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## ASIAN PERCEPTIONS 2011

### 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 2011 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 usual 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](mailto:glen.robinson@afgventuregroup.com)

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## 1. INTRODUCTION

AFG Venture Group has continued the annual project commenced some 9 years ago by Asean Focus Group in which Asian focussed business people are surveyed to gauge their perception 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.

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. This may be of significant importance due to the increasingly global focus of companies, and the ethnic and geographic boundaries which have become quite blurred.

The western world is still feeling the effects of the Financial Crisis, but once again we have chosen not to focus on this financial phenomenon, but 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 and your organisation in developing its forward plans.

## 2. POLITICAL AND ECONOMIC BACKDROP

The significant changes and re-alignments in the world continue. The Financial Crisis which has been disastrous for many European countries, the continued emergence of China as an international investor, 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:

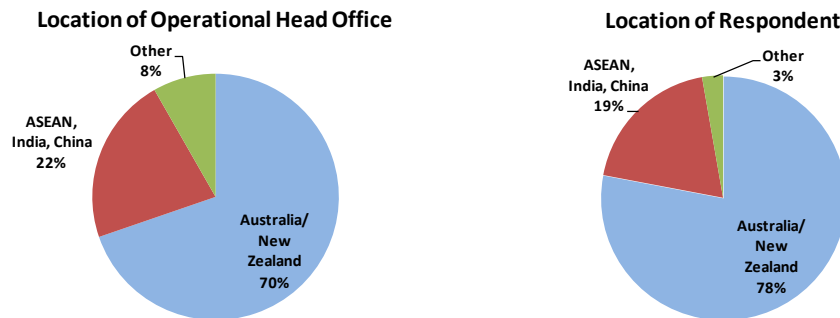
- continued deregulation of the Indian economy
- the emergence of Indonesia as a growing and robust economy, and the continuing moves to internationalise business arrangements
- The Arab Spring has changed the face of the Middle East and opened several countries to a broader commercial scene
- interesting 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 perceived attractiveness of that economy to individual investors.



### 3. LOCATION OF RESPONDENT & OPERATIONAL HEAD OFFICE

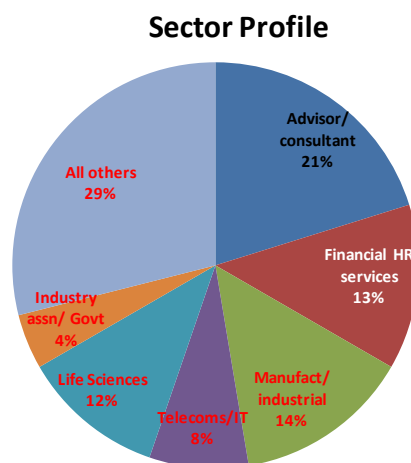
The location of the Operational Head Office and the location of the Respondent is as below.



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

### 4. SECTOR PROFILE

The sectors in which the Respondents operate has been summarised in the following graphic



### 5. COMPANY SIZE

Respondents described the relative size of their companies:

|              | COMPANY SIZE  |                    |           | Total       |
|--------------|---------------|--------------------|-----------|-------------|
|              | Australia/ NZ | Asean India, China | Other     |             |
| SMALL        | 44%           | 11%                | 0%        | 55%         |
| MEDIUM       | 21%           | 7%                 | 0%        | 29%         |
| LARGE        | 14%           | 2%                 | 0%        | 16%         |
| <b>TOTAL</b> | <b>79%</b>    | <b>21%</b>         | <b>0%</b> | <b>100%</b> |

