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ASIAN PERCEPTIONS

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

This survey was conducted during December 2009 with the objective to evaluate the perceptions which business people hold on the business environment in various Asian countries. It is one in an ongoing series which allow the perceptions to be monitored over time.

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

The survey was conducted by Glen Robinson and Mitchell Brown of AFG Venture Group. Glen Robinson is a founder and has been an executive director of Asean Focus Group which entered into a merger with the Venture Group in 2009. He has advised and assisted many companies which wished to establish or enhance a commercial presence in Asia, and he can be contacted at glen.robinson@afgventuregroup.com

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1. INTRODUCTION

AFG Venture Group has continued the annual project commenced 7 years ago by Asean Focus Group which a survey among Asian focussed business people that is intended to gauge the perception which these people have towards Asia as a commercial target for investment and trading. It has been undertaken annually so that some year by year comparisons can be made. It should be noted that generally the comments are those of the Respondents and not necessarily the companies which they represent.

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

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

Overlaying the ethnic and geographic considerations with the financial crisis which has affected commerce over the last 2 years, and may still be effecting decisions and operating practices around the world. We chose not to focus on this financial phenomenon, given that there is a plethora of commentary, but we chose instead to continue to focus on the target countries of Asia.

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

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

2. POLITICAL AND ECONOMIC BACKDROP

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

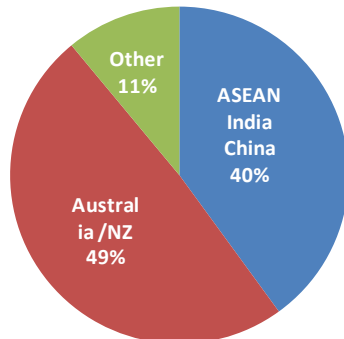
- continued deregulation of the Indian economy
- the expansion of the economy in Vietnam
- continued political uncertainty in Thailand
- interesting move to develop free trade arrangements, both within and external to the region
- ongoing political uncertainty in Malaysia
- ongoing moves in Indonesia to internationalise business arrangements
- growing confidence and interest in the Asean Charter

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

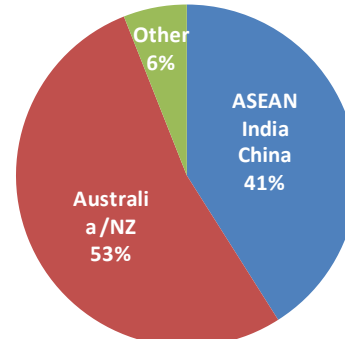
3. LOCATION OF RESPONDENT & OPERATIONAL HEAD OFFICE

The location of the operational head office of Respondent companies is as below.

Location of Operational Head Office



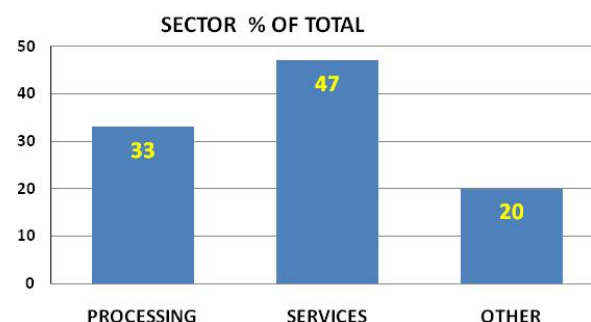
Location of Respondent



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

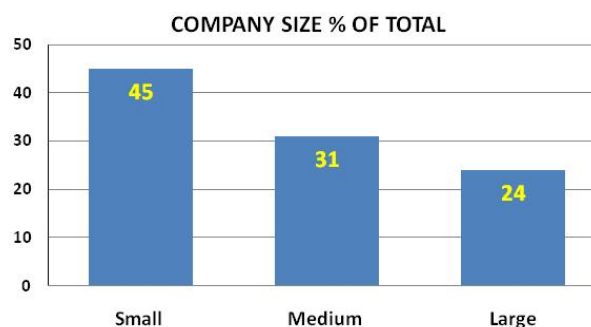
4. SECTORAL PROFILE

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



5. COMPANY SIZE

The Respondents described the relative size of their companies:



We chose not to try to define "size" but left it to the Respondent to describe the company as it was perceived. The results show a skew to the smaller companies.

