

## The ASEAN opportunity for Australian business

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*ASEAN is the world's sixth largest economy and the second largest destination for Foreign Direct Investment (FDI), but currently Australian businesses are batting well below their weight in accessing opportunities in this dynamic region. Fraser Thompson, Director of AlphaBeta Singapore, is also currently serving as the inaugural President of Australia-ASEAN Chamber of Commerce (AustCham ASEAN). We caught up with Fraser to understand what are the opportunities for Australian businesses in the region, and to get his advice as to how businesses should develop an ASEAN strategy.*

### **What is the current level of engagement of Australia in ASEAN?**

We need to distinguish business-to-business and government-to-government relationships. At a government level, Australia has a strong level of engagement in ASEAN, and this is continuing to strengthen. Australia was ASEAN's first dialogue partner in 1974 and this cooperation has strengthened further with the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) which is ASEAN's most comprehensive and ambitious trade agreement thus far. Next year, Australia will host the ASEAN-Australia Special Summit, which will bring together the Heads of State from each ASEAN country, along with CEOs from major ASEAN and Australian corporations to discuss how to strengthen business linkages.

At a business level however, much more needs to be done. Whilst there are leading Australian companies like Linfox, Lend Lease, Woodside, Telstra, and Visy that are active in ASEAN, Australia is still batting well below its economic weight in the region. Australian companies currently invest almost 60 percent more in New Zealand than they do in ASEAN, despite the fact that the New Zealand economy is less than one-tenth the size of ASEAN.

### **Can you describe to us some of the exciting opportunities available to Australian business in ASEAN?**

Six trends will shape the future direction of ASEAN and could provide large potential opportunities for Australian businesses. The first is urbanization. More than 90 million people will move to urban areas in ASEAN by 2030. As the region continues to urbanize and a greater share of the population shifts from farming to manufacturing or service jobs with higher wages, the size of the consuming class could increase by 250 million in ASEAN by 2030. This will create large new markets for consumer products (ranging from financial services to beef), but also for real estate and infrastructure. Some \$7 trillion in investment in infrastructure, housing, and commercial space will also be needed by 2030 in the region – an amount equivalent to 4.5 times the current size of Australia's economy – creating large new opportunities for Australian construction firms and property developers.

The second area is around skills. Recent academic research suggests that based on current trends, more than half of all high-skill employment in Cambodia, Indonesia, Laos, the Philippines, Thailand, and Vietnam could be filled by workers with insufficient qualifications by 2025, resulting in under-qualified workers. This could be a tremendous opportunity for Australian education institutions, and many institutions such as James Cook University, are already active in ASEAN.

The third area is technology. Much of ASEAN (with the notable exception of Singapore) is starting from a relatively low base in terms of digital infrastructure, adoption, and innovation. But this picture is beginning to change rapidly: from 2008 to 2013, the number of Internet users grew at a brisk 16 percent annually. Today, ASEAN represents the second largest market of Facebook users (behind the United States), and Jakarta is the twitter capital of the world. This technological revolution creates tremendous opportunities for Australian companies across multiple sectors, including telecommunications, education, healthcare, and e-

commerce. Seeking to tap into this innovation pipeline, Telstra has recently launched an accelerator program for technology start-ups in Southeast Asia called muru-D.

The fourth area is related to demographics. Just like in other parts of the world, fertility in ASEAN is falling and the population is starting to age. However, ASEAN's demographics are generally better than most other parts of the world, creating an opportunity to attract labour-intensive sectors. ASEAN has the third-largest labor force in the world, behind only China and India. The median age of workers is also young in comparison to most other parts of the world. The median age in Laos is under 20 for example, versus 35 in China. The ageing population will create opportunities too – particularly in healthcare. Indonesia, Vietnam and the Philippines are continuing to make progress in pursuing universal health coverage and current spending levels are set to rise. Healthscope, an Australian private healthcare operator, already has operations in Singapore and Malaysia.

The fifth area is around global trade flows. The AEC (ASEAN Economic Community), which envisions the freer movement of goods, services, capital, and people among member states, could allow ASEAN to build integrated supply and value chains that span the entire region. Further growth could be achieved if other muted trade deals (which include many ASEAN member states), such as the Regional Comprehensive Economic Partnership and the Trans-Pacific Partnership, go ahead. This creates interesting opportunities for logistics players (such as Linfox and Thales) and a range of Australian manufacturing companies.

The sixth area relates to the changing competitive landscape. Southeast Asia has the highest proportion of family-owned businesses among large companies of anywhere in the world. 80-90 percent of businesses with over \$1b revenue in Southeast Asia are family-owned. These businesses often operate in very different ways from Australian businesses – one example is the strong focus of family-owned businesses on retaining control in order to “save face”. Despite these challenges, there is a window of opportunity for Australian companies as these businesses struggle with the transition to the next generation of leaders and look for partners to help them expand to other sectors and markets.

### **Can you tell us about AustCham ASEAN and what you are aiming to achieve?**

AustCham ASEAN is aiming to support more active Australian business engagement in ASEAN. Seven officially registered Australian chambers and business councils from across ASEAN (representing over 3,000 corporate members) have come together to establish AustCham ASEAN as an umbrella organization for advocacy on issues impacting Australian business operating in ASEAN. AustCham ASEAN was officially launched by the Australian Prime Minister, the Hon Malcolm Turnbull MP, in Singapore in June 2017 (see picture of Fraser and the Australian Prime Minister). It is an honour to serve as the inaugural President of AustCham ASEAN.

AustCham ASEAN will focus on three main activities:

1. Informing Australian business on regional integration developments and the business landscape with a particular focus on an annual business survey;
2. Explaining the contribution of Australian business to ASEAN markets; and
3. Advocating for policies, rules and regulations that support Australian business activities in ASEAN (including organising sector roundtables in key areas of interest for Australian business).

### **What is your advice to Australian businesses as they think about how to capture opportunities in ASEAN?**

While every sector and business is different, any strategy in ASEAN should be mindful of three broad factors:

1. **Don't just think about the mega-cities.** The really interesting growth opportunity is increasingly in the middleweight regions (500,000 – 5 million people). AlphaBeta has recently conducted research

with Nielsen to understand the [consumer opportunity](#), and this work showed that consumer goods companies will need to have a strong focus on these middleweight regions if they are going to capture the future growth potential in these markets.

2. **Incorporate AEC into your strategy.** The ASEAN Economic Community (AEC) is slowly creating a more integrated market across the 10 ASEAN Member States. However, progress varies significantly by sector. A survey by AustCham ASEAN revealed that over half of Australian businesses operating in the region felt that they needed more information about what the AEC means for their business. A useful thought experiment is to think through what would you do differently if ASEAN was one integrated economic region – where would you locate factories, skilled staff, R&D and other key activities? After that, it can be useful for businesses to think through a few short-term “no regret” moves to take advantage of AEC (e.g., rethinking sourcing of production inputs, exploring new market opportunities), as well as to monitor regulatory developments that will act as key markers for whether larger strategic bets become viable (e.g., investment into a new market).
3. **Choose your partner carefully.** Having a local partner in ASEAN is often either required by law or by commercial necessity. Choosing the right partner is challenging, but it is important to take time to understand the business landscape in each ASEAN Member State, and particularly the family-owned businesses. Many family-owned businesses in ASEAN are currently going through a significant transition, involving a diversification of sector and geographical focus, and there is a potential opportunity for Australian businesses to create win-win partnerships during this phase of their growth.