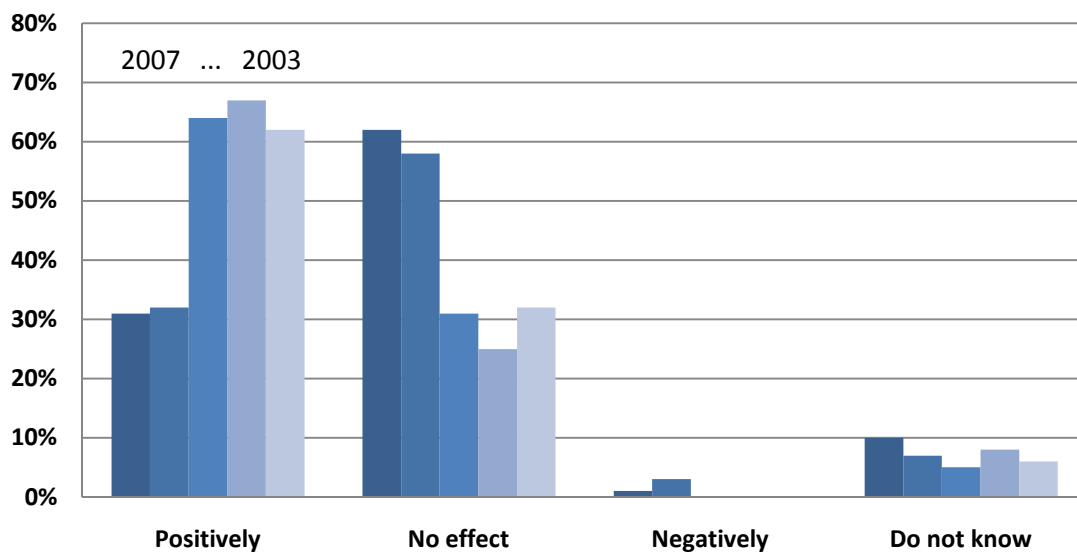
The on the impact of the FTAs which Thailand has with Australia and with New Zealand can be summarised in the following table:

View of the FTA

	Investor	Trader	No Contact	Average
No effect	51%	65%	69%	62%
Positively	43%	19%	8%	23%
Negatively	0%	2%	0%	1%
Do not know	6%	15%	22%	14%
	100%	100%	100%	100%

Perceived impact of FTA over time

Of more interest is the longer term trend of expectations and realisations. For the following analysis, the Investors and Traders only are included and the No Contact group have been excluded. The FTAs were enacted at the beginning of 2005 and for the period leading up to the enactment, there was high expectations of their benefit. However, the results indicate that over 60% of participants believe that the FTAs have had “no effect” in practice.



This may be seen as a disturbing result given the effort which is expended in development and promotion of these arrangements.

Investors and Traders indicate that the FTAs signed between Thailand and Australia/New Zealand are much less effective than initially expected, and this may warrant further evaluation. However over time the benefits of the agreements may become more evident especially as tariffs are gradually reduced over the next few years.

5.6 THAILAND BOARD OF INVESTMENT [BOI]

The Thailand BOI has the role of encouraging investment and it has the ability to offer a range of incentives to those companies which make application.

Of the Investing companies, 26% were promoted by the BOI, and 74% were NOT promoted.

The reasons given for **not receiving BOI promotion** are interesting:

Ineligible (e.g. industry not supported)	53%
Did not consider	38%
Decided not to	9%
Advised against it	0%
Rejected by BOI	0%

6. CONCLUSION AND SUMMARY

The survey was undertaken in December 2007. The results are interesting and relevant as the participants are generally experienced or have an interest in Asia.

Thailand has been an attractive target for Australian and New Zealand investors for a number of years and as this last year has been politically unsettled it is not surprising that its perceived attractiveness has peaked and declined.

While there have been significant changes to the global commercial environment, with changes as a result of events, alliances, participation in WTO, the significant markets of Asia certainly remain attractive to the Australian/NZ business person.

The larger economies of India and China enjoy considerable attention, as does the burgeoning economy of Vietnam. Indonesia is attracting increased activity.

Thanks once again to those who have lent their knowledge and experience to the results of this survey.