

Why ASEAN and why now?

INSIGHTS FOR AUSTRALIAN BUSINESS – A
JOINT AUSTRADE AND DFAT PUBLICATION



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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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

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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 2014.¹ 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.

EXECUTIVE SUMMARY

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.

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. This paper looks at 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. This paper profiles six large transnational corporations that

are building RVCs and helping drive economic integration across the region.

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.

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.² 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



Export Finance Insurance Corporation

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

THE ASSOCIATION OF SOUTHEAST ASIAN NATIONS

The Association of Southeast Asian Nations (ASEAN) was established in 1967 as an intergovernmental grouping comprising Indonesia, Malaysia, the Philippines, Singapore and Thailand (the 'ASEAN-5'). It subsequently expanded to include Brunei, Burma, Cambodia, Laos and Vietnam. Its early aims were to enhance relations within the group to accelerate the economic growth, social progress and cultural development of the region. By the

end of 2015, ASEAN will declare itself as the ASEAN Community, which includes the ASEAN Economic Community (AEC) as well as the Socio-Cultural and Political-Security communities. The AEC has the highest profile of the three communities and aims to provide a framework for promoting economic integration among Member States as a means of strengthening the economic prosperity and strategic weight of the region.



SIZE AND SCALE



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.⁴



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.⁵
- 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 2000.⁶
- ASEAN's overall GDP per capita in 2014 was US\$3,991, up from US\$1,172 in 2000.⁷
- ASEAN's GDP is projected to almost double by 2020 as another 120 million people join the middle and affluent classes.⁸
- Indonesia, ASEAN's largest economy, is forecast to average 5.6 per cent growth leading up to 2020.⁹

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).¹⁰

A DIVERSE REGION

Behind these impressive aggregate numbers, there is significant diversity among Member States in terms of economic size, systems of government, population and extent of development. ASEAN also has greater cultural and linguistic diversity than major trading blocs like the EU and the countries of the North American Free Trade Agreement (NAFTA, comprising Canada, Mexico and the United States). For example:

- Indonesia, with more than 250 million people, has more than 600

times the population of Brunei, with less than half a million people.

- Indonesia's total GDP is more than 70 times that of Laos.
- Singapore's GDP per capita is more than 50 times higher than that of Cambodia.¹¹

There are also significant differences in the business environment from country to country. For example, Singapore is ranked first in the World Bank's Ease of Doing Business Index, while Burma is ranked 177th.¹²

ASEAN also benefits from a fortuitous geographical location at the intersection of several major global shipping routes. 'Maritime' ASEAN Member States are located at the junction of the Indian and Pacific Oceans; 'Mainland' ASEAN refers to the area between Asia's two largest countries, China and India.¹³

AUSTRALIA'S TRADE AND INVESTMENT RELATIONSHIP WITH ASEAN

Australia's Minister for Foreign Affairs and Minister for Trade and Investment launched the Australian Government's Economic Diplomacy Strategy in August 2014. Using Australia's international diplomatic assets to advance Australia's prosperity and global prosperity, the Strategy focuses on four key pillars: trade, growth, investment and business, and represents the Australian Government's recognition of the significant opportunities ASEAN presents for Australian business to further promote Australia's trade and growth.

Australia enjoys a substantial trade relationship with ASEAN. In 2014, Australia's trade in goods and services with ASEAN accounted for over 15 per cent of its total trade.¹⁴ By comparison, China—Australia's largest trading partner—represents 23 per cent of total trade.¹⁵ The value of Australia's trade with ASEAN rose from \$43 billion in 2001 to over \$100 billion in 2014.¹⁶ Australia's total exports to ASEAN countries grew almost 18 per cent between 2013 and 2014 to over \$40 billion.¹⁷

Australia's largest trading partners in ASEAN are Singapore, Malaysia, Thailand and Indonesia. Individually, Singapore (fifth), Malaysia (eighth) and Thailand (ninth) are among Australia's top 10 trading partners, and Indonesia

is 12th.¹⁸ Singapore alone accounts for about 30 per cent of all Australian trade with ASEAN; 30.1 per cent of Australia's exports to ASEAN went to Singapore (Australia's merchandise exports to Singapore grew around 50 per cent between 2013 and 2014 to \$8.4 billion), and it was the source of 30 per cent of Australia's imports from ASEAN.¹⁹ There are also significant trade opportunities with the other ASEAN countries. Australia's merchandise exports to Vietnam increased by 45 per cent from 2013 to 2014 (to \$3.1 billion), predominantly in agriculture and textiles and 23 per cent to the Philippines (to \$1.7 billion). Similarly, while from much smaller bases, merchandise exports to Burma grew by 13 per cent and to Cambodia by 53 per cent in the same period.

Two main trends have characterised the Australia–ASEAN trade relationship over the past two decades:

- From 1995, imports from ASEAN rose relatively steadily as a percentage of Australia's total imports, reflecting ASEAN's increasing role as a manufacturing hub. Since 2004, these imports rose significantly.
- The share of Australian exports to ASEAN peaked at over 15 per cent in 1996–97 and has since declined

(despite growing in absolute terms), remaining around 12 per cent since the GFC – mainly due to Australia's growth in exports to China.²⁰

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, leading to increased levels of trade and investment, and higher economic growth. 2014 saw strong growth in the number of visitors from ASEAN countries—arrivals grew 11 per cent compared to the previous year, to over one million—and they spent around \$5.8 billion. Two of Australia's top 10 tourism markets (Singapore and Malaysia) and three of Tourism Australia's priority markets (Indonesia, Malaysia and Singapore) are located in the ASEAN region. Tourism Australia's There's nothing like Australia and Restaurant Australia campaigns are active in these priority markets, mainly through partnerships with airlines and travel agencies.

In 2014, Australian departures to ASEAN countries increased 5.4 per cent compared to the previous year, to 2.8 million. Four of Australia's top 10 destinations—Indonesia, Thailand, Singapore and Malaysia—are ASEAN countries.

AUSTRALIAN EXPORTS

AUSTRALIA'S PRIMARY EXPORTS TO ASEAN COUNTRIES ARE NATURAL RESOURCES AND AGRICULTURAL OR FOOD PRODUCTS. SIGNIFICANTLY, THERE ARE A NUMBER OF EXPORTS FOR WHICH ASEAN IS AUSTRALIA'S PRIMARY MARKET, WITH THE PERCENTAGE AND TOTAL VALUE OF THESE EXPORTS FOR 2014 LISTED BELOW:

PERCENTAGE AND TOTAL VALUE OF AUSTRALIAN EXPORTS TO ASEAN (2014)²¹



In 2014, two-way Australia–ASEAN trade in services was worth \$22.8 billion; Australia exported \$9.7 billion of services to ASEAN. In 2014, ASEAN accounted for about 17 per

cent of Australian services trade and 16 per cent of Australian services exports. Services exports to ASEAN include education, business and travel services. Education-related

travel services account for 37 per cent of all Australian services exports to ASEAN. Other business services account for another 20 per cent.

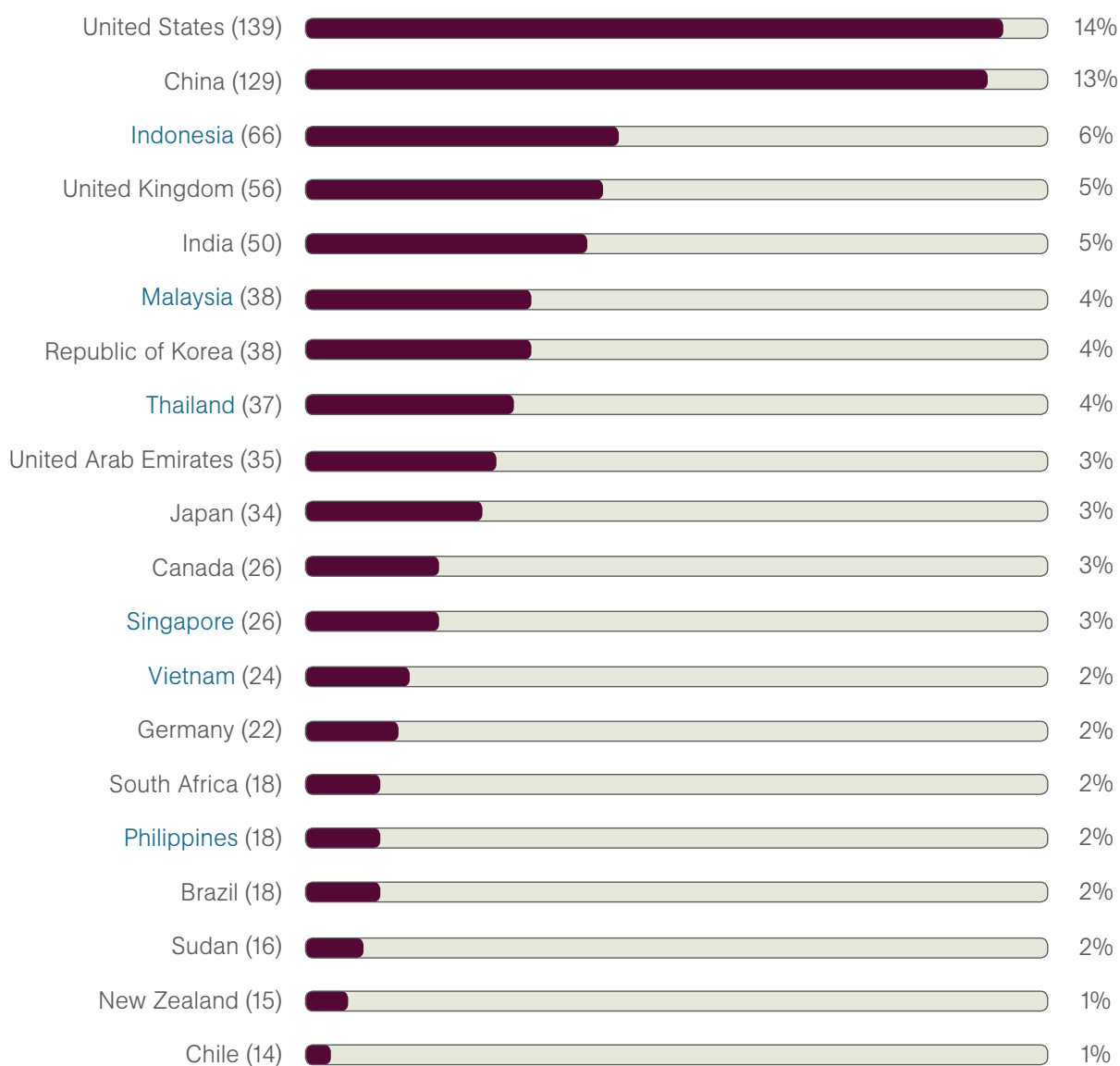
FIGURE 1

Austrade's 2014 *Australian International Business Survey* revealed that six

out of ASEAN's 10 Member States were in the top 20 countries exporters

expected to be a significant source of additional revenue in the future.

WHICH NEW COUNTRY DO YOU EXPECT TO BE THE MOST IMPORTANT IN TERMS OF ADDITIONAL REVENUE?



Number of respondents = 1021

INVESTMENT

By the end of 2014, Australian foreign direct investment (FDI) in ASEAN had grown to \$29 billion, representing 5.4 per cent of Australian FDI abroad. Singapore, Malaysia and Indonesia are Australia's largest ASEAN investment destinations. The ASEAN region—especially Malaysia, Thailand and, increasingly, Vietnam—is an important production base for Australian manufacturing firms. The regional presence of a significant number of financial, professional and technical

services firms indicates that investment is an effective means of establishing access to attractive ASEAN markets.

ASEAN is a modest but growing source of FDI in Australia – growing nearly 14 per cent between 2013 and 2014. Singapore continues to dominate ASEAN's investment in Australia; of all the countries in the world it is the sixth largest investor in Australia, followed in ASEAN by Malaysia and Thailand. The main investment sectors

continue to be real estate, hotels and tourism infrastructure, resources, general infrastructure and agriculture. ASEAN investors are beginning to explore a wider range of investments in Australia, including information technology (IT), healthcare services, advanced materials and specialised manufacturing. See the “Investment and the ASEAN Region” section for a closer analysis of these trends.

ASEAN AND THE WORLD

As a region, ASEAN accounts for close to seven per cent of world trade.²² Australia is ASEAN's ninth largest merchandise trading partner by share of total trade.

The importance of intra-ASEAN trade differs markedly across economies. ASEAN's internal market still lags behind that of the EU and NAFTA countries by some way; total ASEAN intra-regional trade is less than half that of EU intra-regional trade, for example.²³ ASEAN's largest trading partner and largest source of imports is ASEAN itself, and intra-ASEAN trade continues to grow in real terms, accounting for

about 24 per cent of total ASEAN trade, ahead of China (14 per cent), and the EU and Japan (about 10 per cent each).²⁴

Japan remains the largest national investor in ASEAN, accounting for 19 per cent of total investment—close to the EU at 23 per cent. ASEAN is the third largest source of FDI in the region, another indicator that economic ties across the region are stronger than commonly thought.²⁵ These numbers may include external investors channelling FDI into a second market through Singapore but nevertheless indicate strong regional investment flows.

Australia was eighth on the list of ASEAN FDI net inflows in 2013²⁶, but its proximity and existing trading relationship with the region indicate a potential for rapid outward FDI growth if certain barriers to investment can be overcome.



ASEAN'S POTENTIAL

ASEAN encompasses tremendous economic, cultural, religious and linguistic diversity, both within and across the 10 Member States. This diversity exists not only between countries but within Member States; for example, between Jakarta and East

Nusa Tenggara in Indonesia, or between Bangkok and southern Thailand.

This diversity presents challenges in terms of integrating regional economies, but also creates opportunities for

business across the region, including access to additional labour, sources of capital and consumers.

GROWTH OUTLOOK

Since the 1997–98 East Asian Financial Crisis, and in the context of an uncertain global economy following the GFC, the ASEAN region has enjoyed a sustained period of rapid economic growth and relative financial stability. This growth was based on sound macroeconomic management, increased investment and rapid export growth, resulting in ASEAN's combined GDP rising almost threefold from 2000 to 2014.

Vietnam, for example, took just 11 years to double its GDP, faster than China or India, and far ahead of the previous experience of now-developed economies like Japan and the US.²⁷ As a result, millions of people have escaped poverty and an increasingly prosperous middle class continues to grow apace.

ASEAN does face challenges when it comes to achieving continued high rates of growth; in particular, it will need to improve productivity, infrastructure, regulatory settings and skills. Nevertheless, the International Monetary Fund has forecast that Indonesia—ASEAN's biggest economy—will see real growth in per-capita GDP of 4.2 per cent each year to 2020.²⁸ The real GDP per capita of all other ASEAN economies is also forecast to grow, ranging between 2.3 per cent (Singapore) and 7.3 per cent (Burma).

The growth outlook for individual ASEAN economies compares favourably with that of major developed and emerging economies. A range of key indicators suggest that ASEAN has

tremendous growth potential over the medium term. These factors include a favourable demography—that is, a young and growing workforce; rapid urbanisation; relatively low national debt levels; an abundance of natural resources; and proximity to the major economies of China and India. All these combined will help ASEAN become the third great emerging driver of global prosperity, after China and India.

The considerable body of literature on ASEAN's economic prospects identifies two key sources of growth: ASEAN's demographic dividend; and the ongoing process of urbanisation across the region coupled with a growing middle class. Substantial investment in infrastructure will be the key to unlocking this potential growth.

DEMOGRAPHIC DIVIDEND

While birth rates have begun to slow down in some ASEAN Member States, population growth exceeded 2 per cent between 1950 and 1990. By 2025, ASEAN's working-age population will account for 68 per cent of the region's total population – up from less than 60 per cent in 1990. ASEAN's labour force is already the third largest in the world, and Indonesia, Vietnam, Malaysia and the Philippines are predicted to record double-digit labour force growth over the next decade or so.²⁹

As a region, ASEAN's population is youthful by global standards—although Singapore and Thailand are exceptions. Boston Consulting Group (BCG) estimates ASEAN's working-age population will reach 500 million in 2020.³⁰ This contrasts with China, where the one-child policy put a brake on population growth and skewed the age profile of the workforce. Compared to many developed countries, ASEAN is less vulnerable to the threats

that ageing (and even shrinking) populations pose to national budgets.

If ASEAN governments can get the policy settings right, this growing workforce will mean an expanded tax base for funding improvements in infrastructure, education, health and other basic services.

URBANISATION UNDERPINNING ECONOMIC GROWTH

ASEAN's mega-cities (for example, Jakarta, Bangkok and Manila) are striking examples of the mass 'migration' from rural areas to cities. Rapid urbanisation has been underway for at least two decades, but in some ASEAN Member States the process still has further to run than for example in China.

Urbanisation has been a key common factor in economies that escape the 'middle income trap'; Japan and the Republic of Korea are two examples in Asia. Over one-third of ASEAN's population is in cities, but this third contributes more than two-thirds of the region's GDP. It is estimated that an additional 90 million people will live in cities by 2030, which could add more than US\$500 billion to ASEAN's GDP.³¹

81 million ASEAN households are part of a rising middle class (defined by McKinsey as a 'consuming class',

with household incomes more than US\$7,500 in 2005 purchasing power parity terms). This means they have greater discretionary spending power. This could double to about 163 million households by 2030, and Indonesia in particular is forecast to add tens of millions of new households to the consuming class.³² Capital and second-tier cities are at the heart of this expanding buying power.³³ As the tastes of ASEAN urbanites change, there will be opportunities for Australian exporters in the food and beverage, agriculture and agribusiness, telecommunications, healthcare and education sectors.

By 2017, consumption driven by this 'new ASEAN consumer' will generate US\$770 billion in additional consumption across the region.³⁴ These consumers will be younger, with more discretionary spending power and a greater focus on premium products.

Urbanisation will also likely generate productivity gains in ASEAN, as people move from rural employment into higher-productivity urban employment; economies of scale reduce costs; and remittances increase the available pool of capital for rural investment.³⁵ But this rapid growth of cities will require massive investment in infrastructure, education and health services to function efficiently and deliver a good quality of life for citizens.

Despite being different markets and at different stages of development, Burma and Vietnam have the world's most optimistic consumers.³⁶ This means that there could be opportunities for Australian business in these countries.

"All through the Mekong, Vietnam, Laos, Myanmar, even in the south of ASEAN, Indonesia, people are going to start moving from the agricultural sector and rural population into cities, become urbanised and work in factories and the export sector. So what you're going to see aligned with the shift in production is the growth of a middle class or a consuming class across ASEAN. That's going to be one of the

mega trends over the next 20 to 30 years, the formation of a genuine middle class across Asia. As they move from low income into middle income, demand for food, for clothing, for a whole range of goods is going to pick up."

('Australian Business in ASEAN Qualitative Research Project', Participant, Financial Institution)

SIX MAJOR GROWTH DRIVERS

IN ADDITION TO DEMOGRAPHICS AND URBANISATION, SIX MAJOR GROWTH DRIVERS AND TRENDS WILL PRESENT OPPORTUNITIES FOR AUSTRALIAN BUSINESS TO TAKE ADVANTAGE OF ASEAN'S GROWTH TRAJECTORY OVER THE NEXT DECADE:

1

The development of the region's economic architecture—the move toward an integrated ASEAN economy (the AEC), complemented by regional FTAs.

2

The growth of the services sector.

3

The further development of regional value chains (RVCs), driven by regional business leaders.

4

ASEAN's status as an emerging foreign direct investment destination.

5

Infrastructure upgrade to improve connectivity.

6

Upgrade labour force skills

While developments in many sectors of the ASEAN economy (for example, food and agribusiness) will remain significant for Australian business interests, this paper focuses on these six potentially transformative growth drivers and trends.