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



## 6. COMMERCIAL ACTIVITIES

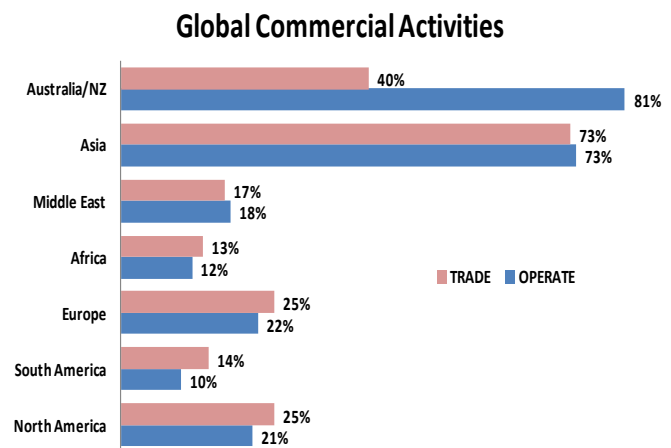
The nature of the survey is such that all Respondents have some interest in Asia, even though there may not be commercial contact as yet. Approximately 9% of the Respondents are in the category of not yet having a commercial presence in the region

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 75% of the Respondents have a trading relationship in Asia, but only 13% have a trading relationship in Africa. Similarly 73% have an operation in Asia, but only 12% have an operation in Africa or 10% in South America.

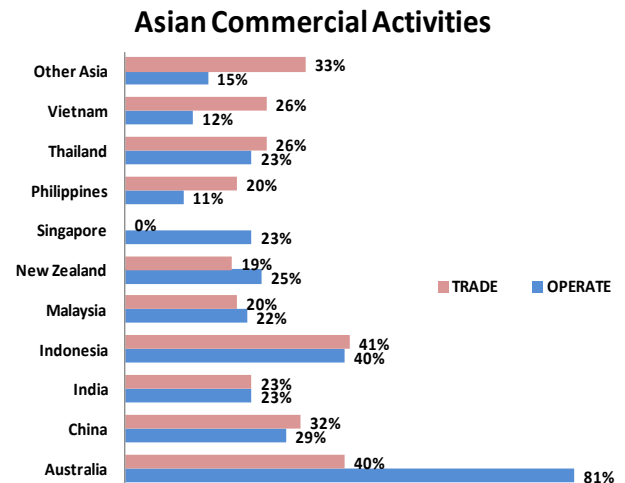
Even so, the Respondents are commercially represented in geographically diverse locations. Interestingly, outside of Australia /New Zealand, there is almost equal participation in trading and operating



### Asian Trading and Operating Activities

Several of the 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, 32% of the Respondents have a trading relationship with China, and 20% had a trading relationship with Philippines. Similarly, 29% have an operating business in China whereas 11% have an operating business in the Philippines.

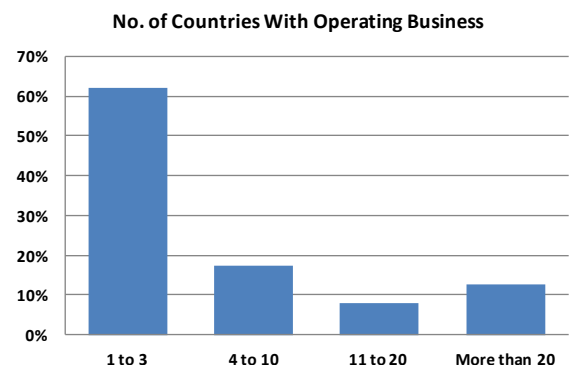
There is a broadly based Asian activity by most Respondents



