

Australia in the Asian Century: a call to action for the private sector

December 2012

While the bulk of Australia's trade is with the Asian region, the level of Australian investment in Asia is still too low to make the most of future opportunities. Only 6% of all Australian overseas direct investment is in Asia¹.

The 'Australia in The Asian Century' White Paper, released by the Australian Government in October 2012, places Australia-Asia relations squarely into mainstream political and economic discussion. Australia-Asia relations have now become core reference points for business, government and society. That's powerful symbolism, but its potential can only be realised through concrete steps by both the government and the private sectors. These positive trends provide great opportunities for Australian businesses; however it is an increasingly competitive environment as governments and business all around the world focus on the opportunities in Asia.

The White Paper creates clear opportunities for the private sector to have a stronger Asia focus. It emphasises national aspiration, it shows the Government's willingness to support real programs, and it explicitly opens up the space for business-government interaction by highlighting the linkages between education, skills, culture and the Asian economic opportunity.

The launch of the 'Australia in the Asian Century' White Paper by the Australian government is a welcome initiative, and one that helps to increase Australia's focus on Asia. The White Paper delivers a clear signal to the private sector to take initiative and turn opportunity into success in Asia.

From the developed economies of Australia and Japan through to the emerging economies of China, India, Indonesia and South Korea, the Asia Pacific region is now at the forefront of the global economic stage. The release of the White Paper helps to emphasise the importance of this region to all Australians.

The challenge for organisations is how to use the information outlined in the White Paper to identify an action plan and determine the necessary next steps. The White Paper clearly emphasises the need for organisations to revisit their corporate strategies to ensure that they are Asia ready.

Whilst there are an abundance of inbound investment and capital opportunities available for Asian investors in Australia, this paper focuses primarily on outbound opportunities available for Australian organisations to leverage and further explore. It includes commentary from key people in our Australian Asia Practice and a checklist to help you start thinking about how your organisation can embrace the opportunity that exists in Asia at a time when the region is experiencing unprecedented interest from around the globe.

I hope you find this publication insightful as you map out your organisations approach to Asia in the Asian Century.



Derek Kidley
Managing Partner, Asia

2. The White Paper confirms the Asian opportunity for Australia

The White Paper has positioned the Asian Century as mainstream and shows the importance of Asia to Australia. In a world of finite resources (time, human and financial capital), the focus on Asia will create enormous cumulative change. Asia will shift from an investment led economy to a consumption and service driven economy.

Sustained economic growth, large-scale urbanisation and the expansion of the middle class are interconnected drivers of future wealth in Asia. The result will be the proliferation of demand across all sectors: power supply and distribution, food production and logistics, automobiles, whitegoods, electronics, and especially services, such as wealth management, superannuation, insurance, education and health. These positive trends provide great opportunities for Australian businesses, however, it is an increasingly competitive environment as governments and business all around the world focus on the opportunities in Asia.

Estimates by the OECD predict enormous increases in Asia's middle class, from 28% of the global middle class in 2009 to 66% (or 3.2 billion people) by 2030. In spending terms (2005 PPP dollars), that's an estimated jump from \$5 trillion in 2009 to \$33 trillion in 2030.

The opportunity this creates is huge, but capturing it requires a detailed view. Asia is not one market and Australian organisations must not consider it as homogeneous. Each country has different cultures, languages, economies and governments. One approach or market entry strategy is not going to work across each country, or even within different regions within the same country. Understanding each relevant market from a political, social, economical and technological perspective is key.

"Organisations should start to think about realigning their reward strategies, including how they foster talent, drive recruitment and succession planning to enable their workforce to be Asia ready. Collaboration with government and education sectors is key to ensure that our future supply of resources have the required skill set."

Peter Gerendasi, PwC Partner

"Australia in the Asian Century" White Paper

"Within the Asian region, Australia is negotiating bilateral trade deals with China, India, Indonesia, Japan and South Korea...following the signing of a free trade agreement with Malaysia in May 2012 and the negotiation of agreements with Singapore and Thailand by the previous Government... completing the ASEAN – Australia – New Zealand Free Trade Agreement (AANZFTA) in 2009—a high-quality, truly liberalising agreement covering countries accounting for 18 per cent of Australia's total trade—we have contributed to the development of an important region-wide agreement... Australia will support the November 2012 launch of, and participate in negotiations for, the Regional Comprehensive Economic Partnership involving ASEAN, Australia, China, India, Japan, New Zealand and South Korea." (p.208)

"Australia in The Asian Century" White Paper

Economies in Asia will turn more to domestic end-market opportunities. Internal demand within Asia is expected to become the major source of new opportunity for firms in and outside Asia. And as incomes rise in Asia, the expanding middle class's spending on services will become more significant, following the path of almost all advanced economies. (p.61)

3. Government, business and education sectors must collaborate to ensure success

The Government has set the expectation that it will invest more in education, diplomatic assets, trade advocacy, overseas scholarships and formulating Australia-Asia policy.