6. COMMERCIAL ACTIVITIES

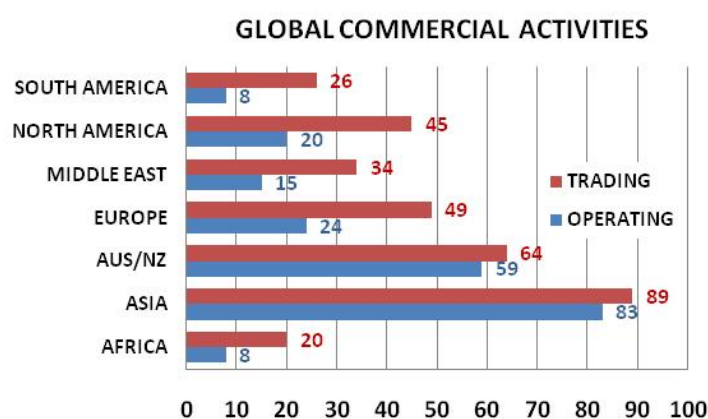
The nature of the survey is such that all Respondents have some interest in Asia, even though there may not be commercial contact as yet. Approximately 11% of the Respondents are in the category of not yet having a commercial presence in the region.

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

Global Trading and Operating Activities

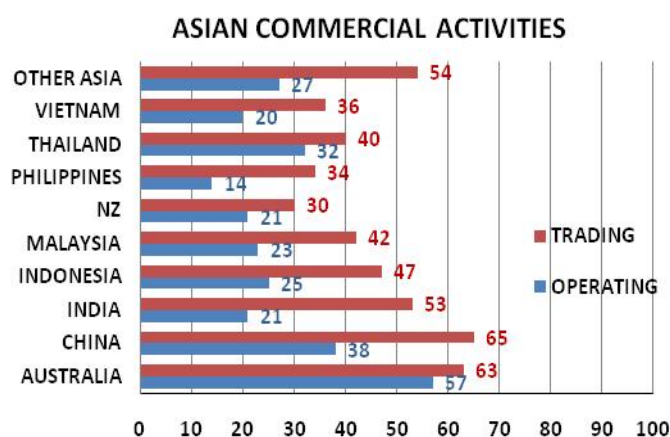
In response to the question of their global activities, the locations and activity are shown below. Almost 90% of the Respondents have a trading relationship in Asia, but only 20% have a trading relationship in Africa. Similarly 83% have an operation in Asia, but only 8% have an operation in Africa or South America.

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



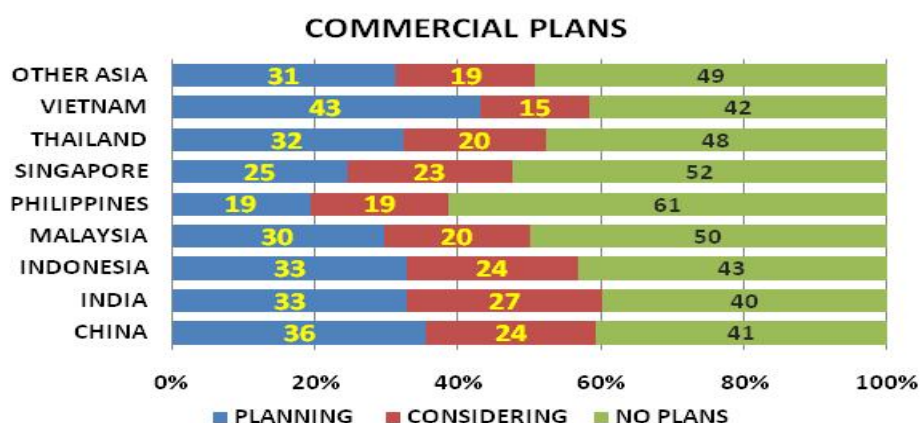
Asian Trading and Operating Activities

The various nominated Asian countries have been long term commercial targets. This analysis shows the percentage of the Respondents which have a commercial relationship with each country. Interestingly, 65% of the Respondents have a trading relationship with China, and 34% had a trading relationship with Philippines. Similarly, 38% have an operating business in China whereas 14% have an operating business in Philippines. There is a broadly based Asian activity by most Respondents.



7. COMMERCIAL EXPANSION PLANS

In response to the question “Are you considering an entry or expansion to the nominated country in the following year” the Respondents gave the answers as below. There is a significant number which are planning or considering an expansion or market entry, as the indications are that over 50 % of the Respondents are in this category. The only country not being given serious consideration is Philippines.