### Multiple Operating Activities

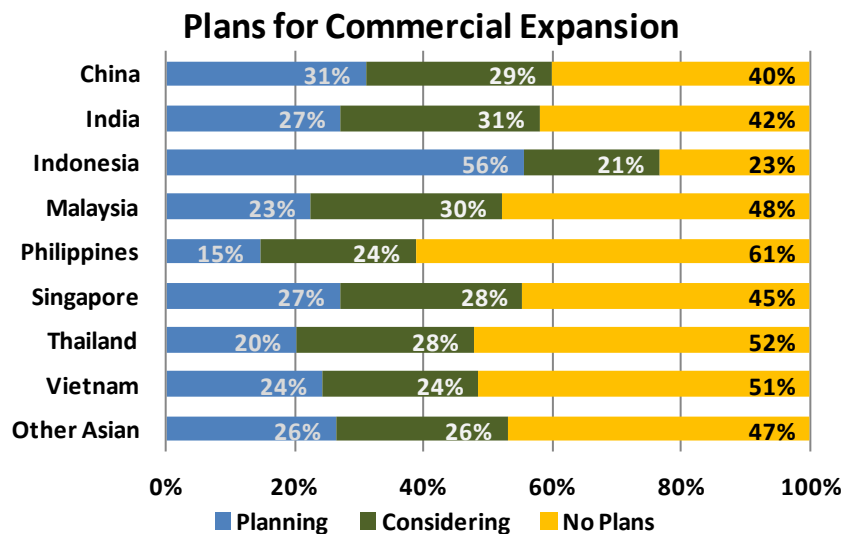
The responses to the Question “How many individual countries does your company have an operating business ...” are shown in the following graphic.

The average number of countries in which the respondents had an operating business is 2.5.



## 7. COMMERCIAL EXPANSION PLANS

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



Given the economic conditions at this time, the number of Respondents which are actually planning or considering an expansion may be regarded as surprisingly high. The target countries are of interest. China and India are targets for approx 60% of Respondents which reflects the continued hype.

Indonesia shows a strong attraction with approx 77% having serious considerations and 56% are actually planning an expansion.

It is noted that there is a relatively high number of executives which are considering Asia as a commercial target. But the target countries are more delineated. This probably 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 generally high level of “bullishness” has continued and actually may be seen as increasing, but the shift in focus to Indonesia and to a lesser extent Malaysia is noticeable. China and India are relatively stable, but the decline of Thailand, Vietnam and the remainder of Asia is noticeable.

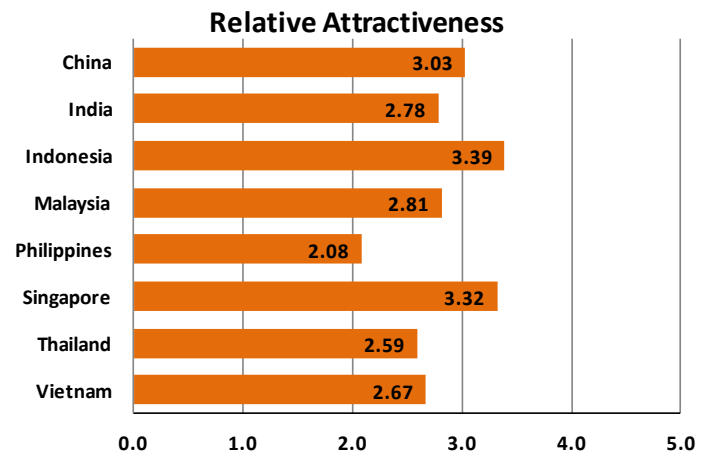
| PLANNING OR CONSIDERING EXPANSION |      |      |      |      |
|-----------------------------------|------|------|------|------|
|                                   | 2008 | 2009 | 2010 | 2011 |
| CHINA                             | 58%  | 60%  | 63%  | 60%  |
| INDIA                             | 53%  | 60%  | 59%  | 58%  |
| INDONESIA                         | 47%  | 57%  | 55%  | 77%  |
| MALAYSIA                          | 44%  | 50%  | 49%  | 53%  |
| PHILIPPINES                       | 29%  | 38%  | 37%  | 39%  |
| SINGAPORE                         |      | 48%  | 59%  | 55%  |
| THAILAND                          | 42%  | 52%  | 60%  | 48%  |
| VIETNAM                           | 48%  | 58%  | 58%  | 48%  |
| OTHER ASIA                        | 56%  | 50%  | 62%  | 52%  |