Three are monoliths in the ASEAN landscape:

- The introduction of the AEC represents a major milestone in the evolution of ASEAN economic architecture, and as such is worthy of deeper review.
- Prospective growth in the region's services sector is a natural and profound consequence of the

stage of economic development it has now attained.

- The expansion of RVCs and the emergence of regional business leaders is a by-product of how successfully the ASEAN grouping has worked to shape a shared future.

The remaining three drivers are bound together and define the major development challenges facing ASEAN as a group:

- The first challenge is the need to reduce barriers and attract the investment and associated know-how required to build these industries and occupations. Foreign investment has a significant

part to play here (particularly in infrastructure development), as domestic savings and government revenue are low in many ASEAN Member States.

- The second is the need to upgrade infrastructure to facilitate the required gains in productivity.
- The third is the need to upgrade labour force skills so that new market entrants can move up the value chain and secure higher-productivity employment in the manufacturing and services sectors.

The following sections review each of these influences in more depth.

REGIONAL ECONOMIC ARCHITECTURE

THE MOVE TOWARD AN INTEGRATED ASEAN ECONOMY

In 2007, ASEAN leaders adopted a blueprint for creating an ASEAN Community by 2015. This comprises the ASEAN Economic Community, along with the Political-Security Community and the Socio-Cultural Community. While the AEC will continue to be a work in progress beyond its formal declaration in late 2015, it offers some immediate opportunities for business while it develops. Businesses that engage early in the region will be best placed to take advantage of its immediate benefits, and those that promise to emerge over time.

The key aims and principles on which ASEAN was originally founded—including mutual respect for the independence and national sovereignty of its Member States; non-interference in each other's affairs; and active collaboration and mutual assistance on matters of common interest—continue to underpin its approach to the region's economic architecture.³⁷ 'The ASEAN way' of prioritising compromise and consensus in decision making—together with

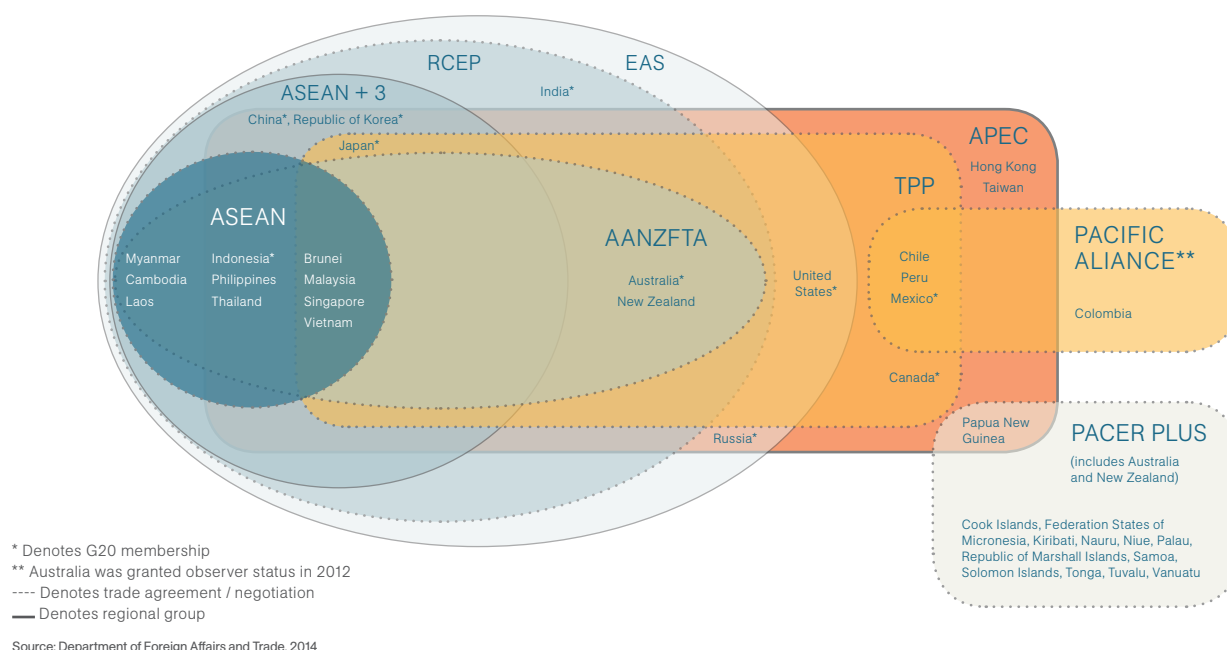
ASEAN's focus on maintaining centrality in its external relations—influences its approach to economic integration under the AEC, and its engagement with the broader region through bilateral and regional trade agreements.

ASEAN recognises the importance of Australia in promoting economic growth in the region. Australia became ASEAN's first dialogue partner in 1974. On the 40th anniversary of ASEAN–Australia relations and in recognition of Australia's deep engagement across the region, the partnership was elevated to 'Strategic Partner'. This places Australia in the top-tier of ASEAN partners.

Australia's participation in the region's broader economic architecture overlaps in many areas (see Figure 2); for example, the ASEAN–Australia–New Zealand Free Trade Agreement (AANZFTA) is the most comprehensive FTA ASEAN has concluded to date. These overlapping partnerships position Australia to take further advantage of ASEAN's growth trajectory.

FIGURE 2

AUSTRALIA'S PARTICIPATION IN REGIONAL ECONOMIC ARCHITECTURE



Australia's engagement with ASEAN is through both FTAs and regional institutions including the East Asia Summit and ASEAN Regional Forum. Australia's FTA engagement is through AANZFTA and negotiations for RCEP, which also involves ASEAN's other FTA partners (China, India, Japan, Korea and New Zealand).

THE ASEAN ECONOMIC COMMUNITY

By 2025, more than half the people who make up the world's middle class will live within a six-hour flight from Bangkok³⁹, putting ASEAN at the crossroads of global trade. This, combined with China's shift to higher-wage production, has many analysts positive about the economic potential of an integrated ASEAN; McKinsey forecasts annual GDP growth between US\$280 billion and US\$615 billion by 2030.⁴⁰ The International Labour Organization estimates that the AEC, if fully implemented, could increase total ASEAN export trade by 15.7 per cent by 2025, and add 14 million jobs in six key economies: Cambodia, Indonesia, Laos, the Philippines, Thailand and Vietnam.⁴¹ And over time, greater integration will allow the region to position itself to augment China and

India with a host of global production networks, and to tap into global supply chains for lower-value manufacturing.

The AEC provides a framework for simplifying and standardising the trade and business environments in ASEAN Member States. It aims to 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. Unlike integration arrangements in other regions, it is not a customs or currency union and will not be administered by a supranational bureaucracy. Rather, it is intended to guide Member States through a structural reform process, mainly by way

of harmonising regulatory processes and improving institutional cooperation.

The cultural, developmental and structural diversity of ASEAN Member States presents opportunities as well as challenges. This diversity makes ASEAN attractive as a location for global production networks—it offers natural resources in one country, low-cost labour in another and proximity to consumers in yet another. The AEC framework aims to maximise these opportunities by working toward the free flow of goods, services, investment, capital and skilled labour within the region. The challenge for ASEAN is to broker and implement specific economic integration measures between these diverse economies.

CHALLENGES

Initial progress toward economic integration was rapid, but slowed over time as ASEAN Member States harvested the low-hanging fruit of reform. Framework agreements for liberalisation of trade in goods, services, investment and the movement of skilled labour are in place⁴², although the momentum of agreement on many specific measures has lost pace over time as countries come up against more intractable challenges. A tension exists between ASEAN Member States working collectively as a competitor to China and India, and competing among themselves—particularly for FDI and export markets. Intra-ASEAN competition means agreements in sensitive sectors such as aviation and agriculture will continue to be difficult to secure. And the absence of comprehensive tax policy harmonisation provisions within the AEC

blueprint may encourage Member States to continue their competition for FDI.

Many non-tariff barriers remain intact or are increasing, which prevents—or at least delays—the full realisation of the economic integration of ASEAN Member States. A particular challenge is the need for governments to manage domestic protectionist pressures reflected in a range of ‘trade-chilling’ measures (including backsliding on market-access commitments) in some countries. This is particularly the case in some sectors that are populated by powerful state-owned enterprises. There is also ongoing disparity in Members States’ technical and institutional capacity to implement agreements, and uneven capacity and political will in some sectors mean arrangements may be adopted on an opt-in or opt-out (‘ASEAN Minus X’) basis.

This allows those Member States which are ready to liberalise to proceed ahead of others who may join at a later date, ensuring some progress albeit unevenly across Member States and sectors.

Constraints on the economic capacity of individual ASEAN Member States will continue to impact progress on regional integration, especially when it comes to overcoming the challenges around increasing productivity, improving infrastructure, harmonising regulatory settings, boosting skills and lifting restrictions on investment. Weak transport infrastructure also limits the development of intra-regional value chains. ASEAN has recognised these constraints, and is seeking to address many of them via the AEC integration framework.

OPPORTUNITIES

While the declaration of the AEC in late 2015 will not represent complete economic integration for the region, it will be an important milestone and an opportunity to benchmark progress against the AEC framework. The strategic and economic imperatives for integration mean that overall, there is strong political and business will to continue the integration process beyond 2015, even if it is uneven and faces opposition in some of the more challenging sectors. Indeed, business is already driving economic integration in the region, taking advantage of existing opportunities and often pressing governments to make further progress in some areas.

The ASEAN Trade in Goods Agreement (ATIGA) has largely removed tariffs⁴³, and intra-ASEAN trade grew substantially from US\$376 billion in 2009 to US\$608.6 billion in 2013.⁴⁴ As a percentage of total trade, intra-ASEAN trade was flat in this period, and ASEAN’s economic role remains very dependent on global trade; intra-regional trade volumes remain smaller than those in North America and Europe. However, there is potential for intra-ASEAN trade to grow as ASEAN governments become more integrated and regional value chains proliferate.

AEC reforms have improved and simplified cross-border transactions for goods exporters, creating greater diversification across ASEAN markets. The more developed ASEAN Member States are currently testing an ASEAN Single Window (ASW)—designed to connect various National Single Windows and expedite customs clearances. The proposed harmonisation of technical standards, once implemented, will further facilitate intra-ASEAN trade.

With most tariffs removed, addressing non-tariff barriers and integrating services—especially by liberalising foreign investment thresholds—will likely offer the greatest opportunities for growth. However, some services sectors will benefit more than others, and liberalisation is likely to be uneven across Member States given the level of behind-the-border barriers in some economies. The ASEAN Framework Agreement on Services (AFAS) has been a key factor in liberalising services; ASEAN is due to complete the 10th and final AFAS package by the end of 2015. The services sectors of air transport and aviation, e-commerce, healthcare, logistics and tourism have prioritised liberalisation, and there

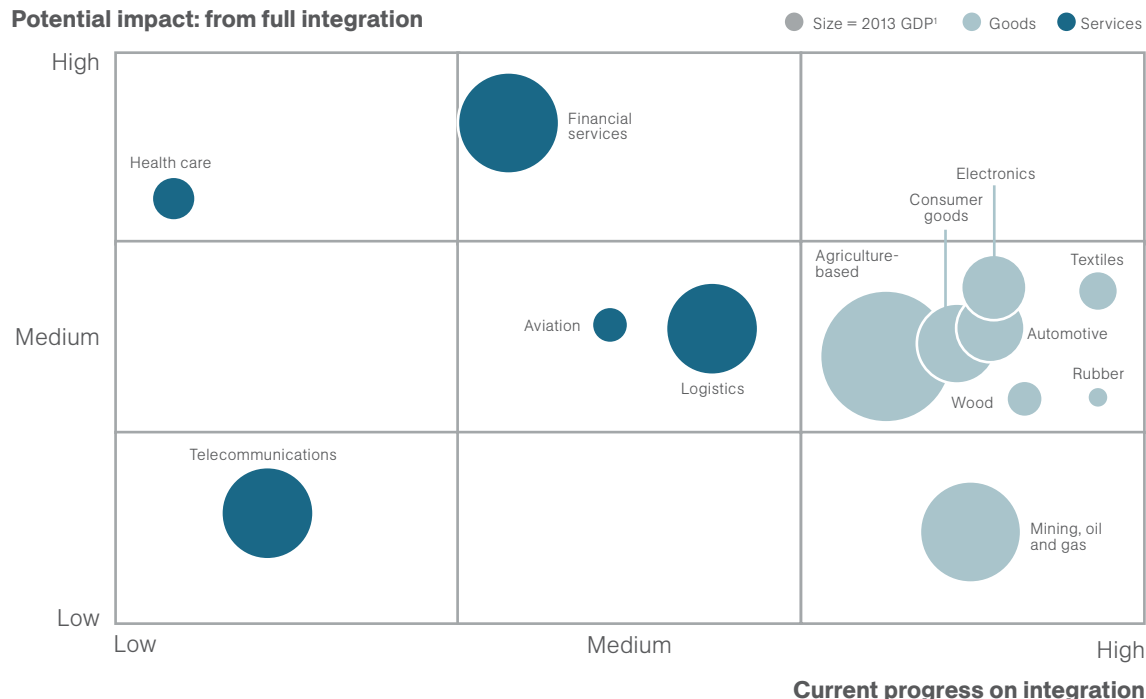
also have been some commitments made to liberalise the financial services industry. Competition in sectors such as aviation will pay dividends to those that adjust quickly, while putting pressure on businesses that are inefficient or state-subsidised.

Protectionism remains a challenge across a number of sectors within ASEAN. Despite this, Australian businesses are well placed to engage in areas where strong consumer demand outstrips local capacity—including in food and beverage, agribusiness, education, financial services and healthcare. This includes the potential for Australian investment and expertise to build local production capacity in the region. Indeed, healthcare and financial services are predicted to gain the most from integration, although progress to date remains varied (see Figure 3). There is also strong potential for Australian businesses, should ASEAN conclude and implement aviation, logistics and agriculture agreements.

FIGURE 3

THE IMPACT OF ASEAN ECONOMIC COMMUNITY INTEGRATION

Potential impact: from full integration



1. 2013 sector GDP for Indonesia, Malaysia, the Philippines, Thailand, and Vietnam. Tourism and e-ASEAN not included due to lack of available data. Agriculture-based sectors include fisheries.

Source: McKinsey, 2014⁴⁵

Some Member States have entered mutual recognition agreements (MRAs) to facilitate the movement of skilled workers in seven priority areas: nursing, dental care, medical services, engineering, architecture, accounting and tourism. Member States have also agreed to a framework for negotiating an MRA on surveying services. However, recognition remains subject to domestic regulation and take-up by business to date is not clear.

While investment provisions under the ASEAN Comprehensive Investment Agreement (ACIA) apply specifically to ASEAN investors in non-service sectors, the aim of creating a liberal, facilitative, transparent and competitive investment environment—one that includes good governance instruments—should also benefit foreign investors once ACIA is effectively implemented. The agreement prioritises liberalisation in five sectors:

manufacturing, agriculture, fishery, forestry, and mining and quarrying, but again its effectiveness is subject to various national regulations—for example, foreigners being unable to own agricultural land in a number of Member States. The ACIA provisions also allow for foreign investors to become an ASEAN investor by setting up and conducting substantive business from a juridical entity within an ASEAN Member State.

Other measures planned or underway under the AEC framework include:

- Harmonising regulatory regimes, including in the areas of competition policy, consumer protection and intellectual property rights.
- Integration of transport links and key infrastructure under the ASEAN Master Plan on Connectivity,

including proposals for ASEAN Open Skies, ASEAN Highway Network, ASEAN Power Grid, and Trans-ASEAN Gas Pipeline.

- Laying the policy and legal frameworks required to introduce e-commerce in the region.
- Completing a network of bilateral double taxation agreements.
- Harmonising rules and regulations for capital markets under the ASEAN Capital Markets Forum.
- Removing or relaxing restrictions on capital flows, including in support of FDI.

WHAT DOES THE AEC MEAN FOR BUSINESS?

Progress toward integration has already stimulated increased foreign and domestic investment in ASEAN. Businesses in the region are generally positive about the economic potential of further integration, and consider the gradual easing of restrictions across the region to be good for business. This optimism is particularly prevalent in the larger and typically more regionally diversified businesses that have a presence in and good knowledge of the region, and are more attuned to the changes underway.⁴⁶

Although welcoming ASEAN integration and assessing that it will provide opportunities, companies are also pragmatic about the prospects of the AEC being fully realised. There is a general recognition that the AEC may not achieve its goals by 2015, and a belief they will not be

realised until 2020 or later.⁴⁷ Business commentators have questioned whether the AEC will ever be fully realised in light of various challenges, such as resource constraints within the ASEAN Secretariat; the AEC's lack of effective dispute resolution mechanisms and binding commitments; and a widespread lack of understanding among citizens of ASEAN Member States regarding the impact of economic integration.

Operating a business effectively in ASEAN countries, particularly in the less-developed ASEAN Member States, will continue to require a long-term commitment to building knowledge about and relationships within each country. A sophisticated understanding that identifies the differences and

systemic disharmonies among ASEAN economies will continue to be as important to business success as leveraging the similarities and harmonies touted under the AEC.

Australian companies must continue to carefully judge the risks and opportunities of moving into particular ASEAN Member States, particularly in the short term. At the same time, and with a view to the longer term, companies should look at what ASEAN—via the AEC as well as bilateral and regional FTAs—offers in terms of diversification across economies and participation in regional production networks.

"We're redoing our strategy at the moment for the next five years for Asia and so we've had a lot of discussions about AEC 2015 and what that means to our business... From our perspective, we've got a lot of opportunities for growth with what could happen in terms of open borders and things like that, and our customer base as well are now starting to look at maybe setting up in some of the more emerging markets like Myanmar for example..."

('Australian Business in ASEAN Qualitative Research Project' Participant, Logistics & Transport, on the AEC)

"Because it's an easier flow of money, the flow of people, the flow of technologies, the flow of trading. I think everything becomes a lot easier with an open AEC, however, the competitors are also stronger in terms of competition among ourselves within the region."

('Australian Business in ASEAN Qualitative Research Project' Participant, Professional Services, on the AEC)

"I would say that the AEC is growing more and more every day... Member states [are] starting to realise that collectively they'd have a bigger opportunity than they would have individually."

