

# Why ASEAN and why now?

## SUMMARY



AN EXAMINATION OF AUSTRALIA'S TRADE RELATIONSHIP WITH ASEAN, THE OPPORTUNITIES AND CHALLENGES FOR AUSTRALIAN BUSINESS ENGAGING WITH THE REGION AND THE FUTURE OF THE AUSTRALIA-ASEAN TRADE RELATIONSHIP.



Australian Government



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UNLIMITED

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## FOREWORD BY THE MINISTER FOR TRADE AND INVESTMENT

THE HONOURABLE ANDREW ROBB AO MP  
MINISTER FOR TRADE AND INVESTMENT

Trade and investment are key drivers of Australia's 24 years of uninterrupted economic growth. They are critical to stimulating economic activity, building new industries, creating new jobs and supporting higher living standards.

Australia's trade with Asia has been a central component to supporting continued growth and the free trade agreements we have concluded with Korea, Japan and China have attracted much attention. Additionally, there has been recent attention on the opportunities the Association of Southeast Asian Nations (ASEAN) presents for Australian business.

ASEAN's combined GDP rose almost threefold from 2001 to 2014 to around US\$2.5 trillion. It has, over the last 15 years, enjoyed a sustained period of rapid economic growth and financial stability. Collectively, ASEAN is Australia's second largest trading partner (two-way trade surpassed \$100 billion in 2014), accounting for 15 per cent of Australia's total trade.

From the region's financial services capital in Singapore to growing Burma, the ASEAN region has never offered more opportunities for business than

it does today. ASEAN investment in Australia totals over \$110 billion. There were over one million ASEAN visitors to Australia in 2014 and over 100,000 students from ASEAN countries enrolled to study in Australia. With a population of over 620 million, these numbers are likely to grow.

The declaration of an ASEAN Economic Community at the end of 2015 offers a possible avenue for Australian business to capitalise on the region's economic dynamism. This includes attracting the large amounts of capital in the region to invest in Australia. Exporters can tap into areas of strong consumer demand, including the food and beverage, agriculture and seafood, healthcare, financial services, telecommunications and education sectors.

The ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA), complemented by our FTAs with Malaysia, Singapore and Thailand, is a pathway for Australian business to tap into ASEAN. The Trans-Pacific Partnership and Regional Comprehensive Economic Partnership, both currently under negotiation, will offer further opportunities for

Australian business to link into the wider region when finalised.

I am pleased to present this publication which outlines the wealth of opportunities for Australian business in ASEAN. It reflects the experience of Australian companies that have succeeded in the region and the people in our network of diplomatic and trade missions throughout ASEAN and in Australia.

Australian businesses operating in the region know that doing business in Asia requires sound risk management and sophisticated due diligence. But the rewards can be great. I urge all Australian exporters, investors and advisers to read this report, which can assist in their decision making and make the most of the opportunities that ASEAN has to offer.

*The Hon Andrew Robb AO MP*

## INTRODUCTION

Over the last decade and a half, the Association of Southeast Asian Nations (ASEAN) region has enjoyed a sustained period of rapid economic growth and financial stability. ASEAN's combined GDP rose threefold from 2000 to 2014; to US\$2.5 trillion, accounting for 3.2 per cent of the world's economy.

A range of key indicators suggests that ASEAN Member States—Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Thailand, Singapore and Vietnam—have tremendous growth potential over the medium term. These factors include favourable demographics, increasing urbanisation, relatively low national debt levels, abundant natural resources, and proximity to the powerful economies of China and India. ASEAN political leaders have committed themselves to achieving a single market and production base in the near future, pushing ASEAN to become the third great emerging driver of global prosperity, after China and India.

ASEAN's diversity presents a range of opportunities for Australian business—from Singapore's sophisticated services-based economy to 'frontier' markets in Laos, Burma and Cambodia, the rapidly modernising economy of Vietnam and strategically significant consumer centres such as Indonesia. The region's move toward economic integration will further enhance these opportunities. Australian exporters and investors should take the time to understand the developments in the region and what they can mean for their businesses. Australia's competitors in the region are already recognising the opportunities presented by ASEAN's growth and economic integration.