There's a clear aspiration for more openness and integration with Asian economies, easier flow of goods, services, capital, ideas and people, and greater access to Asian opportunities for Australian businesses and investors. It also has significant focus on the proliferation of regional value-chains that cross national boundaries.

New openings are emerging for Australian organisations to partner with governments and institutions in the region. The Government has ramped up its funding for Business Councils and in-country Chambers of Commerce to enable stronger relationships with Asia through increased trade delegations and business tours.

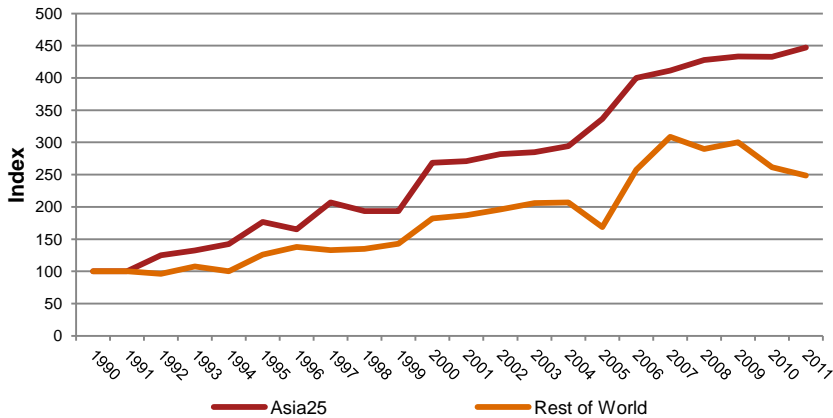
For the private sector to take advantage of this increased level of Government investment, organisations need to proactively engage with these institutions to explore opportunities in the Asian region.

At each level of government, business and education sectors have differing roles and responsibilities. Consistent communication and feedback loops between these groups must be institutionalised and coordinated to avoid the pitfalls of silo structures becoming widespread in the business sector.

4. Looking from outside, Australia is often considered inside Asia

Many foreign investors are treating Australia as if it was part of the Asian market. Currency dealers regularly treat the AUD as a proxy for China. Multinational companies from the US, UK, EU and Japan make large investments in Australia to supply Asian customers.

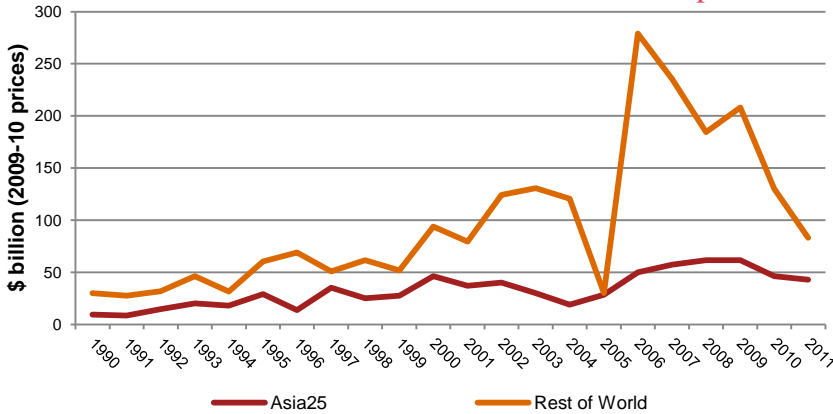
PwC Melbourne Institute Asialink Index 2012²



The PwC Melbourne Institute Asialink Index 2012, which measures Australia's engagement with Asia across seven key indicators (trade, investment, research and business development, education, tourism, migration and humanitarian assistance), shows a continued increase in Australia's engagement with Asia relative to its engagement with the rest of the world. This is especially true in the fields of trade, research and development and education.