('Australian Business in ASEAN Qualitative Research Project' Participant, Education, on the AEC)

TRADE AGREEMENTS: PATHWAYS TO THE AEC

THE AGREEMENT ESTABLISHING THE ASEAN-AUSTRALIA- NEW ZEALAND FREE TRADE AREA (AANZFTA)

Signed in February 2009 and in force since 1 January 2010, AANZFTA aims to “liberalise and facilitate trade and investment between ASEAN, Australia and New Zealand through commitments on goods, services, investment, and temporary movement of natural persons, electronic commerce, intellectual property and economic cooperation”.⁴⁸

The agreement provides Australian industry and exporters with the most immediate and obvious pathway for tapping into the opportunities offered

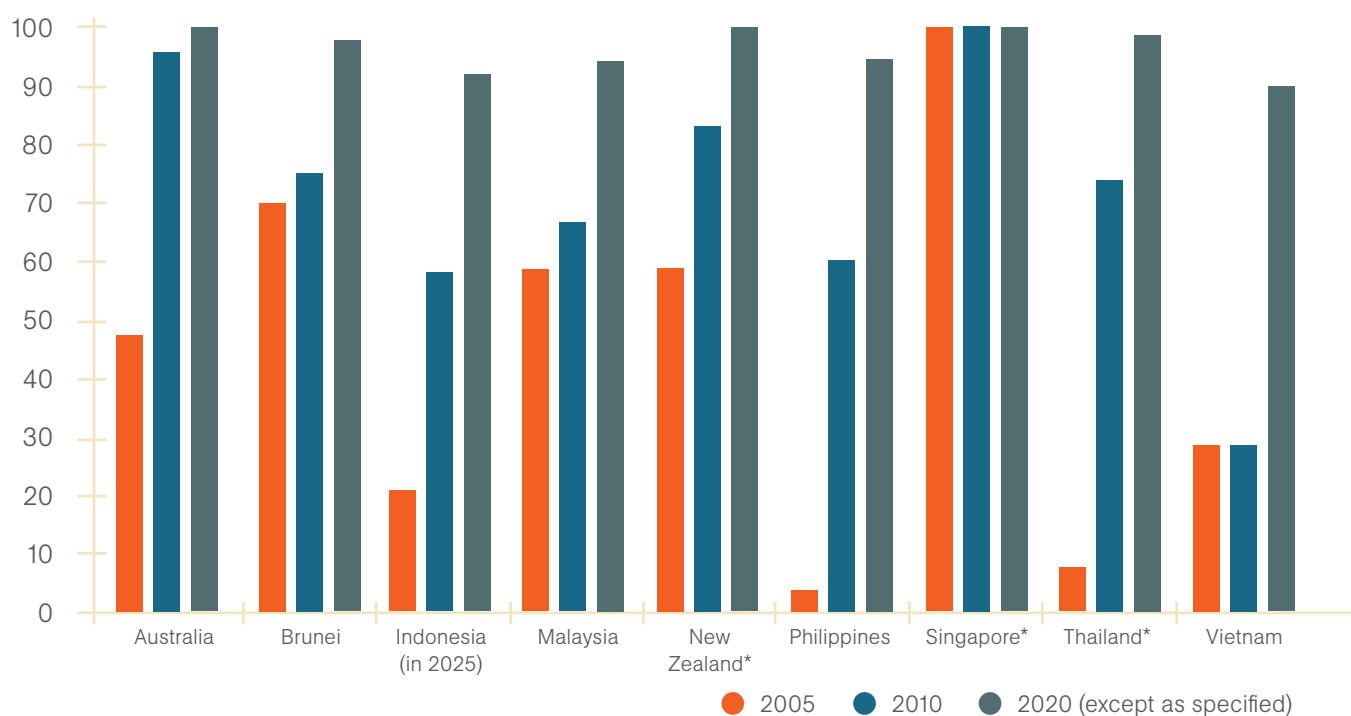
by the AEC. AANZFTA is currently the largest FTA Australia has in force—AANZFTA economies accounted for \$125 billion (18.8 per cent) of Australia’s total two-way trade in 2014—and remains the most comprehensive FTA concluded within ASEAN.

The Australian Chamber of Commerce and Industry’s *2015 Trade Survey* found AANZFTA was the most understood of Australia’s current FTAs, not to mention the most useful for large businesses and second most useful for medium-sized business.⁴⁹

One highlight of AANZFTA is that Australia’s trading partners actually use it, and often. Information from Australia’s authorities for issuing the Certificates of Origin (CoO) required for Australian exporters to claim AANZFTA tariff commitments indicate that some 20,000 export shipments used the agreement in both 2012 and 2013. Regarding imports, Australian Bureau of Statistics (ABS) data indicates the value of import clearances from other parties using Australia’s AANZFTA tariff commitments increased from \$1.2 billion in 2010 to \$5.3 billion in 2014.

FIGURE 4

AANZFTA PROPORTION OF TARIFF LINES WITH TARIFF-FREE TREATMENT⁵¹



* Australian already had bilateral FTAs with these countries when AANZFTA entered into force.

For AANZFTA parties that did not already have an FTA with Australia, AANZFTA provided a major pathway for having goods imported into

Australia; for example, in 2014 \$2 billion of import clearances (32.3 per cent of total imports) from Indonesia entered under AANZFTA, while for

the Philippines some \$300 million of import clearances (25 per cent of total imports) entered under AANZFTA.

FIGURE 5
PERCENTAGE OF IMPORTS INTO AUSTRALIA FROM EACH PARTY USING AANZFTA OR A BILATERAL FTA, 2014^{LII}



It is important to note that for AANZFTA parties that have bilateral FTAs with Australia, these FTAs also played an important part in importing goods into Australia, and for Thailand and New Zealand use of bilateral FTAs far outweighed the use of AANZFTA. In 2014, for example, although \$426 million of import clearances from Thailand to Australia made use of AANZFTA, more than \$7.2 billion of import clearances (66 per cent of total imports) relied on Australia's tariff commitments

under the Thailand–Australia Free Trade Agreement (TAFTA).

AANZFTA is a 'living agreement'; it was designed to be forward-looking and aims to expand and deepen the commitments of its parties over time. The recent finalisation of the First Protocol to Amend AANZFTA, negotiated in response to concerns raised by businesses, aims to streamline the agreement and further enhance opportunities for businesses

to use the agreement. The Australian Government will continue to liaise with Australian industry members to improve the agreement and promote its benefits, including as part of the AANZFTA general review planned for 2016. Working with ASEAN Member States, Australia will also continue to review non-tariff measures and find practical ways to reduce their impact on regional trade.

AANZFTA

KEY INTERESTS AND BENEFITS

AANZFTA WAS SIGNED IN 2009 AND ENTERED INTO FORCE IN 2010.

AANZFTA currently is the largest FTA Australia has in force and the most comprehensive FTA concluded within ASEAN.



Approximately 20,000 export shipments from Australia to other AANZFTA parties used the agreement in both 2013 and 2014



Value of import clearances from other parties using AANZFTA has risen from \$1.2 billion in 2010 to \$5.3 billion in 2014

KEY BENEFITS

The AANZFTA provides:



Extensive tariff reduction and elimination commitments, with major ASEAN countries eliminating tariffs on at least 93 per cent of tariff lines.



Establishes a significant regime of investment protections that promote greater certainty for Australia's service suppliers and investors.



Supports the development of more efficient and competitive industries by enabling parties to access global supply chains through regional rules of origin.



Provides a platform for ongoing economic engagement with ASEAN:



Provides a strong framework for strengthening services and investments outcomes over time.



Adds commercially meaningful improvements to existing World Trade Organization commitments on services, including construction and mining, education, telecommunications, financial and professional services.

- through agendas, economic cooperation projects and business outreach programs
- by assisting ASEAN's own economic integration efforts
- through bilateral FTAs with 'AANZFTA Plus' outcomes
- by enhancing Australia's participation in evolving regional architecture, including towards the Regional Comprehensive Economic Partnership.

Further information, including the guide 'Making use of AANZFTA to export or import' is available at www.dfat.gov.au/trade/agreements/aanzfta/for-business/Pages/for-business.aspx.

BILATERAL FTAS

The Australian Government is working closely with relevant ASEAN governments—in consultation with Australian industry representatives—to continue developing and enhancing bilateral FTAs where they intersect with AANZFTA. There are opportunities to add value to AANZFTA outcomes through the Malaysia–Australia

FTA, the Thailand–Australia FTA and the Singapore–Australia FTA, including by addressing non-tariff measures and pushing for more liberalised services and investment.

Australia and Indonesia are currently negotiating an FTA, the 'Indonesia–Australia Comprehensive Economic

Partnership Agreement' (IA-CEPA). These negotiations, although at an early stage, will seek to build on AANZFTA and further deepen economic ties, particularly two-way investment.

THE REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP (RCEP)

Leaders from ASEAN and ASEAN's FTA partners launched RCEP negotiations in 2012. RCEP is an ASEAN-centred initiative for a regional free-trade area, which would initially include the 10 ASEAN Member States and the six countries with ASEAN FTAs in force: Australia, China, India, Japan, the Republic of Korea and New Zealand. For Australia, this ASEAN FTA is AANZFTA.

Together, these 16 countries account for almost half the world's population and 30 per cent of global GDP.

Negotiations commenced in May 2013 and aim to be concluded by the end of 2015. The Australian Government recognises this is an ambitious target, since the negotiations must factor in such a diverse set of countries, interests and ambitions.

For Australia, RCEP covers 60 per cent of Australia's total two-way trade and approximately 72 per cent of its exports in 2014. RCEP will build on other FTAs in the region, presenting further opportunities for Australian businesses

to develop commercial links within the region, improving market access for goods, further liberalising services and investments in the region, and increasing Australia's attractiveness to investors. RCEP aims to add to services and investment liberalisation under AANZFTA as well as facilitate the participating countries' engagement in global and regional supply chains through regional rules of origin.

THE TRANS-PACIFIC PARTNERSHIP AGREEMENT

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.

Once concluded, the TPP will represent the most significant restatement and enhancement of trade and investment rules since the Uruguay Round and will be a key building block towards further regional economic integration in the Asia-Pacific region. The 12 countries negotiating the TPP

represent around 40 per cent of the global economy—or around US\$28 trillion. One-third of Australia's total trade in goods and services 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.

Australia's significant services sector stands to receive particular benefits, thanks to enhanced access for education, legal, financial, mining, agricultural and electronic commerce service providers. This will complement the AANZFTA, given its focus on manufacturing and goods exports. Australia's participation in the TPP negotiations will also improve trade and investment relationships with individual ASEAN economies, including by strengthening the Malaysia–Australia and Singapore–Australia FTAs.

SUPPORTING ECONOMIC INTEGRATION IN THE REGION

The Australian Government strongly supports the creation of an AEC, seeing it as an investment in stronger regional integration. Australia's support for the ASEAN Secretariat through a major development cooperation program—the Australia–ASEAN Development Cooperation Program (Phase 2)—has strengthened the Secretariat's capacity to facilitate and support ASEAN economic and community integration. It is also helping ASEAN realise the goal of narrowing the development gap between more- and less-developed Member States, as well as encouraging the corporate development of the Secretariat. This program is complemented by bilateral assistance, including targeted support to improve related reform processes—such as Australia's support through the Mekong Business Initiative to improve the business regulatory environment in Burma, Cambodia, Laos and Vietnam. Australia is also partnering with the Asian Development Bank to improve connectivity and facilitate trade and transportation links in all four of these countries.

The Australian Government, in cooperation with New Zealand, supports the continued implementation of AANZFTA in ASEAN Member States. This support is provided through the AANZFTA Economic Cooperation Support Program (AECSP), which helps ASEAN Member States implement AANZFTA and facilitate greater economic links with Australia.

During the 40th anniversary of the Australian–ASEAN Summit in 2014, ASEAN leaders and the Australian Prime Minister announced the creation of the Australia–ASEAN Council. The Council, launched in September 2015, aims to expand Australia's people-to-people, institutional and business links across ASEAN. This includes promoting ASEAN investment in Australia as well as opportunities for Australian exporters and investors in ASEAN. The Australian Government will continue to liaise with businesses about events aimed at promoting opportunities for Australia in the region.

SERVICES IN ASEAN

One of the characteristics of economic development is the services sector's increased contribution to GDP, which in most developed economies is in the range of 60 to 80 per cent of total GDP—lower in most ASEAN countries. In other words, the expansion of the services sector has the potential to be a major driver of growth across ASEAN, including by boosting productivity in other sectors. High productivity generates higher wages. The services sector also typically requires a workforce with higher-quality skills, and efficient services are

a critical enabler of global and regional value chains, which is a key theme in the ASEAN growth narrative.⁵³

A report by Asialink Business, ANZ and PwC predicted that the services sector would become Australia's number one export to Asia by 2030, supporting more jobs than all other sectors combined.^{iv} Three service sectors are poised to play an increasingly important role in ASEAN's development: aviation, ICT and financial services.



AVIATION



INFORMATION AND
COMMUNICATIONS
TECHNOLOGY



FINANCIAL
SERVICES

AVIATION

The aviation sector is benefiting from the increasing affluence of ASEAN's population. Intra-ASEAN travel increased from 65.7 million travellers in 2009 to an estimated 107 million travellers in the region in 2015 based on current projections.⁵⁵ This growth is set to continue over the next 20 years, with a projected yearly increase of 8 per cent.⁵⁶ This will mean airlines acquire new fleets of aircraft—by 2032 airlines in ASEAN Member States are expected to have taken delivery of almost 3,000 aircraft worth close to \$735 billion.⁵⁷ This will in turn drive the continued expansion of low-cost carriers, the concurrent growth of the tourism and hospitality sector, the development and modernisation of airports, and an expansion in support services such as maintenance and overhaul.

ASEAN governments have recognised the important role of air transport in economic development, and are pursuing a single aviation market as part of the AEC framework. This will include creating an 'open skies' policy that will allow airlines to fly from their country of origin to two other capital cities within ASEAN. Enhancing air connectivity

will build a more competitive and resilient ASEAN by promoting greater flows of trade, services, investment and tourism throughout the region, while delivering more choice, better service quality and lower prices for businesses and consumers.

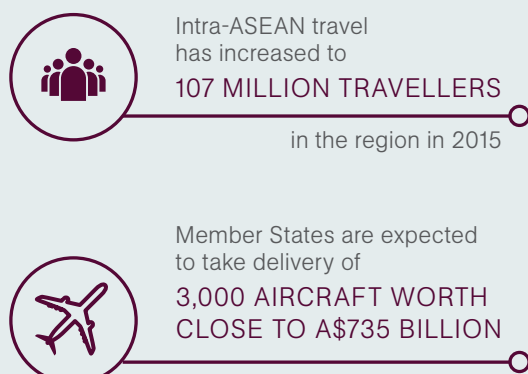
Opportunities for Australian businesses in the aviation sector will accelerate over time. These business opportunities include a range of areas, including airport infrastructure development and upgrades; air traffic and safety management; training and education; airport and airline services; maintenance, repair and overhaul services; global aerospace supply chain manufacturing; search and rescue services and standards harmonisation; aircraft and aerospace products and services; and airport and air traffic management systems.

The region is also expected to push for common systems and procedures, and to invest in technology that allows air traffic controllers to better track aircraft movements. Australia (including Airservices Australia) is already

co-operating with the region in this area. Regional members are investing in expanding or building new airports to support the anticipated dramatic growth in air traffic.⁵⁸ Indonesia plans to construct 46 airports as part of the country's 2030 Airport Master Plan, while Burma is planning to upgrade its international airports in Rangoon and Mandalay, as well as another 69 domestic airports.⁵⁹ For more advanced ASEAN economies such as Singapore and Malaysia that already have world-class airports, the need for automation and self-service airport processes is particularly pressing.

From 2015 onwards, ASEAN Member States will need to take additional measures if they are to achieve a truly unified aviation market. These steps include harmonising competition law and safety and technical processes, and lifting ownership and control restrictions, all of which may take some time to materialise. However, the big winners in the short term will be businesses and consumers, as they reap the benefits of the more efficient, integrated, lower-cost air services.

THE AVIATION SECTOR IS A BENEFICIARY OF THE INCREASING AFFLUENCE OF ASEAN'S POPULATION



INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT)

In an increasingly connected world, ICT is considered a key driver of economic progress. For this reason, ASEAN governments have invested heavily in developing infrastructure to support the uptake of technology across the region. Although much has been achieved, an exponential growth in ICT is needed to spur greater economic transformation across the region. The ASEAN ICT Master Plan 2015 aims to drive the growth of ICT as a means of integrating countries, enhancing industry competitiveness and improving quality of life for ASEAN citizens.

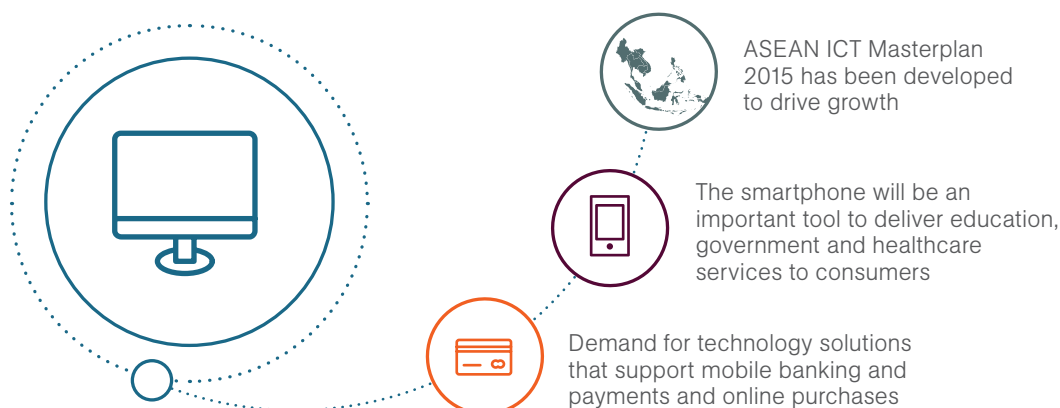
Despite mobile penetration rates reaching 110 per cent and 350 million new Internet subscriptions being added in the past five years, ASEAN Member States remain at different levels of development—from hyper-connected Singapore on the one hand, to Burma, which has only recently started to develop its communications infrastructure. Towards the Singapore end of the scale, a social-media-savvy Indonesia provides vast marketing and telecommunications opportunities.

The main bottleneck for countries is having the right infrastructure to support ICT service delivery, making it crucial to develop and roll out next-generation high-speed networks that cater to advanced services and applications. A shortage of skills is the other critical factor hindering the region's ability to achieve its ICT goals. All ASEAN Member States face the challenge of finding enough graduates with the right capabilities to support the development of their ICT industry, and businesses in the region are always looking for opportunities to up-skill their knowledge workers.

Despite these challenges, opportunities abound. With smart devices becoming more accessible to more people and with greater Wi-Fi coverage in more areas, mobile Internet access is becoming the preferred means of going online. The smartphone is an increasingly important tool for delivering education, government and healthcare services to consumers, particularly in remote and rural communities across the region.

There is also demand for technology solutions that support mobile banking and payments, online purchases and other mobile-enabled services.

Solutions that support businesses are also in great demand. ASEAN's rising middle class will create millions of new consumers who have different purchasing preferences. Data analytics will become a more popular tool as businesses seek to tailor products to different segments of the ASEAN community. Cloud computing services will enable organisations to access secure data storage, software and enterprise systems in a cost-effective manner. This will be especially important for Australian small to medium-sized enterprises (SMEs) that need to ramp up their productivity to compete with companies based in the region, as trade barriers come down with the creation of the AEC. The size of Australia's ICT market and experience across the value chain positions it to help countries in the region achieve their industry development goals.



CASE STUDY: TELSTRA

TELSTRA STAYS CONNECTED IN ASEAN

Asia continues to be a region of opportunity for Telstra, with the company making acquisitions, entering into joint ventures and investing in start-up accelerator programs in the region.

Australia's leading telecommunications and information services company has been in ASEAN since the mid-1980s, when it began working on build-operate-transfer projects for governments in South-East Asia. Today, Telstra has substantial investments in data centres, sub-sea cables and satellite facilities across the region and has entered into a joint venture with Telkom Indonesia.

In addition to telecommunications services, Telstra provides network applications, network management, security, unified communications, and cloud services. The company also has Points of Presence in most countries in Southeast Asia, with regional network operations and customer service centres located in Singapore and Hong Kong to service its government and multinational corporate customers.

"Asia is a key plank in our growth strategy, and we continue to look for opportunities within our existing multinational customer base as well as new investment prospects," says Brendon Riley, Telstra Group Executive, Global Enterprise and Services.

One of these is the company's recent acquisition of Pacnet, a provider of connectivity, managed services and data

centre services to government customers, carriers, multinationals in Asia and beyond.

Telstra's offering now includes PEN; which is a globally connected Software-Defined Networking (SDN) platform offering organisations the power to build high-performance networks on demand that are cost-effective and reliable – and provide the complete flexibility and security needed to bridge hybrid cloud computing deployments.