## 8. ATTRACTIVENESS OF VARIOUS COUNTRIES

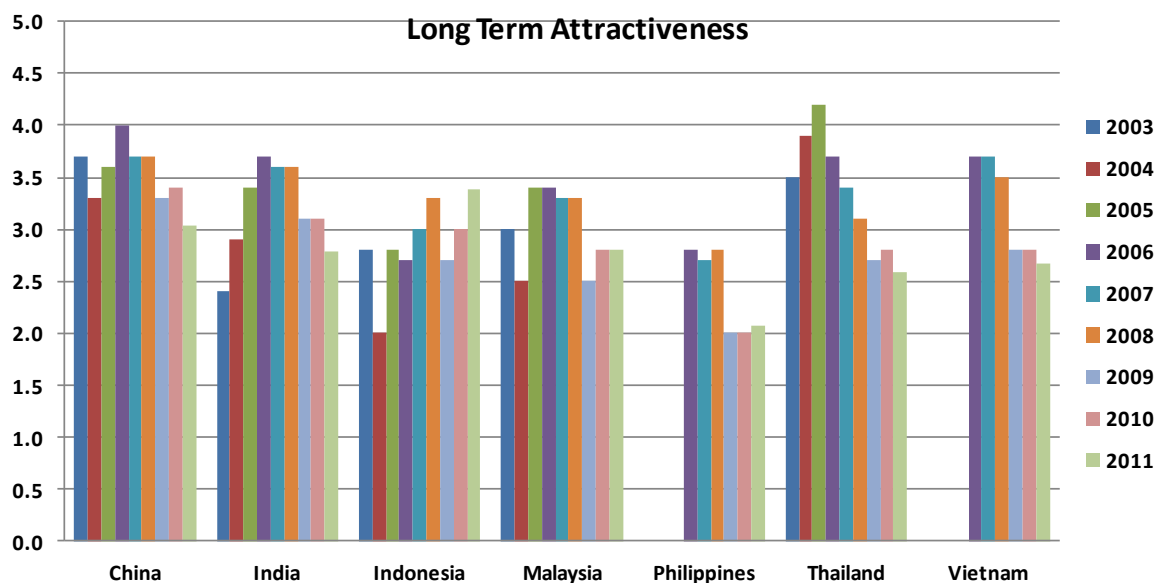
The relative attractiveness of each country has been analysed from various perspectives. The Respondents rated the nominated countries on a scale in which 5=very attractive and 1=very unattractive, and once again, the Respondents used their own definition of “Attractiveness”, and the resultant indices are shown.

At the end of 2011, Indonesia is the most attractive, closely followed by Singapore and China.



### 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.



|             | Long Term Attractiveness Index |      |      |      |      |      |      |      |      |  |
|-------------|--------------------------------|------|------|------|------|------|------|------|------|--|
|             | 2003                           | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |  |
| China       | 3.7                            | 3.3  | 3.6  | 4.0  | 3.7  | 3.7  | 3.3  | 3.4  | 3.0  |  |
| India       | 2.4                            | 2.9  | 3.4  | 3.7  | 3.6  | 3.6  | 3.1  | 3.1  | 2.8  |  |
| Indonesia   | 2.8                            | 2.0  | 2.8  | 2.7  | 3.0  | 3.3  | 2.7  | 3.0  | 3.4  |  |
| Malaysia    | 3.0                            | 2.5  | 3.4  | 3.4  | 3.3  | 3.3  | 2.5  | 2.8  | 2.8  |  |
| Philippines | 2.8                            | 2.7  | 2.8  | 2.0  | 2.0  | 2.1  |      |      |      |  |
| Thailand    | 3.5                            | 3.9  | 4.2  | 3.7  | 3.4  | 3.1  | 2.7  | 2.8  | 2.6  |  |
| Vietnam     | 3.7                            | 3.7  | 3.5  | 2.8  | 2.8  | 2.7  | 2.8  | 2.7  |      |  |

There are some surprises in individual countries, however, the overall trend seems to be more conservative, with Indonesia as the standout most attractive.