Since the first publication of the PwC Melbourne Institute Asialink Index in 2008, Australia's engagement with Asia has increased by 8% in 2011 while falling by 13% with the rest of the world. But in terms of investment, as well as tourism and migration, Australia's engagement with Asia lags behind Australia's engagement with the rest of the world. This is recognised in Asia and there is an expectation that Australia will drive actively to close the gap between perception and reality – this will require change. Personal relations are paramount to all three areas and in Asia, a direct presence is a key to commercial success, and is expected by the countries across Asia.

PwC Melbourne Institute Asialink Index 2012 - Investment Component³

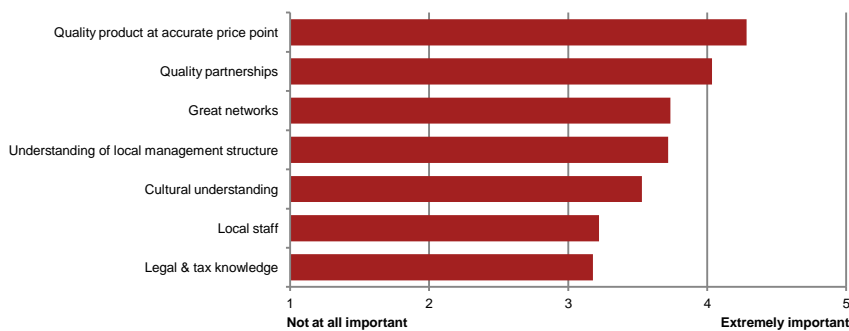


5. Access to accurate and reliable information is key

The relatively low level of existing direct investment by Australian firms in Asia means that organisations face an information deficit.

For organisations to enter any new market successfully, they need access to accurate and reliable information. Equally, organisations need to carefully understand the similarities and differences - from both a business and cultural perspective - any new markets they are looking to enter. Having valuable insights from resources on the ground, or from those with firsthand experience in a particular country is critically important. Organisations must engage with the right people with the right knowledge and expertise to do this effectively.

Importance of factors in doing business in or with Asia⁴



The diagram on the left from the "Developing an Asia Capable Workforce, A National Strategy" produced by the Asialink Taskforce for an Asia Capable Workforce, September 2012, highlights the importance of factors in doing business in or with Asia. It highlights that quality partnerships and great networks are nearly as important as having a quality product at an accurate price point. In our experience this has not been fully understood or acted upon by business evaluating opportunities across the region.

² PwC Melbourne Institute Asialink Index 2012 - <http://www.asialinkindex.com.au>

³ PwC Melbourne Institute Asialink Index 2012- Investment Component - <http://www.asialinkindex.com.au>

⁴ Developing an Asia Capable Workforce, A National Strategy produced by the Asialink Taskforce for an Asia Capable Workforce, September 2012

6. It's business.. it's personal

Entry into Asia's national or regional markets or value-chains requires resources on-the-ground to facilitate commerce and more importantly, investment.

A lack of direct investment will perpetuate a transaction-based commerce, and one that may not be sustainable in Asia. In Asian markets it is relationships that is most highly valued. Physical presence and personal contact can be viewed as real assets in Asia. Being located in Asia is the best way to conduct relational business, whether with customers, suppliers or partners. Certainly, it is the best way to deal with Governments.

In contrast, not making the investment generates the negative value of lost opportunity. Asia is the fastest growing region, with the brightest future prospects. A large number of Asian and non-Asian organisations – competitors and customers – are busy growing their presence in Asia. In such a dynamic environment, those organisations that do not make the necessary investments to have a physical presence and to build the crucial relationships, will be left further and further behind.

The range of diversity is great, requiring significant local as well as regional knowledge. A long-term presence is a key factor in mastering these factors. Frequent travel and telecommunicating are inadequate substitutes.

Connectivity is technology plus personal: there is a tendency to rely on technology to fulfill the need for communications. But Asian cultures, diverse as they are, have a distinct preference for personal contact to establish trust, a key factor for business success.

"Doing business in Asia is very different than in Australia. Asian values, for example collectivism and respect, are often at odds with Western/ Australian values which are more individualist. Whilst language ability does help, having a deep understanding and respect for different Asian cultures and values, and investing together in long term relationships, at both a corporate as well as an individual level, is key to being accepted by Asian organisations as someone they can partner with when doing business."

**Karen Loon, Partner,
PwC Singapore (on
secondment in
Australia)**

"One of the biggest challenges for a Chinese company investing in Australia is cultural differences, and the reverse is also true. Having valuable insights from resources on the ground, or from those with first hand experience in that country is critically important. Ultimately, the importance of personal relationships cannot be underestimated when trying to successfully do business with Asia."