The region faces a number of challenges, including issues around productivity and a significant infrastructure shortfall. ASEAN is focused on addressing these challenges, and Australia is well placed to assist.

## THE AUSTRALIA-ASEAN TRADE, TOURISM AND INVESTMENT RELATIONSHIP

As a region, ASEAN accounts for close to seven per cent of world trade. Intra-ASEAN trade accounts for 24 per cent of ASEAN's total trade—a percentage that is larger than ASEAN's trade relationship with China, Japan or the US. The growth in regional value chains (RVCs) is a key driver of intra-ASEAN trade. Over time, as ASEAN governments deepen and consolidate the integration of these value chains, and as they continue to proliferate, we expect a marked rise in the volume of intra-ASEAN trade.

While our trading relationships with China, the US and Japan tend to attract the headlines, it is important to remember that Australia's trade links with ASEAN are already well developed. Collectively, ASEAN is Australia's second largest trading partner, accounting for over 15 per cent of Australia's total trade in 2014.

In turn, Australia is ASEAN's eighth largest trading partner (excluding intra-ASEAN trade). The region accounts for close to a quarter of Australia's food exports, including grains, live animals, dairy and seafood. And we are seen as a key partner in developing ASEAN's next generation; education-related travel services account for 37 per cent of all Australian services exports in the region and more than 100,000 students from ASEAN countries have enrolled to study in Australia in 2015.

Tourism provides the people-to-people links necessary to promote a deeper knowledge and appreciation of Australia as a world-class holiday, study and business destination. 2014 saw strong growth in the number of visitors from ASEAN countries who spent around \$5.8 billion during their time here; arrivals grew 11 per cent on the previous year to over one million.

Two of Australia's top 10 tourism markets (Singapore and Malaysia) and three of Tourism Australia's priority markets (Indonesia, Malaysia and Singapore) are in the ASEAN region.

The stock of Australian foreign direct investment (FDI) in ASEAN grew to \$29 billion in 2014, representing 5.4 per cent of Australia's total FDI. Singapore, Malaysia and Indonesia are Australia's largest ASEAN investment destinations; Malaysia, Thailand and, increasingly, Vietnam are particularly important production bases for Australian manufacturing firms. The regional presence of numerous financial, professional and technical services firms is a motive for investment as a means of establishing access to attractive ASEAN markets. ASEAN is also a growing source of foreign investment in Australia.

## A DYNAMIC REGION OFFERING STRONG BUSINESS OPPORTUNITIES

ASEAN's combined population of almost 620 million is larger than that of either the European Union or North America. Just over one-third of ASEAN's people live in cities but contribute over two-thirds of the region's GDP. By 2030, an additional 90 million people are expected to live in urban areas, which could add more than US\$500 billion to ASEAN GDP and substantially boost productivity.

Around 80 million ASEAN households are part of the rising middle class defined by McKinsey as a 'consuming class'—those with a household income of more than US\$7,500 in 2005 purchasing power parity terms. This number is expected to double to 160 million households by 2030. As the tastes of ASEAN urbanites change, there will be increased opportunities for Australian exporters in the food and beverage, agribusiness, healthcare and education sectors.

Collectively, ASEAN's labour force is the third largest in the world, behind only China and India. Indonesia, Malaysia, the Philippines and Vietnam are predicted to record double-digit labour force growth over the next decade or so, and ASEAN's working-age population is projected to reach 500 million in 2020. This will produce significant opportunities for Australian education and training providers that can meet this increased local demand.

Over the next decade, six major growth drivers will increase regional opportunities for Australian businesses:

1. The development of the region's economic architecture – the move toward an integrated ASEAN economy (which includes the 'ASEAN Economic Community' (AEC)), complemented by regional free trade agreements.
2. The growth of the services sector.
3. The further development of RVCs, driven by regional business leaders.
4. ASEAN's status as an emerging FDI destination.
5. Infrastructure development to improve connectivity.
6. Productivity gains through education and training.