Given the economic conditions at this time, the expansion considerations may be regarded as surprisingly high.

Further over 25% of the Respondents have actually commenced planning, a significant proportion.

8. ATTRACTIVENESS OF VARIOUS COUNTRIES

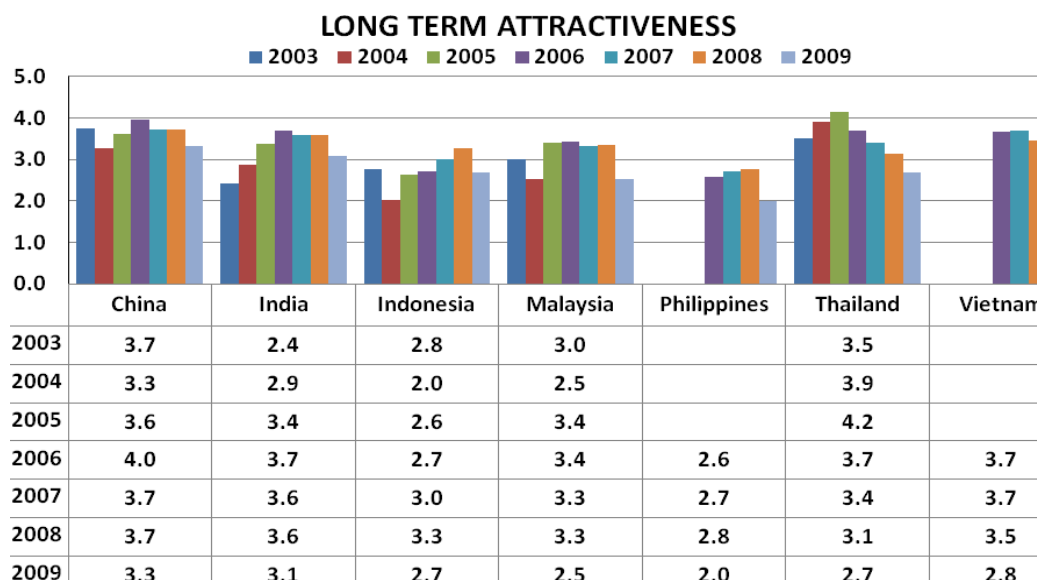
The relative attractiveness of each country has been analysed from various perspectives. The Respondents rated the nominated country on a scale in which 5=Very Attractive and 1=Very Unattractive, and as is shown, China has an average rating of 3.34, and 13% of the Respondents rated it as a 1 [not good] and 27% rated it as a 5 [very good].

	1=NOT GOOD	2	3=OK	4	5=GOOD	AVE.
CHINA	13	18	20	22	27	3.34
INDIA	12	20	32	18	18	3.10
INDONESIA	26	22	21	19	12	2.69
MALAYSIA	19	33	31	11	6	2.53
PHILIPPINES	41	28	24	5	3	2.00
THAILAND	22	27	24	17	11	2.69
VIETNAM	26	15	27	21	12	2.78

At the end of 2009, both China and India are regarded by the Respondents as the most attractive.

Long Term Trend

This analysis has been undertaken each year since 2003 in order to track the changes in “attractiveness”. Again, the Respondents have used their own definition or perception of attractiveness, but still applying the 5=Very Attractive through to 1=Very Unattractive, and then averaging those results.



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

- Results for Philippines and Vietnam were collated only from 2006
- All countries have declined in attractiveness over the last year
- Thailand has continued to decline, almost certainly related to the political disruption in the country
- India and China continue to be attractive but both have peaked
- Vietnam has only slightly declined

Investment Incentives

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

	1=NOT GOOD	2	3=OK	4	5=GOOD	AVE.
CHINA	17	38	24	12	10	2.59
INDIA	21	29	27	18	6	2.59
INDONESIA	33	36	19	10	2	2.12
MALAYSIA	18	28	44	10	0	2.46
PHILIPPINES	45	19	26	10	0	2.00
THAILAND	25	25	23	19	8	2.60
VIETNAM	30	28	25	10	8	2.38

Within that group of countries, Thailand, India and China are seen as having the most attractive investment incentives.

Ease of Company Establishment

The ease with which a company can be established in various countries can be a significant issue in developing an expansion strategy. The question was posed to rate the ease by which a company can be established in the various countries, by applying the 5=Very Attractive through to 1=Very Unattractive, and then averaging those results. The table below shows China has an average rating of 2.31, and 26% of the Respondents rated it as a 1 [not good] and 4% rated it as a 5 [very good].