Kai Zhang, China Practice Tax Leader

"In the 2012 APEC CEO survey, a vast majority of CEOs said the most complex and urgent challenge they faced was getting their talent strategy right. Availability of people is Asia's greatest resource yet there is scarcity in abundance."

**Mark Laurie, Partner, India Practice Desk
Leader, Asialink Advisory Board Member**

"Australia in The Asian Century" White Paper

Strong relationships are particularly important in the Asian market—business relationships cannot be established by a single visit, transaction or acquisition. (p.193)

7. Confirmation of Human Capital needs

The White Paper reaffirms the need for Asia-related human capital. Much of the focus on people development has been framed as increasing language skills. Whilst fully supporting the importance of this element, the need to have real experience of operating in the business, political and social worlds of the various countries cannot be underestimated. To successfully capture the opportunity in Asia, organisations need to access Asia-relevant capabilities and embed them in their culture. This will increase Australians' understanding of the region, creating foundations for deeper and broader relationships and enriching our society and culture. The Government has aspired to a third of ASX 200 board members and a third of Australian Public Service senior leaders (the APS 200) having *"deep experience in and knowledge of Asia."* To achieve this, organisations must act now. Key recommendations highlighted by the Asialink Taskforce for an Asia Capable Workforce, September 2012, include:

- Recruiting people with deep Asia expertise and experience, including Asia-based Australian university alumni, into board and executive positions.
- Recognising Asia capable employees through promotion and other incentives.
- Providing pathways for employees to spend time working in Asia, including through participation in short study tours to understand potential new markets.
- Developing internship programs in Asia and in Asia-focused Australian businesses, in collaboration with existing education and training providers.
- Informing education and training institutions of current and emerging requirements for Asia capabilities.

While many organisations understand the need to recruit resources with the necessary skill set, the demand for this key talent far outweighs supply. With a large pool of people from an Asian background, and with an increasing number of Australian nationals working in Asia, Australia should seek to more proactively leverage on their strengths, connections and knowledge. Key to this is the need to embrace diversity and develop tailored personal development to enhance skills. It is imperative that companies start planning now how to position their organisations and their people for the Asian century.

15th Annual Global PwC CEO Survey 2012

Just over half of the surveyed CEOs say they are investing in formal education systems and adult or vocational training programs. Talent shortages are also increasingly an issue for governments, with more competing to attract the world's best talent to their shores. Close to half of CEOs (47%) believe that fostering a skilled workforce is one of three top priorities for their governments.

8. Next steps

Australian organisations should revisit their corporate strategies to ensure that they are Asia ready. Steps to consider are -

Assess market potential

- Review your corporate growth strategy through an Asia lens and determine which market/s present attractive growth opportunities
- Identify which market/s best align to your strategy and capabilities
- Review existing assets including product, technology and brand
- Review market size, industry dynamics and complete a strategic risk assessment on each potential market
- Review any existing relationships in key Asian territories

Confirm value proposition

- Determine your customer base and your key targets in each market
- Identify any alterations that will need to be made to your product, technology, service and/or brand for entry into Asia
- Determine pricing and positioning strategy within each target market
- Confirm what the potential 'size of the prize' is?

Complete financial analysis

- Evaluate quality of available information regarding Asia (economic, legal, trade and investment regulations)
- Review existing operating model and how this could be adapted to enter Asia in one or more countries
- Identify your market entry options and investment vehicle/s (joint venture, export, licensing, independent niche) etc.
- Determine how to best leverage from supply chain optimization

Complete resource capability audit

- Review existing resources in middle / senior management plus Board members with Asia relevant capabilities
- Review recruitment strategy (including graduates and lateral recruits) and embrace diversity of experience and backgrounds
- Review approach to development to enhance relevant skills

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- As one of the leading professional services firms in the Asia Pacific region, PwC has one key focus – helping our clients succeed
- Our Asia Practice at PwC Australia supports inbound and outbound investment between Australia and Asia. We have dedicated desks focused on China, India, Indonesia, Japan, Korea, Philippines, Myanmar, South East Asia Peninsula (Cambodia, Laos, Malaysia, Thailand and Vietnam) and Singapore – all led by Partners who have deep experience in and knowledge of Asia

For further information, please contact us or visit our website www.pwc.com.au/asia-practice

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