## CASE STUDY: LINFOX

### ON THE ROAD TO SUCCESS IN ASEAN

Linfox's distinctive trucks are a familiar sight across Southeast Asia, and if all goes to plan there will be more of them in the next five years as the company prepares for the advent of the AEC.

Australia's largest privately owned logistics company has operated in the ASEAN region for 25 years. It employs around 19,000 mostly local staff across Indonesia, Laos, Malaysia, Singapore, Thailand and Vietnam—and has plans to operate in the Philippines (where it has set up an operating company), Cambodia and Burma.

As a transport and logistics company, Linfox faces unique challenges when deciding whether to enter a market. In addition to compliance, regulatory and human resources issues, the company must consider the country's existing road and IT infrastructure, safety and security standards, and the potential for natural disasters.

"We typically borrow or use our own capital to invest in the country we're operating in, and keep the money in the country," says Gabrielle Costigan, Linfox's CEO in Asia. "That's the way the Fox family likes to do things. Understanding the capabilities and limitations of a country is very important because it determines how much investment we have to make up front to run our operations to Linfox's standards."

Relationship building is also a key task, particularly with governments. "Governments often want to know what we can do for their country, how much we're prepared to invest in infrastructure and what other benefits we can bring in," says Costigan. "Austrade and

Australian Embassies play a key role in helping us manage relationships with government bodies."

While maintaining Australian standards is important, particularly around workplace health and safety, Costigan says Linfox does need to adjust the Australian business model according to the local context.

"It took our business a while to realise that Asia isn't Australia and that pushing Australian ways of doing things is not always going to work," she says. "The local companies are very competitive, so we had to be smarter about understanding the sectors, logistics and culture of the country, and be flexible about adapting our commercial rules to suit the market."

Linfox has country-specific strategies to accommodate the unique features of each market, and these are tied to its regional and company-wide goals. According to Costigan, the impending AEC has been a factor in Linfox's business planning for the region.

"We're reviewing our Asia strategy for the next five years and we've had a lot of discussions about the AEC and what it means for our business," she says. "From our perspective, there are a lot of opportunities for growth when borders open up. Our customers are thinking about entering emerging markets like Burma and we would logically follow them. It's going to take a while for the major issues to be resolved, but the intent is good and everybody sees the benefits of the AEC."

# CASE STUDY: BLACKMORES

## BLACKMORES SEES A HEALTHY FUTURE IN ASEAN

Blackmores is one of Australia's leading natural health brands, offering a range of more than 500 vitamin, mineral, herbs and nutrient products. The company has been operating in Malaysia, Singapore and Thailand for close to 30 years, and recently began distributing its products in Cambodia and Vietnam.

Blackmores has a tried-and-tested business strategy when entering new markets. It evaluates the regulatory guidelines of the country to determine if it can register and sell its products in the country, then undertakes rigorous market research and assessments to ensure there is a viable market for its products, and that there is a genuine need for products that will support the health and wellbeing of consumers in the market.

Blackmores' 200-plus staff in these three countries are all locals, a fact Peter Osborne, Managing Director Asia, believes is a major reason for the company's success. "You can't operate in these markets unless you've got a strong local team with local understanding," he says. "Having an in-market workforce also means we have people who understand the brand and are proud to 'own' it. It's very difficult for a distributor to do this."

Osborne says Blackmores has benefited from AANZFTA, as well as FTAs with individual countries. He is optimistic about the advent

of the AEC and hopes regional integration will lead to clearer, more standardised regulations.

"We are already seeing positive signs of regulatory change being driven by harmonisation," says Osborne. "For example, in Thailand the regulatory environment is opening up and becoming more transparent, and that will continue over the next few years."

ASEAN is a rewarding market but "you've got to absolutely commit to the market for the long term and build local capabilities," says Osborne. "Never underestimate the strength and capacity of local competitors—they know everything about the market and they've got very good products."

The Australian Government through Austrade and DFAT can help companies navigate the ASEAN market. "Let them open doors and make introductions; they can help you understand how the country works," advises Osborne.

"We see ASEAN as a really significant opportunity for our business, not only as individual countries, but as a group," says Osborne. "We think ASEAN will be a substantial economic and trading force in the next five years."