### **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 the average rating for each country

|             | Investment Incentives |      |      |
|-------------|-----------------------|------|------|
|             | 2009                  | 2010 | 2011 |
| China       | 2.6                   | 2.5  | 1.9  |
| India       | 2.6                   | 2.2  | 1.9  |
| Indonesia   | 2.1                   | 2.3  | 2.1  |
| Malaysia    | 2.5                   | 2.5  | 2.2  |
| Philippines | 2.0                   | 1.9  | 1.8  |
| Thailand    | 2.6                   | 2.7  | 2.2  |
| Vietnam     | 2.4                   | 2.4  | 2.0  |

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.

It is interesting that perceived Ease of Establishment has declined quite dramatically in most countries, with the decline in Indonesia being the least.

|             | Ease of Establishment |      |      |
|-------------|-----------------------|------|------|
|             | 2009                  | 2010 | 2011 |
| China       | 2.3                   | 2.1  | 1.7  |
| India       | 2.4                   | 2.1  | 1.7  |
| Indonesia   | 2.2                   | 2.3  | 2.2  |
| Malaysia    | 2.9                   | 2.9  | 2.4  |
| Philippines | 2.1                   | 2.3  | 2.0  |
| Thailand    | 2.6                   | 3.0  | 2.4  |
| Vietnam     | 2.2                   | 2.2  | 2.0  |

## **9. 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 Existing FTAs**

Two questions were posed in order to assess the impact of FTA's, the first related specifically to the Thailand-Australia Free Trade Agreement (TAFTA), and the second related to other FTAs. To the question "How has the Free Trade Agreement affected your commercial relationships?" the responses are as shown in the table, and the responses of 'not applicable' have been eliminated, so the responses relate to those organisations which have a real or potential interest in the FTA for the nominated country.

| EXISTING FREE TRADE AGREEMENTS                              | Negative | No Effect | Positive |
|---|----------|-----------|----------|
| TAFTA ( Thailand-Australia Free Trade Agreement)            | 4%       | 72%       | 23%      |
| AANZFTA (ASEAN -AustraliaNew Zealand Free Trade Area)       | 4%       | 60%       | 36%      |
| AIFTA ( ASEAN- India Free Trade Agreement)                  | 4%       | 83%       | 13%      |
| ACFTA ( ASEAN- China Free Trade Area)                       | 7%       | 73%       | 20%      |
| ANZCERTA( Australia- New Zealand Closer Economic Agreement) | 3%       | 65%       | 32%      |
| AUSFTA ( Australia-United States Free Trade Agreement)      | 3%       | 72%       | 25%      |

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





### Proposed FTAs

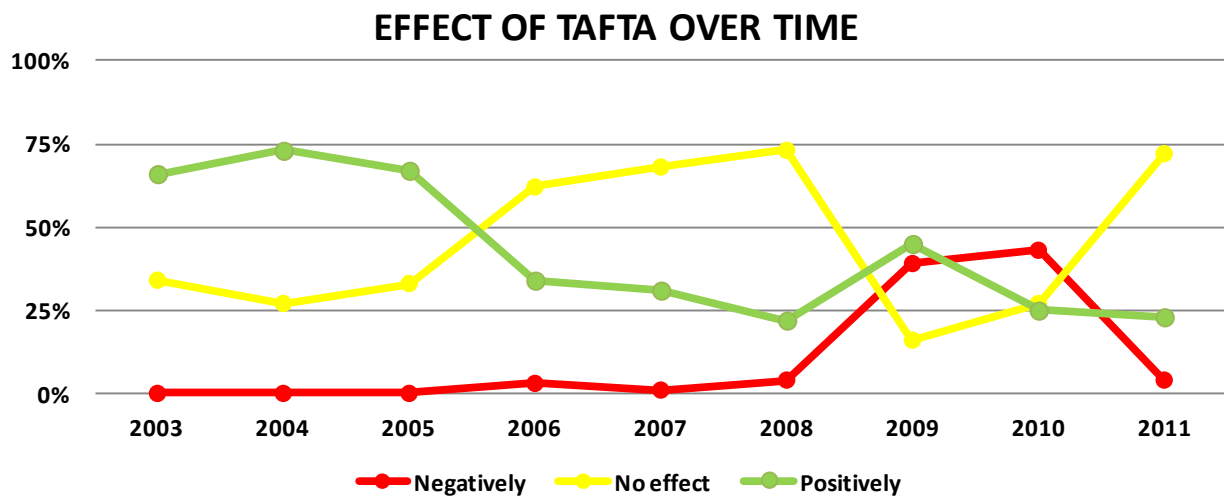
For the proposed FTAs most of which are currently under development, the question was posed “how do you expect the FTA to affect your commercial relationships”. The responses are as follows, and once again and the responses of ‘not applicable’ have been eliminated, so the responses relate to those organisations which have a real or potential interest in the FTA for the nominated country.