In Asia, Telstra likes to employ local talent and work with local partners. "Telstra is an operator-investor, in that we're not a hands-off investor but actually participate in the business," says Riley. The company also invests in local talent and recently launched our first Southeast Asian startup accelerator, muru-D Singapore, that aims to attract the region's best digital talent, foster local technology innovation and grow the entrepreneurial ecosystem across Southeast Asia.

Telstra has provided input to the Australian government on the development of some of the region's free trade agreements, and is keeping a close eye on the ASEAN Economic Community.

Telstra continues to look for attractive investment opportunities across ASEAN that are consistent with its corporate strategy.

FINANCIAL SERVICES

ASEAN's financial landscape is as disparate as the economies within the region. In the more developed economies, the banks are well capitalised, robust and expanding regionally. In the less developed nations, retail and institutional banks are still in their infancy and access to banking services is a challenge for the rural poor. Historically, ASEAN has been reluctant to liberalise the financial services sector for a range of reasons, including the fear of undermining prudential regulation and weakening domestic institutions by introducing competition. This has created a complex institutional landscape, with different legislative frameworks and regulations governing each ASEAN Member State.

Financial liberalisation and integration—alongside good governance and regulation through stronger institutional frameworks—are key priorities for political and business leaders working to develop the AEC. The first integration phase involves liberalising financial services, capital accounts and capital markets, and harmonising payment and settlement systems.

The second phase involves creating a single market for financial products, and the third involves establishing a monetary union. While the first phase is considered achievable with sustained commitment from ASEAN leaders, challenges remain regarding the second and third phases, making these very much longer-term prospects.

Over the past two decades, ASEAN Member States have made significant progress in improving the efficiency and soundness of their financial institutions, so they are more able to compete effectively against global players and minimise the potential impact of economic downturns. Regional integration will further strengthen Member States' money and capital markets, and Australia is well positioned to help achieve goals in this area.

Australia has a long history of financial market liberalisation and can share lessons and experiences with emerging ASEAN economies. ASEAN governments can benefit from Australian experience managing liberalised financial markets and systems where infrastructure and/or essential services are delivered using private sector capital, and there are also opportunities to promote Australian policies and programs related to wealth management and pension systems.

The Asia Region Funds Passport⁶⁰ presents opportunities for Australia to share its capabilities across the broad spectrum of fixed and non-fixed investment classes, and listed and unlisted infrastructure assets. There is also an opportunity for Australian fund managers to develop fund management capabilities and source investment opportunities beyond the OECD in neighbouring ASEAN economies.

Individual markets present different opportunities for Australia. In the more sophisticated market of Singapore, Australian firms can provide technology solutions that enhance connections between financial service providers and investors across the Asia-Pacific region. They can also deliver training programs to strengthen the local talent pipeline of finance professionals and leaders.

As the Malaysian banking sector moves towards greater consolidation, there are opportunities for new banking technology, platforms and mobile applications, as well as new financial and insurance products for consumers with growing wealth and diversified needs. Malaysia is a world leader in Islamic finance, so there are also opportunities to tap into its sharia-compliant financial services, products and expertise.

Indonesia, Thailand and the Philippines can benefit from Australia's significant know-how and experience when it comes to using public-private partnerships (PPPs) to develop much-needed social and economic infrastructure. There is strong ASEAN interest in the use of PPPs to meet infrastructure shortfalls.

CASE STUDY: QBE

PRIMED FOR NEW GROWTH IN THE ASEAN REGION

With operations in Asia dating back more than 100 years, Australian insurance giant QBE is hardly a newcomer to the region, but is optimistic that trade liberalisation across ASEAN will drive new ways of doing business in the future.

Karl Hamman, Chief Executive Officer of QBE Insurance (International) Ltd, Singapore Branch, believes QBE is well placed to leverage its extensive experience across nearly all ASEAN markets.

“We’ve been in Singapore for 127 years. We’re the oldest Australian company trading in Singapore and we understand the region well because of our history. We have very substantial businesses in ASEAN markets,” Hamman says.

The nature of the insurance business and how it is regulated in many ASEAN nations means insurers need to have a physical presence, so they can write insurance policies in the country they are issued. Hamman has a positive outlook on the potential for reform under the AEC—especially the development of more uniform financial regulations across ASEAN nations—in terms of lowering operating costs while still growing the business.

“In Asia, we’re a commercial corporate insurer and that business can be facilitated anywhere in Asia,” says Hamman. “So if the AEC came about, we could potentially write the business out of Singapore. It would allow us to deploy capital more efficiently and run the business on less capital, so that would be a huge benefit. However, I think this vision is a medium-term

rather than short-term proposition, so we’re not actively planning for this scenario just yet.”

Hamman says those considering investing in the region need to think about their entry models carefully, then monitor operations closely to ensure such arrangements are implemented as agreed.

“In Malaysia, the Philippines, Hong Kong, India and Indonesia, we are either in joint ventures or have been in joint ventures. We spend a lot of time getting the JV partner aligned to similar objectives as ours. QBE has always been very focused on profitable growth where a number of partners may be more focused on growing the top line. So getting like-minded partners is difficult, and managing those different expectations is very challenging,” Hamann says.

“If you do go into Asia with a JV partner—and in a lot of countries you have to, particularly in our industry—you have to have management control. It’s also about ongoing management, making sure your JV partner’s expectations are aligned to yours. You need to constantly work to make sure the arrangement is done well.”

Hamman believes QBE is in a good position to take advantage of the strong economic growth anticipated across many of the ASEAN countries over the next five to 10 years, most of which will likely be fuelled by major infrastructure projects.

REGIONAL VALUE CHAINS

The increasing network of interconnections within and between companies in different ASEAN markets is a driver of ASEAN's export growth. These Regional Value Chains (RVCs) have been an important source of economic growth and a key contributor to the ASEAN integration agenda. Connections have appeared at different stages of supply chains in many sectors—for example, in the electronics, agribusiness and automotive industries. The most obvious are relationships between manufacturers and component suppliers, but RVCs in ASEAN tend to encompass a much wider group of relationships, such as intra-firm assembly operations, research and development, logistics, administrative functions and even marketing.⁶¹

Large multinational enterprises (MNEs) such as the regional corporate leaders identified below have been key drivers of RVCs in ASEAN. The United Nations Conference on Trade and Development found that the share of intra-ASEAN value-added inputs in ASEAN exports increased

from US\$100 billion to US\$855 billion between 1990 and 2011.⁶² This growth is clear evidence of business in ASEAN developing strong trade and investment connectivity well before ASEAN governments have a chance to catch up. RVCs connect ASEAN to global value chains (GVCs) via high-foreign-value-added inputs and in turn make ASEAN companies and MNEs operating in the region more competitive.⁶³

ASEAN's attractiveness to MNEs has seen a significant shift of GVCs to ASEAN over the past 25 years. In 2013, the share of foreign value-added inputs in ASEAN exports was 37 per cent, up from a third in 1990 and above the world average of 29 per cent. This is despite increases in the value added by domestic entities, including foreign firms operating in ASEAN.⁶⁴

A number of Australian companies—including in the mining, manufacturing and transport, and financial services sectors—are already taking advantage of the region's status as an international trading hub. As ASEAN supply chains

become further integrated and as some restrictions on doing business across different ASEAN markets ease, there will be opportunities for Australian businesses to integrate more closely into supply chains across multiple markets. Australian suppliers seeking to grow their exports will need to continue to explore whether decision makers in RVCs sit within regional headquarters in Singapore or are part of procurement teams in cities such as Bangkok in Thailand, Surabaya in Indonesia or Johor Bahru in Malaysia.

Business process outsourcing is an obvious sector that Australian companies are increasingly making use of; the Philippines is the lowest-cost global provider of back-office services, which allows Australian companies to maintain their international competitiveness. For example, Telstra indirectly employs more than 10,000 people in call centres throughout the Philippines. And Macquarie Bank's largest office is in Manila.

REGIONAL VALUE CHAINS IN ACTION

THE ASEAN AUTOMOTIVE SECTOR

Along with strong economic growth and an expanding and wealthier middle class, ASEAN is becoming a global automotive hub. With vehicle sales of 3.6 million cars per annum—expected to rise to 5.3 million over the next five years—the 10 ASEAN countries offer opportunities for Australian automotive suppliers to enter global value chains.

In 2011, Australia and Malaysia signed the Australia–Malaysia Technical Collaboration Agreement—one of five economic cooperation agreements under the Malaysia–Australia FTA. An outcome of this agreement was a Memorandum of Understanding between Australia's Automotive Cooperative Research Centre (AutoCRC) and the Malaysia Automotive Institute (MAI), committed to promoting joint automotive research projects and the development of new technologies. Austrade has worked actively over many years to support AutoCRC and MAI activities through promotions, trade missions and the sustained engagement of Malaysia's automotive business community. To date, the partnership between AutoCRC and MAI has delivered 19 collaborative agreements.

In January 2015, an Australia–Malaysia partnership announced a collaboration project to develop and produce electric-powered buses. The partnership, worth \$170 million, involves Bustech (part of Transit Australia Group) and Swinburne University of Technology. The first buses were produced in July 2015 and will commence trials in September.

Outcomes such as this are possible thanks to supportive relationships between Austrade, DFAT, state governments and the industry body, the Federation of Automotive Products Manufacturers.

“The established and well-recognised presence of the Australian Government through Austrade and DFAT in Malaysia is very important as it displays broad support for the project,” says Ian Christensen, CEO of AutoCRC.

In 2013, Thailand accounted for 55 per cent of all automotive production in ASEAN.⁶⁶ In April 2014, with assistance from Austrade Bangkok, delegates from eight Australian companies specialising in original equipment manufacturer (OEM) automotive technologies, components and tooling took part in a three-day mission to Thailand to learn more about new opportunities in this sector.

As a result of the mission, a Melbourne company Staetite, which manufactures a wide range of fasteners and precision-machined components used in the automotive sector, secured a \$6 million deal with a tier-one Thai automotive company.

Recognising opportunities in the Indonesian automotive aftermarket sector, Austrade Jakarta led a buyer mission to Australia in April 2015. The first mission of its kind from Indonesia resulted in \$400,000 of purchases from one Indonesian importer alone, and the initiation of commercial discussions regarding Indonesian representation for many other Australian companies.

With the declaration of the AEC in 2015, there will be more opportunities for Australian automotive suppliers to tap into ASEAN regional value chains.



THE EMERGENCE OF REGIONAL CORPORATE LEADERS

Over the last decade, the ASEAN business landscape has seen the emergence of a group of companies with regional and global ambitions. These companies are succeeding across multiple ASEAN markets, and building their own RVCs. They are driving the practical economic

integration in the region in parallel with the development of regional economic architecture such as the AEC. These regional leaders have emerged from many ASEAN markets and cover a diverse range of sectors including aviation, agribusiness and infrastructure.

Below are six such companies from various ASEAN markets: AirAsia Berhad, Charoen Pokphand Group, Keppel Corporation, Metro Pacific Tollways Corporation, Universal Robina Corporation and Vinamilk.

AIRASIA BERHAD

AirAsia is a low-cost airline headquartered in Malaysia, with affiliates in India, Indonesia, Thailand and the Philippines. In 2001, group CEO Tony Fernandes purchased the debt-ridden airline from Malaysia's DRB-Hicom for a token 1 Ringgit, with a vision to "democratise air travel and free it from the clutches of the elite" by offering low fares with high levels of service.

The debt was repaid within two years, and according to the Centre for Aviation, by 2014 AirAsia was carrying 50 million passengers—one of only 10 global airlines and the only Asian airline outside China to achieve this. Nearly 280 million passengers have flown on AirAsia since its launch. Listed on the Kuala Lumpur Stock Exchange in 2013, the airline is said to operate one of the lowest cost structures, while having the highest crew productivity levels and the

best average aircraft utilisation rates in the industry. Like its competitors, AirAsia is experiencing challenging times, but its unique no-frills business concept is considered an industry innovation and a major contributor to its success.

Long-haul arm AirAsia X flies to four cities in Australia (Sydney, Melbourne, Perth and the Gold Coast), as well as other destinations in Asia and the Middle East. The airline carries around half of all passengers from Malaysia into Australia and is the fourth largest foreign carrier in the country. In December 2013, AirAsia X placed the largest single airline order for 25 A330-300 aircraft (valued at a total of US\$6 billion). Its growth strategy includes increasing the number of route hubs and returning to Europe, which it stopped flying to in 2012.

The penetration of low-cost carriers across Southeast Asia has grown from nearly zero to around 60 per cent since 2001, showing the remarkable growth and potential of the industry. Despite uncertainty in the next two years due to overcapacity and falling yields, the ASEAN 'open skies' policy is expected to transform the airline industry by liberalising regional aviation markets and encouraging greater connectivity, higher traffic and lower ticket prices. AirAsia is well positioned to take advantage of this policy due to its presence in Malaysia, Thailand, the Philippines and Indonesia. Having won Skytrax's, 'World's Best Low-Cost Airline' six years running, AirAsia is going from strength to strength in a challenging industry. This case study illustrates the role business is playing in shaping the ASEAN connectivity agenda.

CHAROEN POKPHAND GROUP

The Charoen Pokphand (CP) Group is a transnational Thai conglomerate consisting of three core businesses operating in the agribusiness and food, retail and distribution, and telecommunications industries. Founded in 1921, CP Group employs more than 300,000 people in offices and factories worldwide, and has investments in 20 countries. It operates more than 8,000 7-Eleven franchises in Thailand, and owns Siam Makro and the True Corporation. In 2013, its annual revenues were US\$41 billion.

CP Group is the largest private conglomerate in Thailand and is headed by Thailand's wealthiest individual and *Forbes Asia's* 2011 Businessman of the Year, Chairman Khun Dhanin Chearavanont, whose net worth is reported at US\$13.6 billion.

CP Group's agro-industry and food businesses comprise animal feed

production, livestock farming, protein processing, marketing and distribution, and it has investments across Asia and in Europe. One of the first major foreign investors in China, over the course of more than 30 years CP Group has expanded from agriculture and food into retail, finance, automotive and pharmaceuticals for the local and export markets. CP Group is highly regarded in China, where for decades it has been ranked as one of the country's biggest foreign investors and where it generates half of its sales. It recently established a strategic alliance with Japan's Itochu Corporation to expand businesses in food and other integrated industries for China, Southeast Asia and other parts of the world.

CP Group purchased Siam Makro from SHV Nederland in April 2013 for US\$6.2 billion, to expand its operations in the ASEAN region and service a new distribution channel for

the export of agricultural products, including fresh and frozen goods such as meat products produced by the group's companies.

CP Group has a sales office in Melbourne and is looking to invest more heavily in Australia. It is actively considering investing in beef and lamb production and processing industries, and in aquaculture. In recognition of specific Australian capabilities, on a recent Austrade-organised visit to Australia, the CP Chairman said lamb and beef-based meal manufacturing could not only be done cost-effectively in Australia with their joint investment, but that 'premium Australian-made' was an essential proposition for these products in Asia.

KEPPEL CORPORATION

Keppel Corporation is a conglomerate headquartered in Singapore and listed on the Singapore Exchange (SGX) with a market capitalisation of SG\$16 billion. The Keppel Group of Companies includes Keppel Offshore & Marine, Keppel Infrastructure, Keppel Telecommunications & Transportation (Keppel T&T) and Keppel Land. Temasek Holdings owns 21 per cent of Keppel Corporation.

Keppel Infrastructure invests in, owns and operates power and gas, environmental and energy efficiency businesses. In late 2014, Cityspring (a listed infrastructure trust owned by Temasek) merged with the Keppel Infrastructure Trust (KIT), forming the largest infrastructure trust listed in Singapore, with assets under management of \$4 billion. Keppel Infrastructure is particularly active in energy (gas), waste, water and construction. Current assets

of the combined KIT include waste management, water and wastewater, telecoms, desalination, power generation and distribution in Singapore, as well as Basslink in Australia.

Keppel T&T is a leading service provider in the Asia-Pacific region and Europe, operating logistics and data centre businesses. In Australia, Keppel T&T owns and operates two data centres (iSeek Data Centre in Brisbane and Gore Hill Data Centre in Sydney). Keppel Data Centre Reit, a SGX-listed wholly owned subsidiary of Keppel T&T, has plans to expand its data centre business in Australia.

Keppel Land is a leading developer of residential properties, integrated townships and investment-grade commercial properties, and has constructed numerous townships in China, Malaysia and Vietnam.

Its commercial properties portfolio has office and retail buildings in key Asian countries including China, Indonesia, Malaysia, the Philippines, Singapore and Vietnam. Its hospitality portfolio has serviced apartments, hotels and golf resorts in China, Indonesia, Malaysia, Singapore and Vietnam. Keppel Land is one of the largest listed property companies on the SGX, with a market capitalisation of \$S14 billion. In November 2014, Keppel Land was named the region's 'Most Admired ASEAN Enterprise' at the ASEAN Business Awards.

Keppel Offshore & Marine is another arm of the conglomerate, with a strong regional and global presence in offshore rig design, construction and repair; ship repair and conversion; and specialised shipbuilding.

METRO PACIFIC TOLLWAYS CORPORATION

Metro Pacific Tollways Corporation (MPTC) is the largest toll-road operator in the Philippines. It currently operates 194 kilometres (approximately 63 per cent) of the total 302 kilometres of toll roads in the country, including:

- North Luzon Expressway (NLEX): 86.7 kilometres
- Manila Cavite Toll Expressway (CAVITEX): 13.5 kilometres
- Subic-Clark-Tarlac Expressway (SCTEX): 93.7 kilometres.

Other projects in the pipeline include:

- the Central Luzon Expressway link

- the Cebu-Cordoba bridge, linking the island of Mactan with the island of Cebu
- NLEX Citi Link, connecting NLEX to Valenzuela City and from Valenzuela City to C3 Road in Caloocan City.

MPTC is also pushing for a connector road linking NLEX with the South Luzon Expressway (SLEX). This unsolicited project has been opened to a Swiss challenge and MPTC will have the right to match the best bid.

MPTC also operates toll roads in Thailand and Vietnam and is

looking for toll-road projects in Indonesia, Cambodia and Burma.

MPTC is 99.8 per cent owned by Metro Pacific Investments Corporation, the holding company for investments in real estate and infrastructure of Metro Pacific Holdings Inc. Metro Pacific Holdings is a Philippines corporation wholly owned by First Pacific Company Limited, a Hong Kong-based investment and management company with Indonesian equity (which also recently acquired Goodman Fielder, Australia's largest food company).

UNIVERSAL ROBINA CORPORATION

Universal Robina Corporation (URC) is an affiliate company of JG Summit Group, one of the largest conglomerates in the Philippines. The corporation has interests in air transportation, banking, petrochemicals, real estate, and hotel and property development.

URC is one of the largest branded consumer food and beverage product companies in the Philippines and has a significant and growing presence in ASEAN markets. It is the market leader in savoury snacks, biscuits, cakes, candies and chocolates, and a

trendsetter in the beverage industry with its coffee-based and ready-to-drink products. URC is best known for manufacturing and distributing snack products such as Chippy, Nova and other foods under the Jack 'n Jill brand, widely available in China, Hong Kong, Indonesia, Malaysia, Singapore, Thailand and Vietnam. It also manufactures Nissin and Payless instant noodles, and Hunt's tomato-based products.

URC operates manufacturing facilities in China, Thailand, Malaysia, Vietnam and Indonesia, and will have

full-scale operations in Burma, Laos and Cambodia in the near future.

URC also produces and distributes animal feeds, glucose and soya products, and is engaged in hog and poultry farming; production of animal health products; and flour and sugar milling and distribution.