## WHY ASEAN AND WHY NOW?

There is a real buzz in the Asia-Pacific region about the opportunities the Association of Southeast Asian Nations (ASEAN) presents. Over the last year, with the impending declaration of the ASEAN Economic Community (AEC), a diverse group of observers—including consulting firms, regional institutions and governments—have issued reports noting that ASEAN is at a tipping point in its economic development.

Austrade and the Department of Foreign Affairs and Trade are committed to helping Australian businesses understand and explore the opportunities on offer in ASEAN.

Over the last decade and a half, the ASEAN region has enjoyed a sustained period of rapid economic growth and financial stability. This growth has seen member economies double their per-capita gross domestic product (GDP) over a relatively short period. In 2014, ASEAN's combined GDP stood at US\$2.5 trillion. Collectively ASEAN is a larger trading partner for Australia than any single country other

than China, accounting for over 15 per cent of Australia's total trade. In 2014 bilateral Australia–ASEAN trade was worth over \$100 billion and Australia's exports to ASEAN grew 18 per cent between 2013 and 2014.<sup>1</sup> By the end of 2014 ASEAN countries had investments valued at over \$111 billion in Australia.

This report sets out our thinking on the new wave of opportunities in ASEAN, underpinned by a growing middle class, the move toward an integrated regional economy and the growth of regional value chains. The primary objective of the report is to encourage Australian businesses to start thinking of ASEAN—and through it the AEC—as a single region. It reflects the experience of Australian companies that have succeeded in the region and of our people on the ground in the Australian Government's network of diplomatic missions in ASEAN and offices in Australia. It explains why ASEAN's scale and diversity make it worth considering for business, alongside Asia's established economic giants, like China.

Regional free trade agreements (FTAs)—those finalised and those still under development—also provide opportunities for Australian business in the ASEAN region. The Agreement establishing the ASEAN–Australia–New Zealand Free Trade Agreement (AANZFTA) and bilateral FTAs with Malaysia, Singapore and Thailand—and under negotiation with Indonesia—give Australian companies a strong framework for strengthening their activities in the region. The Regional Comprehensive Economic Partnership and Trans-Pacific Partnership, both currently under negotiation, aim to improve market access for goods, further liberalise services and investment, and make Australia more attractive to investors.

Australian exporters and investors should seriously consider doing business in ASEAN, as it becomes the third great emerging driver of global prosperity after China and India.



# 1. REGIONAL ECONOMIC ARCHITECTURE

ASEAN is working to establish an integrated regional economy—the AEC—to help the region achieve its full economic potential and position itself as a host of global production networks. The AEC will be established in late 2015, but it will continue to be a work in progress beyond its formal declaration. Businesses that engage in the region early are best placed to take advantage of the AEC's immediate benefits and those that emerge over time.

The AEC is not intended to replicate trading blocs such as the European Union; instead, it is a commitment by ASEAN Member States to strive for greater economic integration. The AEC will develop gradually, in line with long-term aspirations. Its framework aims to simplify and standardise trade

and business environments within and among ASEAN Member States, to eventually create a single market and production base, enhance the region's competitiveness, narrow the wealth gap between Member States, and integrate the region more fully and effectively into the global economy. It will guide member economies through a process of structural reform that includes harmonising regulations and improving institutional cooperation.

To date, tariffs on imported goods have largely been removed within ASEAN, but there is significant potential to remove existing non-tariff barriers. The AEC is a regional initiative, but implementing it is the responsibility of Member States, each of which have a different level of development and

varying capacity to implement reforms and commitment to liberalisation. In addition, many planned reforms—for example, the single-window Customs system—need to be implemented by a range of responsible agencies, some of which may not share the same sense of urgency to reform.

Australian business is well placed to benefit from ASEAN's economic integration in those areas where strong consumer demand outstrips local capacity—such as the food and beverage, agribusiness, healthcare, education and financial services industries. Non-tariff measures in some sectors will remain a challenge.

## REGIONAL TRADE AGREEMENTS: PATHWAYS TO THE AEC

Regional free trade agreements—those finalised and those still under development—give Australian companies improved opportunities in regional markets, provide a strong basis for continuing economic reform, and establish a solid platform for Australian companies to enhance their business with ASEAN.

The ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA), in force since 1 January 2010, provides Australian industry and exporters with an immediate pathway to tap into the opportunities offered by the AEC. AANZFTA is currently the largest FTA Australia has in force, and remains the most comprehensive FTA ASEAN has concluded. The Australian Chamber of Commerce and Industry's *2015 Trade Survey* found AANZFTA is the most understood of all of Australia's current FTAs, not to mention the most useful for large business and second most useful for medium-sized business.

### BILATERAL FTAS

The Australian Government is working closely with relevant ASEAN governments to continue developing and enhancing bilateral FTAs where they intersect with AANZFTA. The growing network of FTAs between Australia and ASEAN Member States creates opportunities to explore how the Malaysia–Australia Free Trade Agreement, the Thailand–Australia Free Trade Agreement and the Singapore–Australia Free Trade Agreement may add value to AANZFTA—including by addressing non-tariff measures, and pushing for further liberalisation of services and investment. Australia and Indonesia are also negotiating the Indonesia–Australia Comprehensive Economic Partnership Agreement, which seeks better market access for Australia to the ASEAN region's largest economy.

### THE REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP (RCEP)

Currently under negotiation, RCEP is an ASEAN-centred initiative to create a regional free trade agreement, initially including the 10 ASEAN Member States and the six countries that have FTAs in force with ASEAN: Australia, China, India, Japan, the Republic of Korea and New Zealand.

Together, these 16 countries account for almost half the world's population and 30 per cent of global GDP. RCEP covers 60 per cent of Australia's current total two-way trade and approximately 72 per cent of all exports. RCEP builds on other regional FTAs, including AANZFTA, creating further opportunities for Australian business to develop commercial links within the region.

### THE TRANS-PACIFIC PARTNERSHIP AGREEMENT (TPP)

The TPP is being negotiated by Australia, four ASEAN economies (Brunei, Singapore, Malaysia and Vietnam), Canada, Chile, Japan, Mexico, Peru, New Zealand, and

the United States, representing over 40 per cent of the global economy (US\$28 trillion). One-third of Australia's total trade is with the 11 countries negotiating the TPP and five of the 11 are in the top 10 destinations for Australian investment.

The TPP will open significant new trade and investment opportunities for Australian businesses and further integrate Australia's economy into the region, and promote and facilitate regional supply chains through common rules for trading.

## 2. THE GROWTH OF THE SERVICES SECTOR

An expanding services sector has the potential to be a major driver of growth across the ASEAN region. As ASEAN's services sector expands, productivity will increase and wages should rise, creating spin-off benefits—including

higher productivity—in other sectors. Efficient services are a critical enabler of global and regional value chains, and participating in these value chains is key to ASEAN's growth. Education related travel services is the leading

services export to the region. Three sectors that appear poised to play an increasingly important role in ASEAN's development: aviation, information and communications technology (ICT) and financial services.

## 3. DEVELOPING RVCS AND REGIONAL BUSINESS LEADERS

ASEAN's export success has increasingly been built on a network of RVCs within and between companies in different ASEAN markets, particularly in the manufacturing sector. These RVCs spur economic growth and are a key contributor to the ASEAN integration agenda.

Australian companies keen to expand into and diversify their markets in ASEAN should prioritise their efforts to develop relationships with transnational companies engaged in regional and global supply chains. As markets become more integrated, there will be opportunities to access these supply

chains across multiple markets. The existing value chains for services and agriculture are less developed, and as these are two areas where Australia has particular strengths, they represent significant opportunities.

## 4. ASEAN'S STATUS AS AN EMERGING FDI DESTINATION

ASEAN's rapidly growing middle class and large-scale infrastructure needs underpin its strong appeal and potential as an investment destination. Collectively, the ASEAN Member States rank alongside China as a leading destination for FDI; China and ASEAN each attract an eight per cent share of global FDI. In 2013, the EU countries combined were the largest investor in ASEAN and Japan was the largest

national investor (19 per cent), followed by intra-ASEAN investment (17 per cent), and China/Hong Kong (11 per cent, combined). ASEAN currently accounts for about five per cent of Australian FDI abroad (Singapore is the largest single ASEAN destination) and around six per cent of offshore FDI in Australia.