| PROPOSED FREE TRADE AGREEMENTS                                    | Negative | No Effect | Positive |
|---|----------|-----------|----------|
| Australia-India Comprehensive Economic Cooperation Agreement      | 5%       | 62%       | 32%      |
| Indonesia- Australia Comprehensive Economic Partnership Agreement | 1%       | 43%       | 56%      |
| Australia- China Free Trade Agreement                             | 4%       | 56%       | 40%      |
| Australia-Japan Free Trade Agreement                              | 3%       | 63%       | 34%      |
| Trans-Pacific Partnership Agreement                               | 3%       | 45%       | 53%      |

It is notable that there has been a higher level of positive outcomes than in the existing FTAs with the Indonesian Australian arrangements attracting high expectations. But even so the level of positive expectation is lower than might be expected

### 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 as it has been tracked since 2003. The responses of “do not know” have been 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 this last year the Negative responses has significantly reduced, but the No Effect has increased

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.

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

| Response to TAFTA Over Time |      |                   |
|-----------------------------|------|-------------------|
|                             |      | Positive Response |
| EXPECTATION                 | 2003 | 66%               |
|                             | 2004 | 73%               |
|                             | 2005 | 67%               |
| ACHIEVEMENT                 | 2006 | 34%               |
|                             | 2007 | 31%               |
|                             | 2008 | 22%               |
|                             | 2009 | 45%               |
|                             | 2010 | 25%               |
|                             | 2011 | 23%               |



### **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

|                    |            |
|--------------------|------------|
| <b>YES</b>         | <b>80%</b> |
| <b>DO NOT KNOW</b> | <b>13%</b> |
| <b>NO</b>          | <b>7%</b>  |

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

## **10. 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.

|  | <b>MEMBERSHIP EXPECTATIONS</b> |             |             |             |
|--|--------------------------------|-------------|-------------|-------------|
|  | <b>2008</b>                    | <b>2009</b> | <b>2010</b> | <b>2011</b> |
| <b>INFORMATION</b>                     | <b>59%</b>                     | <b>72%</b>  | <b>76%</b>  | <b>83%</b>  |
| <b>CONTACT WITH EXPERIENCED PEOPLE</b> | <b>47%</b>                     | <b>71%</b>  | <b>74%</b>  | <b>84%</b>  |
| <b>MEET CUSTOMERS</b>                  | <b>48%</b>                     | <b>72%</b>  | <b>62%</b>  | <b>64%</b>  |
| <b>MAKE POSITIVE CONTRIBUTION</b>      | <b>30%</b>                     | <b>47%</b>  | <b>48%</b>  | <b>53%</b>  |
| <b>SOCIAL</b>                          | <b>19%</b>                     | <b>26%</b>  | <b>26%</b>  | <b>32%</b>  |
| <b>OTHER</b>                           | <b>5%</b>                      | <b>6%</b>   | <b>10%</b>  | <b>13%</b>  |

## **11. SUMMARY & CONCLUSION**

This survey was undertaken in December 2011, 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.