VINAMILK

Founded in 1976, Vietnam Dairy Products Joint Stock Company (Vinamilk) is one of the 50 largest listed companies on the Vietnam Stock Exchange, with annual revenues of over US\$1 billion. It is Vietnam's leading dairy manufacturer and has a 51 per cent share of the domestic liquid milk market. Vinamilk's products range from core dairy products such as liquid and powdered milk, to value-added dairy products such as condensed milk, soya drinks, drinking and spoon yoghurt, ice-cream and cheese.

Vinamilk mainly serves the Vietnamese market and its domestic market accounts for over 80 per cent of its total revenue. However, it exports 15 per cent of its products to more than 31 countries, including Cambodia, Canada, Japan, Republic of Korea, Russia, Thailand, Turkey and the US.

In 2010, Vinamilk invested in New Zealand's NZ\$121 million Miraka milk processing factory; it now holds a 20 per cent share of the facility. This investment enabled Vinamilk to source high-quality raw milk from New Zealand and proactively stabilise its access to a raw milk supply. The company has also made substantial investments in the US and Poland.

In January 2014, Vinamilk received a licence to open a US\$23 million processing facility in Phnom Penh's Special Economic Zone. Vinamilk holds a 51 per cent share of the facility; Cambodia's Angkor Dairy Products Company Limited owns the remaining 49 per cent. The plant will produce 19 million litres of liquid milk, 64 million jars of yoghurt and 80 million cans of condensed milk each year.

In July 2014, Vinamilk's farm in the central province of Nghe An received a Global Good Agricultural Practice (GAP) certificate, the first farm in Southeast Asia and the third in Asia to receive the international honour.⁶⁷ Vinamilk's CEO Mai Kieu Lien says the firm has set a target of achieving US\$3 billion worth of revenue and being among the top 50 of the world's largest dairy companies by 2017. Austrade has been working to introduce Vinamilk to Australian suppliers of milk powder and live cattle.



INVESTMENT AND THE ASEAN REGION

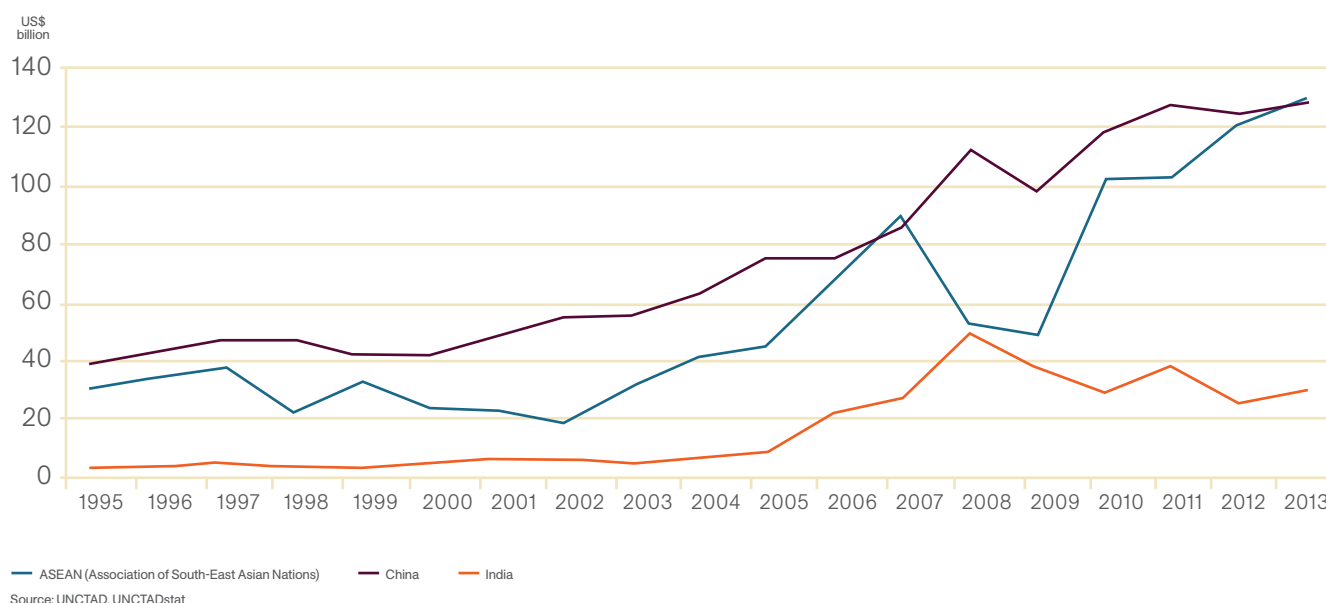
ASEAN is a significant destination for global FDI. In 2013, companies invested US\$122 billion in the region, representing a 22 per cent increase

from 2010 and accounting for 8 per cent of global FDI flows. While ASEAN is once again on par with China as an investment destination⁶⁸, it attracts

proportionally more global FDI than its 3 per cent share of the global economy.

FIGURE 6

INWARD FDI TO ASEAN (NET INFLOWS), CHINA AND INDIA—1995–2013



As the region's financial hub, Singapore remains the dominant investment destination, accounting for over 50 per cent of the ASEAN region's FDI. Other countries such as Indonesia

and the Philippines attract significant investments and continue to see increases in the amount of investment coming in.⁶⁹ The total stock of FDI in the ASEAN region now stands

at US\$1.6 trillion⁷⁰, and inward FDI flows increased from US\$64 billion in 2006 to US\$122 billion in 2013.⁷¹

INVESTMENT TARGETS IN ASEAN

ASEAN's services and manufacturing sectors continue to be the largest recipients, accounting for approximately 90 per cent of investment.⁷² Key target markets include electronics, automotive, real estate, finance and retail. There is naturally a wide variation

between countries both in terms of the sectors investors choose, and the justification for investing there; manufacturing tends to dominate in Burma, Cambodia, Laos and Vietnam

where investors seek cost advantages, while agricultural and extractive sectors dominate in resource-rich countries such as Indonesia and Burma.

SOURCES OF FDI

Sources of FDI remain highly concentrated; the top 10 investors account for more than 70 per cent of inflows into the ASEAN region. Japan remains the largest national investor,

accounting for 19 per cent, although some EU countries (the Netherlands and the United Kingdom in particular), China, the US and the Republic of Korea also have significant shares.

Collectively, intra-ASEAN investment from Member States accounts for 17 per cent of total FDI in the region.

TABLE 1

TOP 10 INVESTORS IN ASEAN, ACCOUNTING FOR MORE THAN 70% OF INFLOWS

2011			2012			2013		
Major Investors	Amount (US\$ millions)	Share in FDI in ASEAN (%)	Major Investors	Amount (US\$ millions)	Share in FDI in ASEAN (%)	Major Investors	Amount (US\$ millions)	Share in FDI in ASEAN (%)
ASEAN	15 228.4	16	Japan	23 777.1	21	Japan	22 904.4	19
UK	12 152.2	12	ASEAN	20 657.6	18	ASEAN	21 321.5	17
Japan	9 709.0	10	USA	11 079.5	10	Netherlands	10 486.3	9
USA	9 129.8	9	Netherlands	8 728.3	8	UK	10 443.1	9
China	7 857.7	8	China	5 376.8	5	China	8 643.5	7
Luxembourg	5 566.7	6	Hong Kong, China	5 029.9	4	Hong Kong, China	4 517.3	4
Netherlands	4 947.6	5	Luxembourg	3 926.8	3	USA	3 757.5	3
France	4 360.2	4	France	3 126.4	3	Republic of Korea	3 516.2	3
Hong Kong, China	4 273.9	4	Taiwan, Province of China	2 242.3	2	Belgium	2 489.3	2
Taiwan, Province of China	2 317.0	2	India	2 233.4	2	Luxembourg	2 310.4	2
Top 10 total	75 542.4	77	Top 10 total	86 178.2	75	Top 10 total	90 389.5	74

Source: ASEAN Secretariat, ASEAN FDI database (accessed on 1 August 2014)

Notes: Data for 2012-2013 do not include the Lao People's Democratic Republic. Philippines data excludes reinvested earnings – one of FDI flow components – as geographical breakdowns are not available.

Apart from a decline during the 2008–09 GFC, FDI has been rising since 2002, with an especially marked acceleration since 2009 (except in 2009 itself).⁷³ Several key factors continue to influence this growth, including strong macro-economic fundamentals; multinational companies realising that they need to be based in the region or that rising demand means they must expand their operations; rising intra-ASEAN investment; and growth in cross-border merger and acquisition (M&A) activity. Recently, the availability of cheap funds due to quantitative

easing policies has also contributed to increased investment, although these flows are likely to be tempered by a tightening of US monetary policy. Corporates, often led by multinational enterprises, are undertaking greenfield and M&A investments in an effort to capitalise on efficiency gains and the lower cost of production, and to meet growing demand and capture market growth opportunities.

The continued strength of intra-ASEAN investment is indicative of the pace of development in the region. From a low base of approximately US\$7 billion

in 2009, intra-ASEAN investment now stands at over US\$21 billion in 2013.⁷⁴ While Singapore and Malaysia dominate, most other ASEAN Member States are also undertaking investments specific to their development needs. This represents a growing interest among corporates with regard to their home region, but also demonstrates the growing ability of regional companies to undertake international investment and develop a regional presence. This trend is supported by M&A activity; ASEAN companies were the largest acquirers in the region between 2011 and 2013.

JAPAN

Japan was the largest national investor in ASEAN in 2013, representing 19 per cent of all ASEAN FDI.⁷⁵ ASEAN is a premier investment destination for Japanese corporations, and there are currently around 5,500 Japanese affiliates across the region⁷⁶, including 71 Japanese automotive factories.⁷⁷

Since 2009, there has been a pronounced increase in investment in manufacturing throughout the region, and Japan has played a leading role in

this;⁷⁸ it now accounts for 46 per cent of the total global pool of US\$58 billion invested in manufacturing in the ASEAN region over the past two years.⁷⁹ Within the manufacturing sector, electronics and automotive products are currently attracting the most investment.

Since 2012, there has been evidence of a new wave of Japanese interest in ASEAN, likely encouraged by an improved investment climate. Part of this reinvigorated interest reflects

a strategy of relocating productive capacity, driven in part by higher labour costs in China. Emerging ASEAN markets enjoy a competitive advantage in labour costs, although these continue to be offset by productivity differentials.⁸⁰ Japanese investment interest is expected to continue, driven in part by the anticipated benefits of the AEC, which in turn will create opportunities for the region to offer greater access to regional value chains.

CHINA

It is clear that China has a strong interest in ASEAN—especially its neighbouring states—and that it will continue to drive connectivity and integration with and within the region. This will most immediately affect the mainland ASEAN states of Burma, Thailand, Cambodia, Laos and Vietnam; however, Chinese interest and influence also extends to the other ASEAN Member States.

China's investment in ASEAN has concentrated on the three Member States that share borders with China's south-western province of Yunnan: Laos, Burma and Vietnam. The influx of infrastructure investment from China and other nations is likely to have a significant impact on their economies, and will greatly improve their potential as destinations for investment.

China is a major player in infrastructure and mining investment. The stock of Chinese investment in ASEAN stood

at US\$28 billion in 2012, and Chinese companies have infrastructure projects across ASEAN estimated to be worth over US\$50 billion. That said, the Chinese appetite for infrastructure projects means the published equity-based FDI numbers likely understate the real scale of Chinese interest.

Much of China's investment aims to create and improve road and railway links between Kunming, the capital of Yunnan, and the capital cities of mainland ASEAN. This investment is channelled through a number of different mechanisms, including the Asian Development Bank Greater Mekong Subregion Economic Cooperation Program (GMS-ECP, through which China is leading six major rail and road infrastructure development projects).

China's proposed establishment of the Asian Infrastructure Investment Bank, should create the conditions required to improve the already growing connectivity

to mainland ASEAN countries. Similarly, China's Silk Road Economic Belt and 21st-Century Maritime Silk Road—or 'One Belt, One Road Initiative'—aims to promote the connectivity of Asian, European and African continents and their adjacent seas, and establish and strengthen partnerships among the countries along the Belt and Road. ASEAN's maritime ports stand to benefit from the Maritime Silk Road, with ports in Hanoi, Jakarta and Kuala Lumpur all announced as key targets.

AUSTRALIA

As demonstrated in Figure 7, the stock of Australian FDI in ASEAN has increased steadily to \$29 billion as

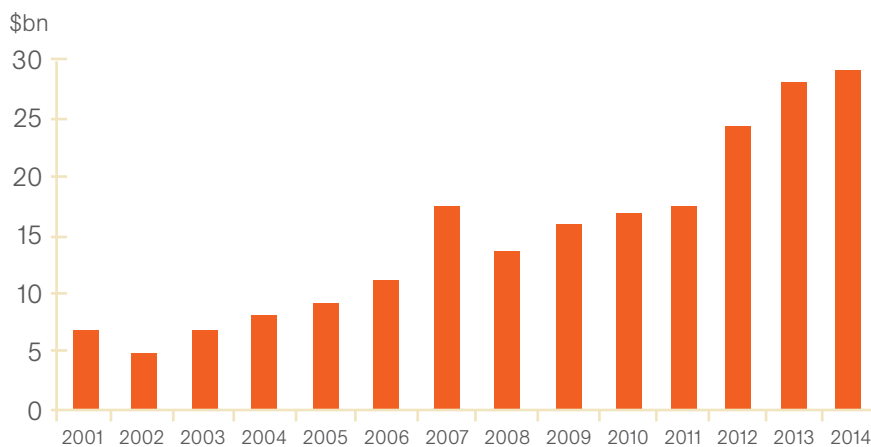
at the end of 2014, representing 5.4 per cent of Australian FDI abroad.⁸²

Company-level data from Australia's top 2,000 public and private companies sheds more light on the distribution of that investment. The IBISWorld company database from February 2015 shows:

- a total of 1,059 investments across the ASEAN region, the principal destinations being Singapore (423) and Malaysia (268), representing close to 14 per cent of the total number of global investments by Australia's top 2,000 public and private companies
- ASEAN as an important production base for Australian manufacturing firms, most notably Malaysia
- the presence of a significant number of financial, professional and technical services firms in the ASEAN region, indicating that investment is a strong means of establishing access to attractive ASEAN markets.

FIGURE 7

AUSTRALIAN OUTBOUND FDI TO ASEAN (\$ BILLIONS)



Source: ABS, 53520—International Investment Position, Australia: Supplementary Statistics, 2015

FIGURE 8

DIRECT INVESTMENTS OF AUSTRALIAN COMPANIES, BY INDUSTRY AND BY MARKET (NUMBER OF INVESTEE COMPANIES)

- Manufacturing
- Professional, Scientific and Technical Services
- Mining
- Transport, Postal and Warehousing
- Construction
- Other

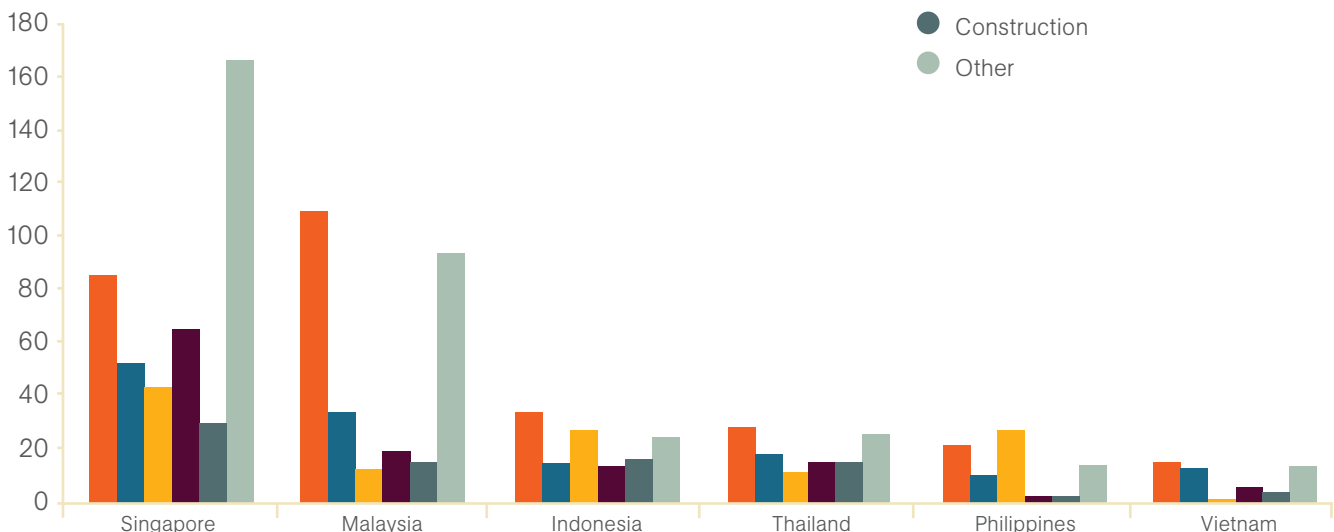


FIGURE 9

DIRECT INVESTMENTS OF AUSTRALIAN COMPANIES, BY INDUSTRY AND BY MARKET (PERCENTAGE SHARE BY PARENT INDUSTRY OF INVESTEE COMPANIES)

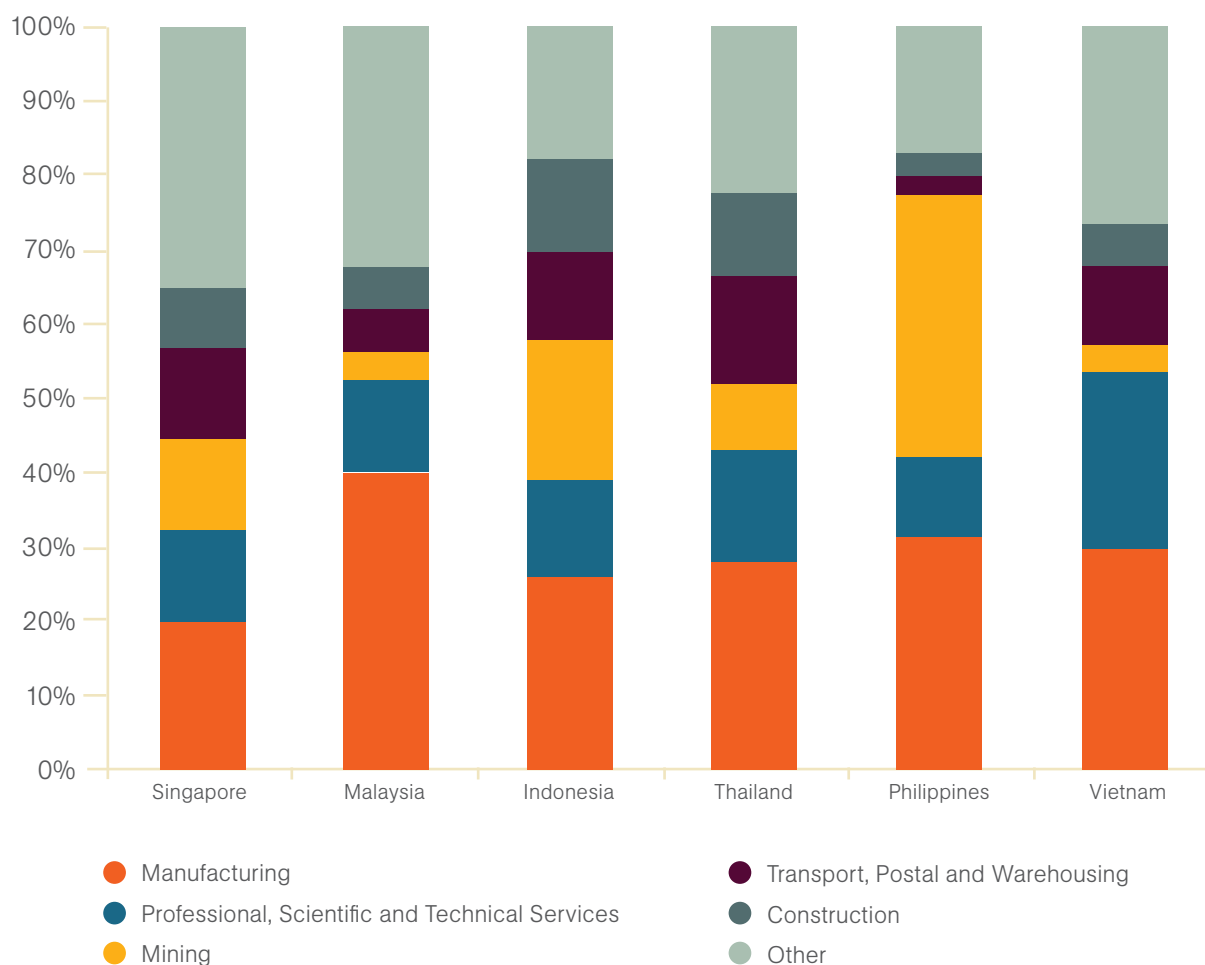


Figure 8 and 9 source: IBISWorld company database February 2015. Top 2,000 Australian companies. Direct investment of Australian company is defined as 10 per cent or greater ownership by Australian parent.