Strong flows of equity and non-equity investment from Japan and China are

likely to continue, which has a flow-on effect on intra-ASEAN investment. If successful, China's proposed Asian Infrastructure Investment Bank (AIIB) should improve the already growing connection between Australia and mainland ASEAN countries, particularly linkages in investment in infrastructure which supports the ASEAN Connectivity Agenda (discussed in point five).

## 5. INFRASTRUCTURE DEVELOPMENT AND BETTER CONNECTIVITY

Infrastructure development is key to ensuring the transformation and integration of ASEAN economies. There are a number of key challenges in this area, including the quality of existing assets and access to finance. The Asian Development Bank (ADB) estimates that ASEAN Member States require infrastructure investment amounting to US\$600 billion between 2010 and 2020. While the private sector and multilateral institutions such as the ADB and World Bank will continue to play a key role in supporting a strong infrastructure pipeline across the region, meeting this financing requirement

will be a challenge for most ASEAN Member States. In recognition of these infrastructure needs, ASEAN leaders in October 2010 adopted the 2011–15 Master Plan on ASEAN Connectivity. ASEAN is also focused on the post 2015 connectivity agenda.

The establishment of the AIIB, if well-designed, should improve the already growing connectivity to mainland ASEAN countries.

The Australian Government is committed to tackling infrastructure

bottlenecks in the region and to helping create the right conditions for the private sector and to expand trade. This includes, for example, Austrade's role in attracting and facilitating regional FDI into Australian infrastructure, and Department of Foreign Affairs and Trade (DFAT) and Austrade linking Northern Australia to ASEAN and APEC's connectivity agendas. Improved infrastructure will enhance opportunities for Australian business in the region.

## 6. PRODUCTIVITY GAINS THROUGH EDUCATION AND TRAINING

More than 65 per cent of ASEAN's population is under the age of 35, so the demand for training and skills development is significant. There are opportunities to provide training in 'soft' skills (such as management)

as well as technical trades, and to contribute to international research collaboration and research capacity. To take advantage of these in-country delivery opportunities, Australian businesses will require sustainable

transnational education business models that consider employers' needs, can be delivered in volume and recognise market price-sensitivity.

## SIZE AND SCALE



POPULATION

**620 MILLION**  
IN 2014<sup>3</sup>

This total population is greater than that of the European Union (EU) or North America, and represents the third largest workforce in the world, behind only China and India.<sup>4</sup>



AREA

**4,481,000** KM<sup>2</sup>

### ASEAN FACTS

- Since 2007, ASEAN has recorded annual average growth of 5.1 per cent, compared to 3.3 per cent for the global economy.<sup>5</sup>
- In 2014 ASEAN's gross domestic product (GDP) stood at US\$2.5 trillion, accounting for 3.2 per cent of the world's economy, up from US\$626 billion and 1.9 per cent in 2000.<sup>6</sup>
- ASEAN's overall GDP per capita in 2014 was US\$3,991, up from US\$1,172 in 2000.<sup>7</sup>
- ASEAN's GDP is projected to almost double by 2020 as another 120 million people join the middle and affluent classes.<sup>8</sup>
- Indonesia, ASEAN's largest economy, is forecast to average 5.6 per cent growth leading up to 2020.<sup>9</sup>

## ASEAN HAS 10 MEMBER STATES



BRUNEI



MALAYSIA



BURMA



PHILIPPINES



CAMBODIA



SINGAPORE



INDONESIA



THAILAND



LAOS



VIETNAM



If ASEAN was treated as a single economic entity, its GDP in 2014 (in US dollars at current prices) would position it between France (sixth in the world ranked by GDP) and Brazil (the seventh ranked country by GDP).<sup>10</sup>

## ABUNDANT BUSINESS OPPORTUNITIES

At present, ASEAN accounts for over 15 per cent of Australia's trade but only six per cent of its two-way FDI (although this grew over nine per cent from 2013 to 2014). A range of factors—including regulatory factors—influence these investment decisions. Trade flows often precede foreign investment, as countries adjust to changing markets and economic development. However, considering ASEAN's proximity to Australia and the complementarity of our economies, two-way investment is much lower than might be expected. ASEAN's growth trajectory highlights major opportunities for Australia to extend its investment footprint in the region, to capture the growing elements of demand that can only be met by an on-the-ground presence.