	1=NOT GOOD	2	3=OK	4	5=GOOD	AVE.
CHINA	26	33	31	7	4	2.31
INDIA	26	19	47	8	0	2.36
INDONESIA	26	41	28	4	2	2.16
MALAYSIA	11	17	51	19	2	2.85
PHILIPPINES	39	19	33	8	0	2.11
THAILAND	23	29	23	18	7	2.57
VIETNAM	29	41	20	4	6	2.16

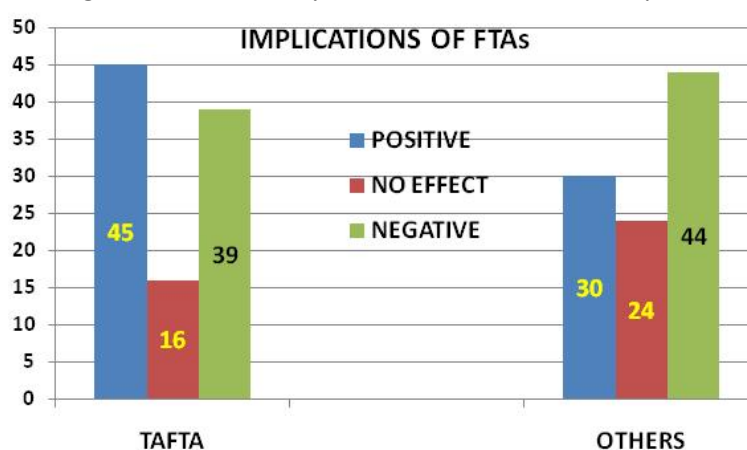
It is interesting that Malaysia is seen as being relatively easy to establish a company whereas Philippines is perceived as being reasonably difficult.

9. FREE TRADE AGREEMENTS

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

Impact of FTAs

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



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

Future of FTAs

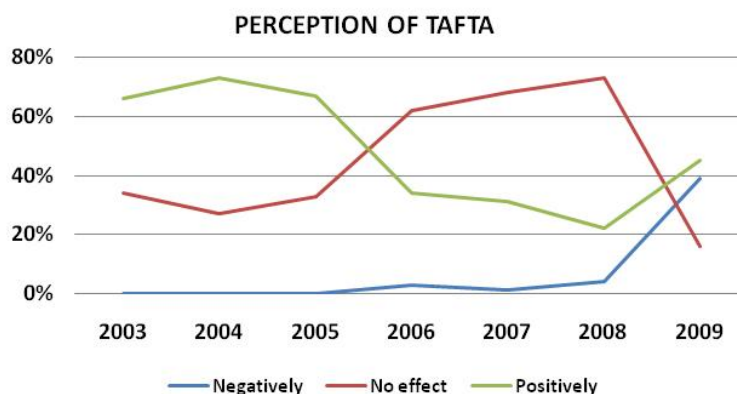
In response to the question “do you believe that your country should continue to develop FTAs” the responses were a massive endorsement for their continued development

YES	80%
DO NOT KNOW	13%
NO	7%

Long Term Trend

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

The TAFTA came into effect in Jan 2005. It is interesting that the EXPECTATIONS had been very high but the ACHIEVEMENT had been low. However, in this last year the opinions had hardened to a more deliberate response which has significantly reduced the “no effect”. It may be relevant that the “positive” response has shown an upward movement, but probably unfortunately, so has the “negative” response moved in the same direction.



10. BILATERAL BUSINESS COUNCILS.

Both the governments and the business communities in most countries support Business Councils [BC] or Chambers of Commerce [CC] in order to impart information on commercial activities and opportunities in target countries and to gain feedback from specific industries.

Membership Expectations

The Respondents were asked to nominate the benefits or outcomes which BCs and CCs should provide, and multiple responses were received. The results are shown in the following table.

Reasons for Membership	
Information	72%
Meet Potential Customers	72%
Contact those with experience	71%
make a contribution	47%
Social	27%
Other	6%

11. SUMMARY & CONCLUSION

This survey was undertaken in December 2009, and was directed to those executives and companies which had a real or potential interest in Asia. It was a broadly based study with the participation invited from a range of industries and countries, and the results indicate that this has been achieved. The response rate was encouraging.

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

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