In relative terms, Australia is a modest investor in ASEAN. It is a second-tier investor in most ASEAN economies—it ranks around 11th, 20th and 17th as an investment source in Malaysia,

Singapore and Indonesia, respectively.⁸³ The number of Australian investments in Singapore (3,500 by Austrade estimates) reflects the fact that this is Australia's second largest market

for business services, thanks in part to its familiar legal, regulatory and commercial environment, and the well-known ease of doing business there.

HOW REGIONAL VALUE CHAINS CAN IMPROVE TRADE AND INVESTMENT

Intra-ASEAN trade and investment is closely connected to global trade and investment. RVCs are an important source of economic growth and a key contributor to the ASEAN integration agenda. One of the main themes of the *ASEAN Investment Report 2013–14* is the emergence of RVCs, which strengthen regional integration.⁸⁴ As a measure, ASEAN value-added inputs in total exports have increased from 65 per cent to 69 per cent.⁸⁵ Manufacturing dominates this trend, especially in

the specific areas of electronics, automotive, machinery and palm oil. Value chains are less developed in the services and agriculture sectors, two areas where Australia has particular strengths and in which ASEAN is a growing market for Australian providers.

The presence of RVCs reflects two things: global players see the value of the ASEAN region and choose to be based in it, as opposed to supplying it from afar; and home-grown regional

players are beginning to emerge. This is a crucial point for future ASEAN development. The private sector has quietly been developing the necessary infrastructure to facilitate trade and growth in the region. These home-grown companies are now getting to a point where they can rival international competitors or in some cases be considered as 'inescapable allies' for any foreign entrant into the region.

ASEAN AS A SOURCE OF FDI IN AUSTRALIA

ASEAN is a modest but growing source of foreign investment into Australia. Noteworthy is the growth in FDI stock;

while still relatively small at 6 per cent, it grew 544 per cent between 2004

and 2014 and experienced a 13.9 per cent growth rate from 2013 to 2014.

TABLE 2
FDI INVESTMENT STOCK IN AUSTRALIA

	2004 \$Am	2012	2013	2014	% share	2004-2014	2013-2014
APEC	187,816	271,412	301,381	344,122	50.0	183.2	14.2
ASEAN	7,771	32,727	37,114	42,277	6.1	544.0	13.9
EU	90,615	149,945	155,914	169,603	24.6	187.2	8.8
OECD	279,075	388,404	409,617	450,222	65.4	161.3	9.9
All	373,569						

Source: Department of Foreign Affairs, International Investment Australia 2014

Singapore continues to dominate as a source of FDI (followed by Malaysia and Thailand); as at the end of 2014 it was the sixth largest investor overall in Australia. Recent infrastructure and agriculture investments by Philippines and Indonesian companies attest to the growing and diversified interest from ASEAN companies, and to their growing abilities to source and complete investments in Australia.

The main areas attracting foreign investment from ASEAN continue to be real estate, hotels and tourism, resources, infrastructure and agriculture; however, investors are beginning to target a wider range of sectors, including IT, healthcare services, advanced materials and specialised manufacturing. ASEAN investors are increasingly looking to Australia for a number of reasons,

including as a participant in vertical integration strategies; as a source of quality supplies and specialised skills or processes; and as a provider of value-accretive assets that their domestic markets may no longer offer. This relationship is underpinned by the ease of doing business in Australia, the strong rule of law, a relatively low risk profile and proximity to home markets.

INVESTMENT OUTLOOK

ASEAN's attractiveness as an FDI destination has been a major part of the region's story and the outlook is for this to continue, underpinned by growth drivers such as the expansion of the region's urbanised middle class. ASEAN accounts for 3.2 per cent of the global economy, but its strong performance in attracting investment indicates that the diversity of its economies—its sophisticated services sectors, low-cost labour and significant consumer markets—offers investors an array of opportunities and the capacity to diversify risk. This, together with significant opportunities and improvements in the ASEAN economic and legal environment, is likely to generate sustained growth in investment interest.⁸⁶

ASEAN's variety underpins its attractiveness as an investment destination. The ASEAN cluster is a group of progressive economies at varying stages of development, ranging from Singapore (with its sophisticated services sector and ideal environment for regional headquarters) to Burma, Cambodia and Laos (with their abundant low-cost labour resources and 'frontier' growth potential). In between sit Indonesia, Malaysia, the Philippines, Thailand and Vietnam, strategically significant consumer markets in their own right. This composition offers investors an array of opportunities and the capacity to diversify risk.

The emergence of the AEC will only accelerate these investment trends. While ASEAN integration targets will

remain a work in progress after the AEC is established, over time the region will become more integrated and the investment climate more liberal, transparent and competitive for foreign investors. Businesses will play an important role in driving this process.

Australia's FDI stake in ASEAN is modest but growing. With the projected increase in the contribution of the services sector across ASEAN, a growing proportion of the business opportunities on offer will require investment platforms if they are to compete. Given Australia's depth in this sector and its fit with emerging ASEAN opportunities, it has the opportunity to build its investment profile and become more integrated with Asia's third growth hub.

The growth of the ASEAN market also presents a unique opportunity for Australia to attract FDI. In 2013, ASEAN corporates invested US\$56 billion outside ASEAN, demonstrating their ability and need to locate investment opportunities. Growing markets will likely continue to drive many investors to seek opportunities internationally, to enhance their positions and meet regional demand.

A significant trend is the rising strength of the ASEAN financial sector, and its growing ability and willingness to mobilise funds for direct investments in Australia. The full range of financial investors is present in the region, including sovereign wealth funds, private equity and venture capital

(PE/VC) funds, institutional investors, family offices and high-net-worth individuals. Singapore is the major ASEAN financial hub, and is now the second largest global wealth management centre, not to mention the regional base for a large number of international and regional PE/VC funds. Of the approximately \$1.7 trillion assets under management in Singapore, 80 per cent is sourced internationally and 70 per cent is invested in the Asia-Pacific region, including approximately \$170 billion in Australian direct investments.

Thailand and Malaysia also have strong institutional investors, which now have a 10 per cent international investment mandate. Indonesia and the Philippines have significant private wealth and Brunei has the region's fourth largest sovereign wealth fund. These funds are investing internationally in their own right, attracted by valuations, strategic factors, and Australia's relative low risk and proximity. And by investing in their own right, they are also financing corporate investments, which makes them an essential counterpart in FDI attraction.

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."

INFRASTRUCTURE DEVELOPMENT AND CONNECTIVITY IN ASEAN

Infrastructure development is key to ensuring the transformation and integration of ASEAN economies. ASEAN requires improved infrastructure for three major reasons:

- Building a cohesive, resilient and competitive AEC will require regional governments to connect institutions and infrastructure across 10 countries.
- As the majority of ASEAN Member States continue their rapid urbanisation, there will be an increased demand for substantial investment in new and replacement infrastructure associated with urban development, particularly transport, utilities (especially power and water) and tourism.
- The quality of infrastructure across ASEAN varies dramatically (see Table 3 below). While Singapore, Malaysia and Thailand have sound infrastructure, other ASEAN Member States like the Philippines, Cambodia and Burma are less developed.

TABLE 3
INFRASTRUCTURE INDEX FOR ASEAN MEMBER STATES

Country	Rank	Score
Singapore	2	6.41
Malaysia	29	5.19
Thailand	47	4.53
Brunei	58	4.29
Indonesia	61	4.17
Vietnam	82	3.69
Laos	84	3.66
The Philippines	96	3.40
Cambodia	101	3.26
Burma	141	2.01

Note: Rank is based on a sample of 148 economies and score ranges from 1 to 7, with the latter indicating highest efficiency.
Source: Global Competitiveness Report 2013–2014.⁸⁷

INFRASTRUCTURE CHALLENGES

There are a number of key challenges to infrastructure development in ASEAN, including the quality of existing assets and access to finance. Ongoing investment in infrastructure will be central to maintaining economic growth in the region.

The Asian Development Bank (ADB) estimates that ASEAN Member States require infrastructure investment amounting to US\$600 billion between 2010 and 2020.⁸⁸ While multilateral institutions will continue to play a key role across the region in supporting

a strong infrastructure pipeline, meeting this financing requirement will pose a tremendous challenge for ASEAN Member States.

THE ASEAN CONNECTIVITY AGENDA

In October 2010, recognising ASEAN's infrastructure needs, ASEAN leaders adopted the 2011–15 Master Plan on ASEAN Connectivity. The Master Plan focuses on connecting ASEAN Member States through enhanced physical development across 30 sectors including: physical infrastructure (roads, rail, ports, bridges, electricity and ICT); institutional infrastructure (cross-border and trade links); and people-to-people links (including education, and moving towards a single visa and mutual recognition of skills and qualifications).

Australia has been a major supporter of the ASEAN Connectivity Agenda, particularly by providing development

assistance and making substantial infrastructure investments in the region. This includes in 1994, funding the Laos–Thailand Friendship Bridge, the first bridge across the Mekong.

The Master Plan on ASEAN Connectivity expires at the end of 2015 and implementation currently stands at around 50 per cent, reflecting the challenging environment for infrastructure development. Challenges have included the uncertain commercial viability of projects, a lack of expertise, and regulatory or investment impediments.

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 DFAT and Austrade linking Northern Australia to ASEAN and APEC's connectivity agendas. Improved infrastructure will enhance opportunities for Australian businesses in the region.

THE ROLE OF THE PRIVATE SECTOR

While infrastructure needs have traditionally been financed largely by government debt and official development assistance (ODA),

ASEAN governments are increasingly recognising the significant role the private sector can play. Private sector participation through public–private

partnerships (PPPs) are now increasingly welcome, although this remains a new area of engagement for many ASEAN governments.

THE ROLE OF DEVELOPMENT BANKS

The World Bank and ADB have extensive experience with infrastructure investment in developing countries. Australia co-finances a number of infrastructure projects with both partners in the Indo-Pacific region, including in ASEAN.

Infrastructure development in the Indo-Pacific region is the ADB's core business. Supporting private sector development, especially PPPs, is a high priority for the bank; 41 per cent of all its projects in 2013 involved support for private sector development. In the ASEAN region, Australia is a co-financing partner with the ADB on infrastructure investment projects in Vietnam and Cambodia, including through the Asia-Pacific Project Preparation Financing Partnership Facility (AP3F). AP3F will prepare bankable PPP infrastructure projects in Asia and the Pacific to help the

region attract and secure financing from private sector sources.

In 2011 the ADB and ASEAN Member States created the ASEAN Infrastructure Fund (AIF) to address the region's infrastructure investment needs. ASEAN's 10 Member States have contributed shareholder equity into the fund valued at US\$485 million, and every project was 70 per cent co-financed by the ADB. The ADB finances projects by mobilising the region's sizeable private savings and foreign exchange reserves; it estimates that it can access up to US\$1 billion every year through this arrangement. Early projects include expanding power transmission networks from Java to Bali in Indonesia, and upgrading the Hanoi and Ho Chi Minh City power grids in Vietnam.

The World Bank Group's Global Infrastructure Facility (GIF) is intended

to facilitate greater private sector investment in infrastructure in emerging markets and developing countries, including in ASEAN. It will focus on complex PPPs, including 'upstream' advice to improve the enabling environment and 'downstream' assistance on financial structures. The GIF is working on a pipeline selection process for its pilot projects, one of which will likely be in Asia.

The China-led AIIB aims to improve mainland ASEAN's regional cooperation and connectivity, and that of the broader region, through further infrastructure development. The AIIB could complement the efforts of other multilateral development banks to address the large infrastructure needs of the Asian region.



OPPORTUNITIES FOR AUSTRALIA

In pursuing opportunities in the region, Australian businesses should consider the specific infrastructure needs and investment approach of each ASEAN Member State. The Australian Government—including through DFAT and Austrade—is well placed to assist Australian companies. DFAT has missions in all 10 ASEAN countries as well as a mission to ASEAN—and Austrade has nine offices across ASEAN. Together we stand ready to assist Australian business by providing market insights and access to senior government and private sector contacts.

The Australian Government (through DFAT and Austrade) is actively working with several ASEAN governments—including those of Indonesia, Vietnam and the Philippines—to improve the capacity and sophistication of local infrastructure development, which will create a more conducive environment for Australian companies to compete for projects. To date, Australian companies have won a range of contracts to help manage or support local infrastructure projects, including roles as transaction advisers, legal advisers to bidders, bid partners, sub-contractors and prime contract proponents.

DFAT and Austrade will also work with businesses to tap into the investment opportunities created by ASEAN's Connectivity Master Plan. Australian businesses are well placed to benefit from Australia's reputation for regulatory and investment certainty. Similarly, Australian agribusiness and institutional connections are of interest to ASEAN Member States, as is Australia's expertise in environmental planning and energy efficiency in large-scale infrastructure projects. AANZFTA also provides opportunities to integrate Australia into ASEAN infrastructure and trade networks, creating pathways for Australian businesses to enter regional supply chains.

Promoting multilateral infrastructure networks in the region will also be an important mechanism for attracting investment to Australia. Northern Australia in particular stands to benefit from ASEAN's Connectivity Master Plan and the Asia-Pacific Economic Cooperation (APEC) connectivity agenda.

'Our North, Our Future', Australia's White Paper on Developing Northern Australia, recognises the potential for linking Northern Australia with the ASEAN and APEC connectivity agendas, given the region's geographic proximity and longstanding personal, business and cultural connections. At the 40th Anniversary of ASEAN–Australia Dialogue Relations, ASEAN leaders and Australia's Prime Minister also agreed to explore potential links between ASEAN's Connectivity Master Plan and Northern Australia. This includes better connecting port facilities (including in Darwin), airports (including the recent opening of Townsville Airport to international flights) and shipping from Northern Australia to the region.

APEC is also prioritising stronger physical, institutional and people-to-people connections in the Asia-Pacific region. In 2014, APEC's 21 leaders committed to the APEC Connectivity Blueprint, which seeks to achieve a seamlessly and comprehensively connected Asia-Pacific region by 2025.

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: UGL

ENGINEERED FOR SUCCESS IN ASEAN

The ASEAN region's need for new and upgraded infrastructure is good news for UGL, a leading Australian provider of end-to-end outsourced engineering, asset management and maintenance services. The company provides services to the rail and transport; technology and defence; and power, water and other resources industries.

Within the ASEAN region, UGL is focusing its efforts on opportunities in Brunei, Indonesia, Malaysia and Singapore. Some of these countries are investing heavily in infrastructure, and UGL is seeking work across major water, transport, and oil and gas projects.

While these countries are considered at the forefront of economic development within the region, Edgar Ramani, UGL's Chief Executive South East Asia, notes the importance of developing a deep understanding of each specific market and tailoring business strategies accordingly.

"In Singapore, there's transparency and visibility on opportunities that are coming up, which then enables businesses to plan and forecast going forward," says Ramani. "In Malaysia or Indonesia this is not as straightforward, so it is slightly more challenging to plan and forecast future projects. To address this issue, companies should establish localised on-the-ground business development and operational teams working on market intelligence and operations."

Ramani has lived and worked in Asia for many years and says running an Australian business in Australia is very different from running an Australian business in Asia.

"Local nuances in countries such as Malaysia, Indonesia and Singapore are all very different, and it should not be underestimated," says Ramani. "Australian companies thinking of expanding into Asia should be open-minded, understanding, respectful and mindful of cultural nuances, and be selective about who they partner and do business with. The key is to be honest and transparent, and to make sure prospective partners operate within the guidelines of your company."

Ramani believes the fastest way to get educated on local customs is to experience it first-hand, noting UGL's investment in better understanding the business culture in Malaysia has significantly expanded opportunities and converted them into major projects.

"For Australian businesses to be successful, it is important for senior management to be exposed to the cultural sensitivities and the 'way of business' in a country before embarking on investing and growing internationally," Ramani says.

"There's more than sufficient work and projects in ASEAN with top-tier and multinational clients such as Shell, Chevron, Petronas, BHP, Newmont and ExxonMobil in the resources sector, and with various government utility and transport organisations in sectors such as water, power and transport. In fact, UGL has long-term contracts in Australia with some of the major resources companies that have businesses here in the ASEAN region."

EDUCATION AND SKILLS: A PRODUCTIVITY SOLUTION

Nobel laureate Paul Krugman said that “A country’s ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker”.⁸⁹ However, according to McKinsey, productivity in ASEAN remains at “worryingly low levels”, and the manufacturing output of a worker in Vietnam is only about 7 per cent of that in China.⁹⁰

Human resource development, by providing quality education and workforce skills, is vital in increasing productivity. Despite the varying

stages of development across Member States, ASEAN recognises that human resource development is core to productivity for all of them.

“... these ten countries share a similar emphasis on human resource development as a key in developing the whole nation to enter the knowledge-based economy and global environment.”

Southeast Asian Ministers of Education Organization Secretariat⁹¹

‘Maximising the benefits of regional integration will necessitate leveraging the knowledge, skills and creativity of ASEAN’s labour force of 317 million women and men.’

International Labour Organization, 2015⁹²

Australia’s experience in providing quality education internationally, and strong historical and ongoing education ties with the region, ideally position Australian education and training providers to assist ASEAN in reaching its human resource development goals.

SKILLS DEVELOPMENT

With more than 65 per cent of ASEAN’s population under the age of 35⁹³, the demand for skills and training in the region is significant and growing.⁹⁴ Although there will be opportunities for some to study abroad, there will also be strong demand for in-country training solutions.

In 2014 the International Labour Organization commissioned a survey of ASEAN employers on the topic of skills and competitiveness. The survey found that the most widely needed training was in management and leadership (29 per cent of respondents), followed by vocational training (17 per cent) and customer service (15 per cent).⁹⁵

A 2013 Austrade survey of employers echoed the need for soft skills such as management and leadership.⁹⁶

Thanks to a skills training system developed in consultation with industry representatives and together with its geographic proximity, Australia is a natural skills and training partner for the ASEAN region. However, there are some market entry challenges for Australian education and training providers to consider:

- Identifying and gaining access to individual companies with training needs can be time-consuming and

inefficient, and local companies often prefer to work with local training providers. One solution is identifying suitable in-market industry partners that can fund or at least partly fund training for their workforce in partnership with local and Australian training providers.