The inevitable expansion of the ASEAN services sector presents strong opportunities for Australian businesses.

Services account for 73 per cent of Australia's GDP, which is a recognised leader in providing the advanced services that will shape ASEAN's growth path—including construction, education, engineering, finance, health, logistics, mining services, professional services, telecommunications and transport.

The emergence of ASEAN as a leading economic player is good news for Australia. The introduction of the AEC can only enhance trade and investment opportunities, even if there is some slippage in meeting its targets. The AEC will mean that Australian companies with operations in ASEAN will find it easier to invest, move staff within the region, and manage and build regional supply chains. Companies with regional headquarters in Singapore or another ASEAN centre will become an increasingly attractive option. One of the noteworthy

features of the AEC's evolution is the prominent role business is playing; ASEAN business leaders want the AEC to eventuate and are pressing their governments in this direction.

ASEAN's diverse markets, growing urbanised population, increasingly sophisticated RVCs, growing services sector and dynamic growth trajectory create a compelling case to do business in the region. A number of factors will create commercially valuable opportunities for Australian companies, including the relative ease of doing business in a number of ASEAN Member States compared to other emerging regions; the strong fit between the region's primary growth drivers and Australia's capability to meet them; and demand for skills that Australian businesses excel in, as economies look to move up the value chain.

## HOW ASEAN SEES AUSTRALIA

In March 2015, Austrade commissioned in-depth quantitative research in five ASEAN markets (Malaysia, Thailand, Singapore, Vietnam and the Philippines) to measure perceptions of Australia in the general public. Australia's reputation ranked seventh overall out of 56 competitor countries. It performed well on the key drivers affecting reputation; in particular, Australia is perceived as a beautiful country that values education

and offers an appealing lifestyle—all great strengths from a tourism and education sector perspective.

However, when compared to a recent G8 study, Australia appears to be underperforming on its traditional 'appealing environment' strengths; there is an opportunity to build knowledge and improve perceptions further in this area. Opportunities

also exist to improve perceptions of Australia's business environment and quality products and services.

Positive perceptions of Australia's education system, and of its high-quality food and food manufacturing industry, are real assets that Australian businesses can use to help improve Australia's appeal as a trading and investment partner.

## MANAGING RISK

Although doing business in the ASEAN region presents significant opportunities, the diversity of local business environments means companies should carefully assess the risks associated with each ASEAN market. Each ASEAN Member State presents a different legal

and regulatory framework, so it is crucial for Australian businesses to fully understand these frameworks (and consider getting relevant professional advice) before expanding their operations into the region.

As reflected in Transparency International's *Corruption Perceptions Index*, corruption in some ASEAN countries remains an issue.<sup>2</sup> Bribery of foreign public officials is a crime in Australia, and Australian individuals and

companies can even be prosecuted in Australia for bribing foreign officials when overseas. Australian businesses also need to be aware of how anti-bribery laws in other countries may apply to them, including different laws around facilitation payments.

With the rapidly expanding middle class, extreme poverty has declined from around 14 per cent in 2000 to three per cent in 2013. Nonetheless, development challenges are still an issue in a number of developing ASEAN Member States. Businesses will need to consider how this relates

to labour hire decisions (with the availability of qualified and experienced personnel) and interacting with local and national governments.

Furthermore, infrastructure constraints, including basic services (such as electricity, water and sewerage) and transport are a real issue in a number of regional countries and need to be considered as part of the overall investment decision.

As the experience of the 1997–98 East Asian Financial Crisis demonstrated, there are some financial risks

associated with emerging economies in general (and including ASEAN) that business and nations must consider when investing in the region. Restrictions on foreign investment and anti-competitive practices continue to undermine the potential of many ASEAN member economies. Low productivity growth holds back economic performance, and while wages are low in many countries they do not always compensate for the lower productivity per worker.

## NEXT STEPS FOR AUSTRALIAN BUSINESS

Below are some practical takeaways that business might consider when appraising the region's potential:

- ASEAN is on the brink of major economic and demographic change. A tectonic shift in market structure is taking place from sub-scale and fragmented to scale and greater coherence. Be alert to the potential this offers. Think about how ASEAN might evolve and how that relates to your business. Also be mindful of which Member States are lagging behind when it comes to meeting their AEC commitments.
- Know what the AEC is—and what it isn't. It is not the European Union, but it is a step in a long journey towards closer regional integration—and a move championed by regional business leaders. Ensure that business decisions are supported by robust due diligence and risk management processes.
- Australia's competitors within and outside the region are recognising the opportunities presented by ASEAN's growth and economic integration. It will be important for Australian businesses to

understand their strengths in the ASEAN market and to tailor their strategies accordingly.

- Think of ASEAN as a whole with distinctive regions—in the same way most companies think of China—at least to ensure the correct sense of perspective. Be clear about what you are aiming to achieve. Is it a one-market, multi-market or integrated regional strategy?
- As much as possible, align your business strategy with regional development agendas. It's a lot easier to swim with the tide than against it.
- Be aware that many of the most attractive opportunities on offer require a local business presence. This requires initial and ongoing investment, and well-established organisational competencies.
- Invest in relationships. This is the key to the door for most ASEAN markets, but takes time to develop. Many of the established and emerging regional business leaders have investment interests in Australia. These ties to the ASEAN region are worth pursuing if you

intend to expand and diversify your markets in the region.

- Invest in people—locals and expatriates. Treat ongoing staff development as a business-wide priority that applies to all staff members, not a select few.
- Aim to operate in a 'harmonious' supply chain, in which players at all stages get a cut of the action. This is the key to enduring business relationships.
- Run your business to Australian standards. 'Think local' about the market, but approach governance and corporate social responsibility from an Australian perspective. This will open doors within ASEAN markets.
- Seek information and advice from many sources. Australian businesses often cite a lack of information about the local culture and business and regulatory environments as their biggest challenge when venturing offshore. Look to advisory firms, banks, bilateral chambers of commerce, government agencies like DFAT and Austrade—and take advantage of your own networks.

**“Defaulting to corruption to do business in the region is not only naïve it is short-sighted and it is typically driven by a failure to understand the complex stakeholder structures and the way decisions are really made.”**

Ian Buchanan, Strategy&



## ADVICE AND ASSISTANCE FROM THE AUSTRALIAN GOVERNMENT

In addition to developing a comprehensive package of FTAs within the region, the Australian Government provides practical assistance to Australian companies wanting to expand their business in ASEAN. Austrade and DFAT provide a range of services in Australia, through our on-the-ground presence in ASEAN Member States, and through Australia's Mission to ASEAN. Austrade and DFAT have built a considerable network of contacts across ASEAN to provide Australians with business services tailored to their specific needs—whether it's selecting an appropriate market, developing a market entry strategy, expanding an existing business or establishing an in-market presence.

Austrade can also provide financial assistance for export promotional activities through our Export Market

Development Grants (EMDG) scheme. The Export Finance Insurance Corporation (Efic) can provide assistance when businesses lack sufficient commercial finance needed to enter their target markets. DFAT also engages closely with Australia's business community to support the ongoing implementation of existing FTAs, and to consult on FTAs still under development.

DFAT and Austrade look forward to working with Australian companies as they explore the opportunities on offer in the ASEAN region—the third great emerging sphere of growth in the global economy.

For more information, advice and assistance on doing business in ASEAN, contact:



**Australian Trade Commission**

<http://www.austrade.gov.au/About-Austrade/Contact-us>



**The Department of Foreign Affairs and Trade**

<http://dfat.gov.au/Pages/contact-us.aspx>

email: [asean.business@dfat.gov.au](mailto:asean.business@dfat.gov.au)



**Export Finance Insurance Corporation**

<http://www.efic.gov.au>



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