- Companies and local training providers are not always clear about what business model they want to use.
- Companies’ capacity to pay, including the source of funding, can be opaque—particularly in the less developed ASEAN Member States.

VOCATIONAL EDUCATION AND TRAINING

The vocational education and training (VET) sector in a number of ASEAN Member States faces issues of low quality, low government investment and perceptions of lower status. Countries outside the ASEAN region have

identified the opportunity to help build the capacity and capability of the VET sector in a number of ASEAN Member States. While Germany is currently seen as leading the way in this area, Australia has also had some success—for

example, Toyota Australia has been engaged in VET in the Philippines. Australia’s aid program is also working with a number of ASEAN Member States to improve national VET systems.

HIGHER EDUCATION

Another important step towards productivity improvements in ASEAN is to increase the quality of and access to higher education. There are more than 6,500 higher education institutions with 12 million students across the ASEAN region.⁹⁷ Most of the growth in higher education has been in the private sector, raising concerns about quality assurance in some countries.

Harmonisation of the ASEAN higher education system—as opposed to standardisation, which raises issues of sovereignty—is one of the objectives of the Southeast Asian Ministers of Education Organisation (SEAMEO) Regional Centre for Higher Education and Development (RIHED).⁹⁸ Priorities include student mobility, quality

assurance, strong research clusters and credit transfers. One step towards this is the development of the ASEAN Qualifications Reference Framework (AQRF), which will be fully implemented by 2018. The AQRF is largely based on the principles of the Australian Qualifications Framework; it enables qualifications to be compared across ASEAN, and supports the recognition of qualifications and labour mobility.

It has been suggested that ASEAN students are leading the way in wanting to be ‘glocal students’ (students staying in their home country or region while gaining a foreign education), with the desire for a globally recognised education and qualification without having to leave home.⁹⁹ This trend

will continue to drive the demand for transnational higher education within ASEAN, with opportunities for international universities, campuses and foreign partnerships. However, some ASEAN Member States have restrictions on foreign ownership and providers, and there are recognition issues for online degrees in a number of countries.

Singapore and Malaysia lead the way in transnational higher education, and are involved in a significant number of international partnerships, especially with Australia, the US and the UK. Malaysia is also leading the region in becoming a competitor country for education, with 135,000 international students enrolled in its tertiary education institutions.¹⁰⁰

RESEARCH AND DEVELOPMENT

Research and development (R&D) is another important contributor to a knowledge-based economy. Although research capacity and capability varies across ASEAN, in general R&D is increasing; a British Council analysis found that research

output across eight ASEAN Member States was above the global average in the five years up to 2012.¹⁰¹

This will lead to growing opportunities for international research collaboration, and for increased research capacity.

The research themes identified in ASEAN particularly resonate with Australian research priorities, including health and medicine, food and agriculture, energy, environment and biodiversity, and social sciences.

ENGLISH LANGUAGE TRAINING

English language skills are becoming increasingly important in ASEAN. It is both the common language across all Member States as well as in regional and international job markets. Opportunities exist in the

region to combine English language training with specialist vocational and leadership skills. However, there is significant price sensitivity in this sector, and not a lot distinguishing Australian English language training

from other English-speaking countries in this space. For example, the Philippines is emerging as a competitor, attracting students from the Republic of Korea and Japan.

THE NEW COLOMBO PLAN AND AUSTRALIA AWARDS

The Australian Government's New Colombo Plan encourages greater outbound mobility by giving Australian undergraduate students the opportunity to undertake study and internships in ASEAN countries, and within the broader Indo-Pacific region. The New Colombo Plan is intended to transform and deepen Australia's relationships in the region, for individuals directly, and more broadly by expanding university, business and other stakeholder links.

The program launched successfully in four locations in 2014, including Indonesia and Singapore, and in 2015 expanded to include all 10 ASEAN Member States. In 2015, around 2,250 Australian undergraduate students had been offered scholarships or mobility grants to study in ASEAN Member States, and these numbers are expected to increase from 2016 onwards.

A focus on internships and mentorships is also a central element of the New Colombo Plan. The program encourages work-based experiences, which offer Australian students an opportunity to build their professional skills and experience while gaining insights into new work environments and building professional connections.

"Already this flagship government initiative is succeeding in deepening our engagement with our region ... Already it is ensuring that students are work-ready and more 'Asia-literate'... I am delighted to confirm that the New Colombo Plan is receiving really strong regional support from governments; from all of our universities in Australia and also in the region; from businesses; and, of course, from students."

Minister for Foreign Affairs, The Hon. Julie Bishop MP, 18 March 2015.

DFAT's Australia Awards program has provided around 1,800 scholarships to students from developing ASEAN Member States to study in Australia in 2015.

In 2015, 100 students from ASEAN countries are being supported through Australia's Endeavour Scholarship's to undertake study or professional development in Australia. A further 2,700 Australians are being supported through Endeavour Mobility Grants to undertake short-term study and exchanges in the ASEAN region.

These programs build people-to-people links within the region, and give students important skills they can use to contribute to economic and social development in their home countries.

ASEAN AS A SOURCE OF STUDENTS

The ASEAN region remains a significant source of international students for Australian tertiary education and training providers; in 2014 almost 118,000 ASEAN students were enrolled in Australian universities, comprising around 20 per cent of total international student enrolments.¹⁰² International students from ASEAN

contributed \$3.64 billion to the Australian economy in 2014.¹⁰³

Numbers of secondary school students are minimal, given the limited capacity to pay for a school education overseas, and the general lack of cultural acceptance for this practice.

Vietnam has been one exception, where students are increasingly being sent overseas to receive their high school education. In 2014, Australian schools had more than 1,700 international enrolments from Vietnam, followed by Malaysia and Thailand with around 400 enrolments each.¹⁰⁴

CASE STUDY: RMIT

ASEAN OFFERS HIGHER-LEARNING OPPORTUNITIES FOR RMIT

Not satisfied with being Australia's largest tertiary institution, RMIT University is taking steps to expand its presence overseas, particularly in ASEAN where it already has a strong reputation.

Its 'flagship' campus is RMIT Vietnam, one of ASEAN's leading tertiary institutions. RMIT took the first steps of this endeavour in 1998, when the Vietnamese Government invited it to establish Vietnam's first international university campus. The proposal aligned well with RMIT's plan to establish a global presence and build industry, research and education partnerships with institutions around the world.

RMIT Vietnam was established in 2000 and accepted its first intake of 40 students in 2001. Today, it has 6,000 students and 600 full-time staff members across two campuses in Hanoi and Saigon South, and an English language centre at its original Ho Chi Minh City campus.

RMIT also has a longstanding partnership with the Singapore Institute of Management. Through this partnership, the two institutions offer courses in business, management, marketing, logistics, supply chain management, construction management, communication design, professional communications and aviation management. RMIT also has a similar partnership agreement with Indonesia's Universitas Pelita Harapan.

The advent of the AEC offers potential opportunities for expansion. "We want to know as much as possible about the outcomes of the AEC," says Matthew Sukumaran, Senior Member of Staff at RMIT Vietnam. "We understand there's going to be a lot of people movement and that's something we're going to be tracking very closely."

RMIT is particularly interested in the ease of labour movement the AEC may facilitate, allowing human resources to be more easily shared across ASEAN economies. Recruitment is a major challenge for RMIT; it can take around three to six months to apply for and receive work permits due to bureaucratic processes.

"If there will be teaching synergies, as well as procurement and IT synergies, then it's going to change the dynamics of how we operate as a group and I think the AEC will provide greater opportunities," says Sukumaran.

Companies thinking of doing business in ASEAN should be aware there are differences not just between countries, but within the country itself. "In Vietnam, the north, middle and south of the country are quite distinct regions and operate quite differently in many ways, and we have different activities for each area," says Sukumaran. He adds that the Australian Government, through Austrade and DFAT, has been very supportive of RMIT's activities across ASEAN.

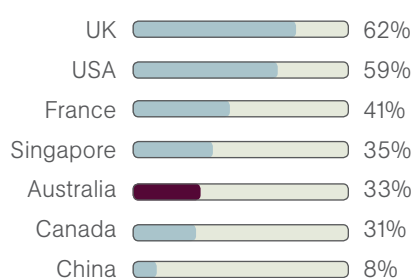
The AEC will introduce greater competition in an already changing market, where a growing middle class now has the means to study abroad. "We're now rethinking our entire strategy in terms of growth, quality and differentiation—for example, introducing specialist programs and postgraduate courses," says Sukumaran. "If you don't re-orientate, innovate and change, you're not going to benefit from the changes and opportunities to come."



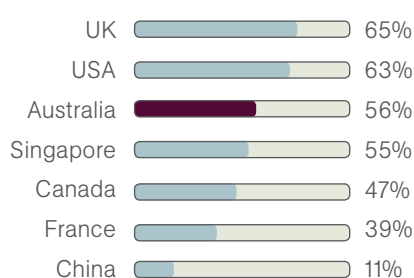
ASEAN EDUCATION

Q: BASED ON YOUR GENERAL IMPRESSION, WHICH OF THE FOLLOWING ATTRIBUTES DO YOU ASSOCIATE WITH THE EDUCATION SYSTEM IN EACH OF THE FOLLOWING COUNTRIES?

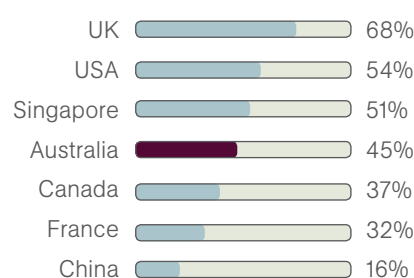
1. Is expensive



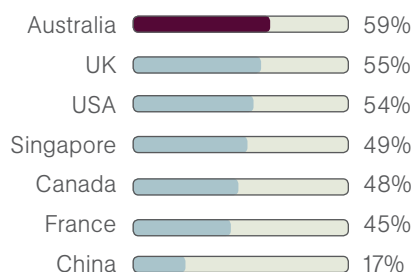
2. Has a good overall reputation



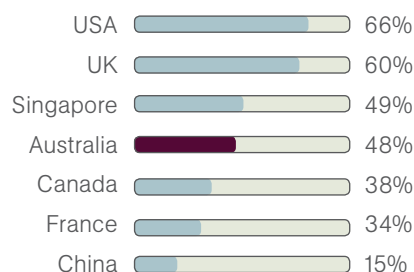
3. Offers first-class facilities



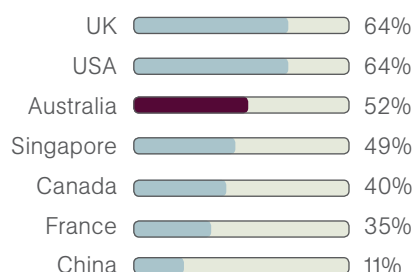
4. Appealing environment and location



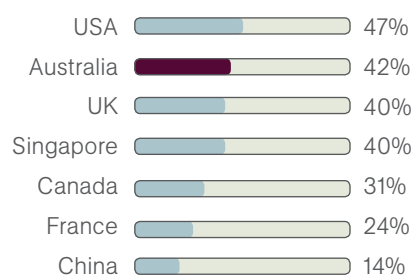
5. Is high performing



6. Offers high-quality teaching and learning



7. Offers courses and services worth the cost



*ASEAN only includes the countries of fieldwork: Philippines, Vietnam, Thailand, Singapore & Malaysia.





ASEAN PERCEPTIONS OF AUSTRALIA

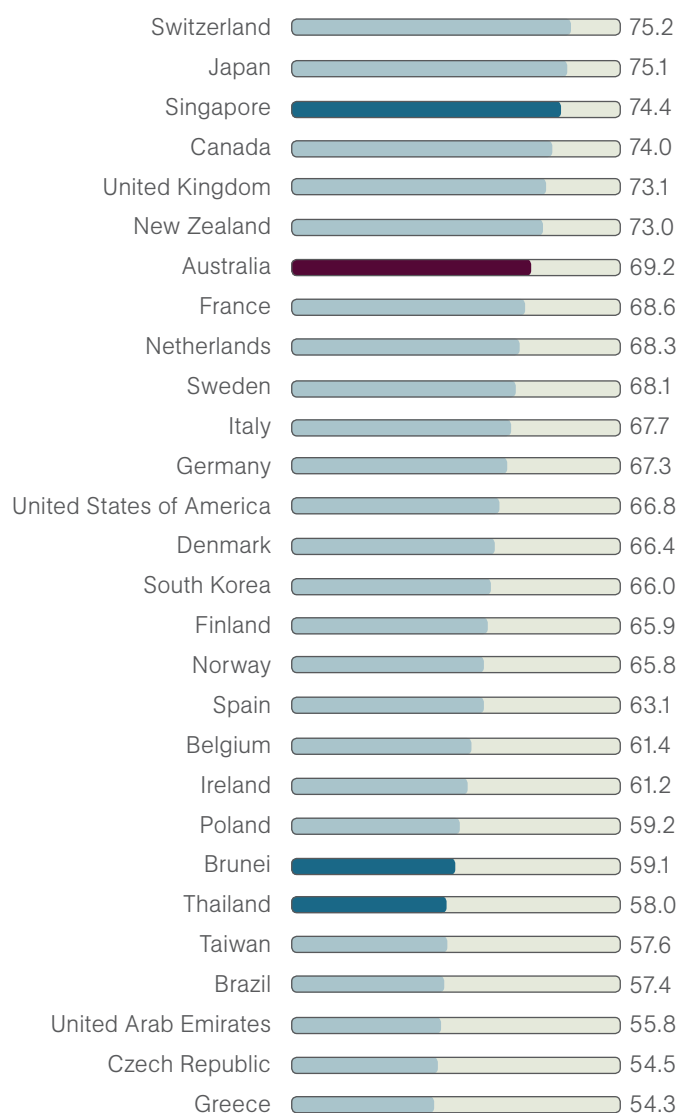
Australia recorded an overall reputation score of 69.2 amongst the general public of the five ASEAN Member States; Vietnam, Thailand, Singapore, Malaysia and the Philippines. Australia's

score ranked seventh out of the 56 country comparison set. Australia is perceived to be a beautiful country that values education and offers an appealing lifestyle—great strengths

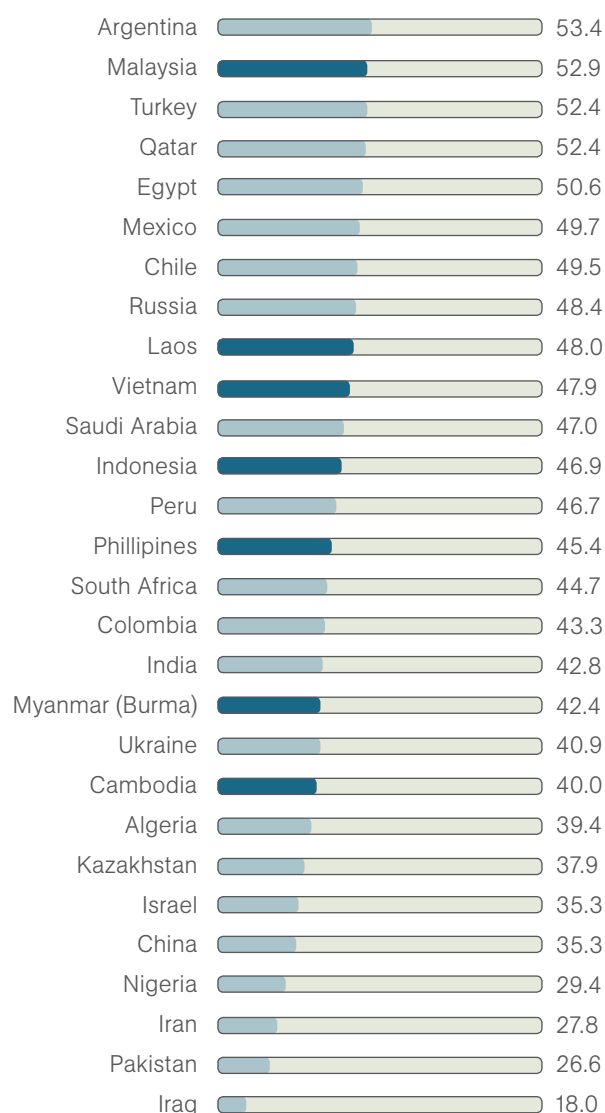
from a tourism and education sector perspective. Weaker results relate to perceptions of Australia's brands, technology credentials and contribution to global culture.

ASEAN*—REPTRAK RANKINGS

Ranked 1—28



Ranked 29—56



*ASEAN only includes the countries of fieldwork: Philippines, Vietnam, Thailand, Singapore & Malaysia.

Please note: The scores of the Philippines, Vietnam, Thailand, Singapore & Malaysia exclude sample from the respective country, all other scores are based on the full sample.

HOW ASEAN SEES AUSTRALIA

In March 2015, Austrade commissioned in-depth quantitative research in five of the main ASEAN markets: Malaysia, Thailand, Singapore, Vietnam and the Philippines. Research in Indonesia will be conducted at a later date. The online research was based on an average sample of 2,400 respondents in each country and was representative of the general public aged 18-64. A minimum 500 ratings of Australia were collected in each country.

The objective of the ASEAN research was to measure perceptions of Australia among the general public in each of these ASEAN countries. The questions were designed to assess the relative appeal of Australia based on various attributes in three areas: effective government, advanced economy and appealing environment.

For any country, a strong reputation across a range of attributes helps it attract investment and a skilled workforce; increase tourist and student visitors; and increase trade opportunities, as consumers are more likely to consider buying products and services from a country with a strong reputation.

Australian research agency AMR is the associate partner and representative of the Reputation Institute in Australia

and New Zealand. AMR used the academically developed and tested Country RepTrak® model to design the survey. The model defines reputation as the level of liking, trust, respect and admiration respondents have for a country. The model also identifies three broad dimensions that drive reputation which are underpinned by 16 detailed attributes. Six standard supportive behaviour statements are also measured.

Austrade added eight customised questions to AMR's existing survey. The customised questions focused on perceptions of Australian goods and services (including education) so Austrade could gain a better understanding of how Australia's goods and services are perceived relative to its competitors in ASEAN. The survey also included questions on the importance of ASEAN as a regional grouping, to gain a better understanding of how people throughout ASEAN value the regional alliance.

The resulting data can be segmented by market to provide an individual country snapshot, or analysed collectively to gain a broader regional perspective. Generally speaking, there were eight key findings.

1

Among the five ASEAN Member States, Australia's reputation score ranked seventh out of the 56 country competitor set. In the individual markets, Australia's overall reputation ranks:

- sixth in the Philippines
- eighth in Singapore
- 10th in Malaysia
- 11th in Thailand
- 13th in Vietnam.

2

Australia's reputation score of 69.2 placed it below Switzerland, Japan, Singapore, Canada, the UK and New Zealand respectively by at least three points and on par with France, the Netherlands and Sweden.

3

In the ASEAN markets surveyed, the five biggest drivers affecting Australia's overall reputation are:

- it is a safe place, offering a secure environment for visitors and residents
- it is a beautiful country with an attractive natural environment
- its people are friendly and welcoming
- it is an enjoyable country, with a wide array of appealing experiences such as cultural activities, food, sport and entertainment

- it is a responsible participant in the global community; it supports good causes and its leaders are respected internationally.

Three of these top five drivers (physical beauty, friendly and welcoming people, and enjoyable experiences) underpin the 'appealing environment' dimension, which is the biggest driver of country reputation overall, attracting a weight of 35.4. The 'effective government' and 'advanced economy' dimensions follow close behind with weights of 35.2 and 29.4 respectively, highlighting the need for Australia's reputation to be founded on multiple pillars.

4

Overall, Australia scored highest on the following attributes;

- Is a beautiful country (scored 75.3 and ranked fifth)
- Values education (scored 72.1 and ranked seventh)
- Offers an appealing lifestyle (scored 71.1 and ranked sixth)

Among the five ASEAN markets surveyed, Australia is perceived to be a beautiful country that values education and offers an appealing lifestyle—all great strengths from a tourism and education perspective.

5

Other results for Australia that drew attention included;

- Is a safe place (scored 67.9 and ranked ninth)
- Offers a favourable environment for doing business (scored 66.3 and ranked eighth)
- Produces high quality products and services (scored 66.3 and ranked 12th)
- Is friendly and welcoming (scored 66.0 and ranked ninth)

6

Weaker results relate to:

- perceptions of Australia's brands (ranked 15th in terms of having many well-known brands)
- its technology credentials (ranked 13th for being technologically advanced)
- its contribution to global culture (ranked 16th for being an important contributor to the global community).

These are traditionally weaker attributes for Australia, and these perceptions will be hard to change as it competes with countries that have rich, long and

well-known cultural histories, as well as countries that are home to many global brands and technology giants. Japan, the US, the UK and Switzerland, for example, perform well across all of these attributes. The Republic of Korea, home to companies including LG Group, Samsung and Hyundai, performs well on the technology attribute.

Other attributes that Australia scored average or below average on may be easier to influence, pushing Australia into the top five. These include being friendly and welcoming, and a safe place for residents and visitors, offering a favourable environment for doing business and producing high quality products and services.

7

Seven competitor markets were included in the education sector questions. Across the five ASEAN markets, Australia's education system generally ranks behind that of the UK and US. However, it is perceived to be less expensive, is ranked first for its appealing lifestyle and location, and comes in second behind the US for offering courses and services that are worth the cost. This, coupled with Australia's high ranking (seventh) for valuing education, suggests there is a strong foundation for enhancing the reputation of Australia's education sector in the ASEAN region. It is worth noting that Singapore respondents ranked their own country higher—a natural effect that Australian respondents would probably do themselves.

8

The Philippines and Vietnam rated the ASEAN regional grouping as a more important grouping than consumers in Thailand, Singapore or Malaysia.

INSIGHTS FROM AUSTRALIAN BUSINESSES IN ASEAN

In May 2015, Austrade commissioned the 'Australian Business in ASEAN Qualitative Research Project' to canvass the experiences and insights of 40 Australian companies with operations in ASEAN. The project involved 30-minute interviews with the senior decision makers for ASEAN operations in each company.

The organisations interviewed represented a cross-section of Australian business, including:

- Banking and insurance.
- Construction
- Education and training
- Electricity, gas and water supply
- Information media and telecommunications
- Manufacturing
- Mining
- Professional, scientific and technical services
- Wholesale and retail trade

The majority of Australian companies participating in the study had started operating in ASEAN in the 1990s or more recently. Others had been operating in the region for 40 to 50 years and a small number had been in ASEAN for well over 100 years.

Most of the organisations had medium- to large-scale operations in ASEAN countries, with some employing up to 15,000 staff across the region. Some organisations' ASEAN operations were relatively small compared to their Australian presence, with a dozen or fewer staff in local offices.

The motivations for establishing ASEAN operations were varied. Some firms established operations at the invitation or encouragement of foreign governments or because they had a major client operating overseas who asked for assistance in particular markets. In some cases, Australian companies took advantage of low tax

rates (in countries such as Singapore), relatively low labour costs (Vietnam, Laos and Cambodia) or financial incentives that encourage foreign investment (Thailand). Many Australian companies chose to establish offices in Singapore as it is seen as the major business hub for the region and an important global financial hub.

The main competitors of Australian companies working in ASEAN countries were typically a mix of multinational and local companies (including state-owned enterprises). A number of participants noted that they established a local firm (as a subsidiary enterprise) so they could both tender for local work and address concerns over decision makers potentially favouring local firms in any competitive tendering process.



A REWARDING BUSINESS REGION FOR THE COMMITTED

On the whole, most of the participants in the study were quite bullish about growth prospects for their company's operations in the region and the economic trajectory of the ASEAN region as a whole. For the majority of those participating in the study, business conditions and the performance of their ASEAN-based operations were either in line with, or exceeding, their expectations. A small number of firms reported double-digit revenue growth in recent years.

Typically, such positive performance was on the back of significant effort to establish these operations, indicating

that those willing to make a longer-term commitment to establishing a presence in ASEAN can reap the rewards of strong economic growth in the region.

However, very few said the task of establishing local operations was easy, and a number of participants advised that financial forecasts for any prospective investment should be on the conservative side—at least in the business establishment phase.

Some smaller companies admitted doing minimal formal analysis before entering new markets and said their decisions were largely based on

staff members' knowledge of local markets. However, the vast majority of companies reported undertaking due diligence before moving into new markets. This typically involved trade and economic growth projections; and a thorough analysis of the market, human resources, and geopolitical, legal and regulatory environments.

BEWARE DIFFERENT RULES FOR DIFFERENT REGIONS

Many participants noted that market and regulatory requirements vary considerably from country to country and also differ according to industry. For example, differing tax regulations, labour costs and labour laws mean it is far easier to recruit foreign staff or to hire and dismiss staff in some countries than others, and these factors often influenced companies' decisions about which countries to

establish and consolidate operations. Regulations and 'red tape' commonly added considerable complexity to the operations of some Australian business working in ASEAN countries.

Nearly all participants said the significant regulatory differences in each country meant the development of an ASEAN-wide business strategy was still a longer-term proposition.

However, they were optimistic the AEC will foster greater uniformity and collaboration across ASEAN nations through more open and consistent regulatory practices. In the meantime, it was important for analysis to occur not only at the macro level in terms of a market and its attractiveness, but also at the micro level in terms of industry-specific regulations and/or constraints.

AUSTRALIAN BUSINESS SHOULD SERIOUSLY CONSIDER DOING BUSINESS IN ASEAN, AS IT BECOMES THE THIRD GREAT EMERGING DRIVER OF GLOBAL PROSPERITY, AFTER CHINA AND INDIA.

MANAGING RISK

Although doing business in ASEAN presents significant opportunities, the diversity of environments for doing business within the region means that companies should carefully assess the risks associated with each ASEAN market. There are clear differences in the ease of doing business across different ASEAN markets; Singapore is ranked first in the World Bank's Ease of Doing Business Index, while Burma is ranked 177th.¹⁰⁵

Each ASEAN Member State presents a different legal and regulatory framework for businesses to operate within and comply with. It is crucial that companies planning to expand into the ASEAN region first get professional advice so they can better understand these frameworks. In some Member States, corruption remains an issue. Bribery of foreign public officials is a crime; Australian individuals and companies can 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. As reflected in Transparency International's Corruption Perceptions Index, corruption in some ASEAN countries remains an issue.¹⁰⁶

"We obviously do not work with any sort of bribery or corruption-type activities; getting that out there and making sure people understand that from the outset ...is really important, that sort of thing helps enormously."

('Australian Business in ASEAN Qualitative Research Project' Participant, Logistics & Transport)

As the 1997–98 East Asian Financial Crisis demonstrated, there are some financial risks associated with emerging economies in general, and these risks need to be considered when investing in the ASEAN region, despite comparatively low debt levels among Member States. It is difficult to quantify the impact of the past decade's strong economic growth on the region as a whole, although countries with macro-economic fiscal imbalances and those that rely on short-term financing would obviously represent a greater risk.

Restrictions on foreign investment and anti-competitive practices continue to undermine the potential of many ASEAN member economies. Low productivity growth also holds back economic performance, and although wages are low in many countries, they do not always compensate for the lower productivity per worker.

A lack of managerial and technical skills has constrained the development of manufacturing industries throughout the region, particularly in relation to higher-value products. Weak transport infrastructure continues to limit the development of intra-regional value chains.

As this paper has shown, ASEAN Member States fully recognise the existing constraints of their region, and are seeking to address many of them via the AEC integration framework. In the meantime, working with reputable local partners, clients and customers—and taking the time to develop deep, long-term relationships—will substantially reduce the risks associated with operating in the region.

NEXT STEPS FOR AUSTRALIAN BUSINESS

This report has reviewed a number of key influences on ASEAN's growth trajectory, specifically:

- favourable demographics
- urbanisation
- the development of the region's economic architecture, including the move toward the AEC and complementary regional FTAs
- the growth of the services sector
- the emergence of RVCs and regional leaders

- ASEAN's status as an emerging FDI destination
- the development of infrastructure to improve connectivity
- productivity gains through education and training.

ASEAN is on the brink of major economic and demographic changes and Australian business would do well to register this development. Although there is much diversity among the ASEAN Member States, evolving regional economic integration provides

opportunities for businesses to begin viewing them as an integrated whole. As such, ASEAN represents a region of first-tier potential for Australian business in Asia, complementing the significance of China and India.

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

1. BE PREPARED FOR MAJOR CHANGES.

Something big is happening within ASEAN. It is not a trend, but rather a tectonic shift in market structure from sub-scale and fragmented to scale and greater coherence. ASEAN has been largely well disposed to Australian business in trade and education, and increasingly in two-way investment. A new wave of change is now building, which has implications for those already in the water as well as those still onshore. Be alert to the potential this wave offers. Think about how the ASEAN region might evolve and how that relates to

your business. The opportunity cost of inattention could be greater than the risk of getting your feet wet.

Australia's competitors within and outside the region are recognising the opportunities presented by ASEAN's growth and economic integration, so Australian businesses need to understand their regional strengths and tailor their strategies accordingly.

Chinese interest and involvement will have a significant bearing on the future

shape of ASEAN. Its investment has been concentrated on the mainland ASEAN Member States, particularly the mainland states of Burma, Thailand, Cambodia, Laos and Vietnam; however, Chinese interest and influence also extends to Indonesia and the Philippines. A possible scenario is that the mainland states will become increasingly integrated with southwest China, including through land transport connections to Kunming.

2. SEE THE WHOLE.

It is a good idea to think of ASEAN as a whole—in the same way that most companies think of China—to ensure the correct sense of perspective. ASEAN is Australia's second largest export market, and Singapore, Malaysia, Thailand and Indonesia are significant

markets in their own right. Be clear about what your business is aiming to achieve. Is it a one-market, multi-market or integrated regional strategy? For firms with a multi-market presence, a regional perspective and approach could make a lot of sense. Singapore is the current

location of choice for operational headquarters within the ASEAN region, and its attractiveness—and that of other ASEAN centres—will only increase given ASEAN's growth trajectory and movement toward economic integration.

3. UNDERSTAND THE AEC.

The AEC is not the European Union. It is one step in a long journey towards closer regional integration, and its strongest champions are regional business leaders, a potent force for progress. But be careful not to get out ahead of the curve.

If the AEC progresses as intended, an increasingly appealing option will be to locate production facilities in one ASEAN jurisdiction with a view to servicing other ASEAN markets. Environments with low labour costs such as Vietnam, Burma and Indonesia

will attract attention, although the issue of productivity differentials will remain relevant. Beyond this, broader regional architectures such as the Regional Comprehensive Economic Partnership and the Trans-Pacific Partnership may open the doors to markets further afield.

4. ALIGN BUSINESS STRATEGIES WITH REGIONAL AGENDAS.

To the maximum extent possible, align your business strategy with regional development agendas. It is a lot easier to swim with the tide than to struggle against it.

The more developing ASEAN nations in particular have clearly articulated

national development plans setting out their policy priorities. In most instances, Australia has substantial development cooperation programs in these countries, designed to help realise these aspirations. Australia's most successful companies in ASEAN regularly analyse these plans

and programs to make sure each market is an optimum fit for their business. ANZ Banking Group and the Commonwealth Bank's operations in Indonesia are prime examples.

5. INVEST IN ASEAN.

Many of the most attractive opportunities on offer will require a local business presence, which in turn requires ongoing investment and deep organisational competencies.

Many of the areas of greatest potential for Australia will be in the services sector, and will require some form of in-country presence if your business expects to compete effectively. Education, healthcare, financial services and insurance are cases in point.

Abundant low-cost labour and proximity to markets of scale make

ASEAN an attractive destination for investment in manufacturing. Australia has considerable manufacturing investments across ASEAN and the outlook is for this footprint to deepen and expand.

Australia also has resource development investments across ASEAN, concentrated in the most prospective environments such as the Philippines and Indonesia. A range of mining equipment, technology and services companies have in-country operations to support

Australian and local customers, and this presence looks likely to grow.

Whatever the field of activity, establishing and running an overseas investment is a serious undertaking that requires thorough strategy development, and strong management, HR, finance and IT processes. To succeed, you must be prepared to invest in professional advice; do-it-yourself solutions have a slender chance of success.

6. INVEST IN RELATIONSHIPS.

Investing in relationships is the key to the door for most ASEAN markets but takes time to develop. Australian business culture is highly transactional in nature; the overriding ethic is to cut through and get on with the deal. This is not the case in many ASEAN jurisdictions. Singapore works a lot like Australia, but most of the other ASEAN business environments are very different. Be prepared to spend time getting to know your potential business partners and demonstrating that you value them.

Prudent business partner selection is another critical success factor. Dissolving relationships is a complicated process in most ASEAN Member States, and extricating yourself from an unwise choice can be difficult. Take your time and use all the resources at your disposal to satisfy yourself about the credentials of your business partners and their fit with your strategy and corporate values.

A related point is that many of the established and emerging regional business leaders already have FDI interests in Australia. These connections to ASEAN are worth pursuing when expanding and diversifying your markets in the region.

7. INVEST IN PEOPLE.

It is important to invest in people, both locals and expatriates. Finding the right people is one challenge, but holding and developing them another. Make sure ongoing staff development is a business-wide priority applying to all staff members, not just to a select few.

Success in ASEAN markets hinges on building a strong local team. This can be a major challenge in markets where talent is in short supply and demand is strong. Human resource

development is a key growth enabler and policy focus in developing ASEAN economies. These policies typically mandate local employment across an organisation and a commitment to workforce development. Across the region, Australian companies have a reputation for deep investment in staff development, which ticks government policy boxes, but is also highly valued by team members and builds staff retention and corporate standing.

Senior managers need to lead cross-cultural teams effectively. Leadership of a cross-cultural team should be built around a combination of curiosity, humility and common sense. Given the cultural diversity of our own society and workplaces, Australian managers are well placed to lead regionally blended teams.

8. SHARE THE REWARDS.

The key to enduring business relationships is to operate in a ‘happy’ supply chain where players at all stages get a cut of the action. This means you need to understand the

value chain in the markets in question, and take a long-term view of the return on investment that makes these markets worthwhile. You will need to commit time and show empathy when

approaching and overcoming cultural borders, particularly if value chains straddle multiple markets. This is a complex area, but it deserves attention at the highest levels of the organisation.

9. APPLY AUSTRALIAN STANDARDS.

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 for you within ASEAN markets while also keeping things tidy at home.

A willingness to tailor your products, pricing and marketing to local conditions is one of the hallmarks of success in ASEAN markets. Transposing Australian requirements

and approaches can seem like a competitive disadvantage in cost-conscious, deal-making environments, but the experiences of Australian businesses across ASEAN suggest otherwise. Australia’s first-tier standards and strong alumni connections built on the long-term regional education relationship dating back to the Colombo Plan mean there is deep-seated appreciation of Australian business practices within the ASEAN region. This longstanding connection

is an advantage that appeals to host governments, financial institutions, customers and staff members alike.

Finally, a critical ingredient of offshore success is to keep the Australian public—including analysts and regulators—comfortable with the tenor of your operations overseas. Sticking to the Australian ‘rule book’ can help you secure this result.

10. SEEK INFORMATION AND ADVICE FROM MANY SOURCES.

Australian businesses often cite a lack of information about the local culture, business landscape and regulatory environment as their biggest challenges when venturing offshore. A recent PwC report stated that many senior executives experience problems finding reliable information, market data or knowledge about doing business in Asia, and are often unsure about where to go for help. The survey found that 47 per cent of companies could not name a government agency that could help them do business in Asia, and more than 80 per cent were unable to name a non-government source of help.¹⁰⁷

For overseas investments, Export Finance and Insurance Corporation (Efic) research highlighted the most common reasons why Australian overseas investments failed: poor market knowledge and poor planning.¹⁰⁸ Companies that relied primarily on personal networks were most likely to experience problems,

compared with those that sought advice from a wide range of sources including accountants, consultants, Austrade and other government export agencies.

There are many places Australian businesses can go when they need help planning and executing their international business ventures. Banks, accountants, and legal and advisory firms can offer practical business advice as well as access to their international partners and networks. Bilateral chambers of commerce provide opportunities to connect with businesspeople who can share their experiences in doing business in Asia. Government agencies—including DFAT and Austrade—and the state and territory governments offer programs, services and in-market connections that can reduce the time, cost and risk of doing business overseas. Efic also provides export finance solutions for eligible companies.

An often overlooked source of useful insights is the knowledge and experience of other Australian companies that have succeeded in certain industries and overseas jurisdictions. Hearing their stories about the unique business and cultural nuances of different markets can be good source of practical information.

“The other thing that I would stress is that involvement with the local chambers of commerce such as AustCham [and organisations] such as Austrade... and the Australian Embassy. The engagement on that level is also a very prudent action especially when you’re coming in green; you need to get advice from business people... from Australian Government people, from local provincial authority people.”

(‘Australian Business in ASEAN Qualitative Research Project’ Participant, Resources)

ADVICE AND ASSISTANCE FROM THE AUSTRALIAN GOVERNMENT

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

THE ROLE OF DFAT AND AUSTRADE

DFAT and Austrade provide a range of services both in Australia and through our on-the-ground presence in ASEAN Member States (as well as Australia's Mission to ASEAN). This enables us to provide Australian companies with a range of business services tailored to individual markets including:

- identifying market opportunities
- providing market research on the competitive environment
- providing guidance on the local business climate and commercial practices, including language support
- providing trade and investment statistical information
- connecting businesses to subject-matter experts on trade and investment issues, including for Australia's FTAs
- providing in-depth briefings on the market and specific companies
- providing referrals to potential customers and business partners
- developing two-way visit programs
- organising presentations on capabilities for key contacts
- facilitating participation in exhibitions and symposia
- organising customer visits to reference sites
- assisting with business establishment
- offering ongoing in-market assistance to help companies establish a business presence
- providing referrals to specialists and operators with market experience
- liaising with partner governments
- providing travel advice
- providing opportunities to engage with DFAT's cultural diplomacy and aid programs
- providing consular support when needed.

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

The Australian Government also offers export finance and support through the following:

EXPORT MARKET DEVELOPMENT GRANTS

The EMDG scheme is a key Australian Government financial assistance program for aspiring and current exporters. Administered by Austrade, the scheme supports a wide range of industry sectors and products, including inbound tourism and the export of intellectual property and know-how outside Australia.

The EMDG scheme:

- encourages small and medium-sized Australian businesses to develop their export markets
- reimburses up to 50 per cent of eligible export promotion expenses above \$5,000, provided that total expenses are at least \$15,000
- provides up to eight grants to each eligible applicant.

For more information, see www.austrade.gov.au/Export/Export-Grants.

EXPORT FINANCE INSURANCE CORPORATION

Efic is Australia's export credit agency. Operating on a commercial basis, it partners with banks to provide financial solutions for Australian exporters including working capital loans, guarantees, bonds, documentary credit guarantees, foreign exchange facility guarantees and medium-term export payment insurance.

Clients that can benefit from Efic's services include:

- small and medium export enterprises
- companies that are part of an export supply chain
- companies looking to expand their business operations overseas to better service their clients
- companies operating in emerging and frontier markets.

A detailed outline of Efic services is available at www.efic.gov.au or by calling 1800 093 724.



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