



Foodstuffs and agriculture are prominent among Australia's exports to the region. PHOTO: JESSICA SHAPIRO

ASEAN success can be easily built upon

South-east Asia Cultural education key to optimum growth.

Mark Abernethy

While the fate of Australia's economy continues to be influenced by the biggest trade partners – such as China, the US and Japan – opportunities are developing in south-east Asia, through the 10 ASEAN nations.

The ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) came into force in 2010 and contained a number of "firsts". It was the first multilateral free trade agreement entered into by Australia; the first time Australia and New Zealand jointly conducted trade negotiations; and, according to Austrade, the first time ASEAN nations negotiated a comprehensive trade agreement that covered all sectors in a single round.

With its strong but stable economic growth, expanding middle classes, proximity to Australia and across-the-board tariff reductions for Australian exporters into the ASEAN nations, AANZFTA has been a good fit for Australian exporters, mostly in education, agriculture, foodstuffs, professional and financial services, and mining.

Two-way trade with ASEAN sits at \$93 billion a year, says DFAT, making the ASEAN bloc the second-biggest trade partner after China (the US sits at \$64 billion and Japan at \$61 billion).

However, while the AANZFTA is considered a success – insofar as achieving trade-rules consensus between Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam, and Australia and New Zealand – it does have some weak spots.

The trade success between Australia and ASEAN is dominated by Singapore (\$22.7 billion) and Thailand (\$2.2 billion) which contribute almost half of the annual trade, while Indonesian two-way trade with Australia is just \$15 billion, despite being the most populous country in ASEAN by a wide margin.

In 2015, the combined GDP of AANZFTA was about \$US3.9 trillion in a population of about 660 million, yet some slow-to-mature aspects of AANZFTA may be no more than cultural differences, says CEO of Asialink Business, Mukund Narayanamurti.

"The starting point for Australian

businesses has to be an awareness of opportunities, and then knowledge acquisition about your potential markets," says Narayanamurti. "But you'll also need the skills and capabilities to operate on the ground, face-to-face."

Narayanamurti says the ASEAN zone is enjoying economic growth of 5 per cent to 5.5 per cent a year when the global average is about 3.5 per cent, according to the IMF.

But even with this growth and middle class expansion, business in south-east Asia is largely built on human relationships, so interpersonal skills are important. Narayanamurti runs courses in the major cities called "Negotiations and Influence in Asian Contexts" in which he takes business leaders through protocols of the region.

"We call it 'Match Fit'. When you find yourself in situations that perhaps you'd never encounter in Australia business, you need the skills and understanding to deal with that in the Asian context."

"You need the skills before you're in the situation, because once you're in

Nations have put aside large differences to forge an economic zone.

the moment and you don't know what to do, it's too late."

Asialink Business targets potential differences in culture and business norms that might otherwise become negatives when Australian businesses operate in Asia.

Narayanamurti says its recent report, *Shipping Asia Capable Leaders*, found few senior leadership teams had the skills and knowledge needed to do business successfully in Asia.

He says the most obvious Australian exports in the ASEAN area have been education and financial services, with mining and food also prominent.

The RMIT campus in Ho Chi Minh City, the Monash University campus in Malaysia and the James Cook University branch in Singapore are conspicuous by their success.

Banks and other financial services providers – including fund managers – are also investing heavily in the ASEAN region, buoyed by growing economies and the added security provided by ASEAN political projects, which include reduction in trade red-tape and

non-tariff barriers, and programs to smooth out the investment environment and make the region more attractive to Australian investors.

Narayanamurti adds that ASEAN trade with Australia will expand when the small- and medium-size businesses of both see the opportunities.

The cultural differences are not intractable he says, pointing out that ASEAN nations have been able to put aside large cultural, ethnic, religious, economic and political differences to forge a single economic zone, so Australians could be encouraged to be flexible when dealing with south-east Asia.

Victorian Minister for Small Business, Innovation and Trade, Philip Dalidakis, says the ASEAN area is an important trade partner for the state at \$6.7 billion a year – only slightly behind China at \$6.9 billion in 2016.

"We've expanded our view of trade regions, beyond simply a country," says Dalidakis. "Our Indonesian trade office becomes south-east Asia; we opened an office in Singapore in 2016; and we're setting up a deputy commissioner to operate out of Kuala Lumpur."

The Victorian push into the ASEAN zone is made on the back of not only highly successful exporters in education and training, but also the strong forecasts for ASEAN economic growth.

Yet, Dalidakis says, the Victorian government does not want to watch forecasts and numbers and assume success; it wants to engage with the south-east Asian economy, which means social and cultural exchange.

One example of supporting the human side of trade has been the Victorian government's memo of understanding signed with the Australian Chamber of Commerce and Industry to utilise ACT's networks in Myanmar, Thailand and Vietnam.

Dalidakis says Victoria's biggest export is education, which amounts to \$7.1 billion a year, however even with expanding wealth in south-east Asia, few families can afford to send their kids to Australia for education.

"We want to take higher education and vocational education and training into south-east Asia."

"We have the reputation in Asia for the courses, curriculum, the teaching, assessment and certification. "Indonesia intends to build what it calls '10 Balls'. You need not only all the trained hospitality workers to run these new resort areas; you need the construction trades to build them."

US dollar fall spurs several currencies

Forex

Alexandra Cain

Many Asian currencies have benefited since the value of the US dollar started to decline in the middle of the year. The question is whether the situation will persist.

Jingyi Pan, market strategist with IG Singapore, says the lower US dollar has provided opportunities for traders to profit as the Singapore dollar has risen. "But the bias for the second half of this year is for a downward shift of the Singapore dollar against the US dollar, particularly with the expectation of another US Federal Reserve rate hike before the year ends," says Pan.

"Domestic concerns in Singapore will also likely set in, with growth in the second half expected to moderate from the 2.7 per cent year-on-year average in the first half," she adds. This could also dampen the currency.

Moreover, there are low expectations for the Monetary Authority of Singapore to raise interest rates at its October meeting, with the current neutral bias likely to be maintained.

"This will minimise any boost for the Singapore dollar from the monetary policy end," Pan says.

In contrast, Greg McKenna, chief market strategist at AxiTrader notes Singapore's recent retail sales and inflation rates have all pointed to a stronger currency.

"But the reality is that the Singapore dollar is still dominated by moves in the US dollar, its outlook, the strength of the US economy, the US Federal Reserve and the Trump administration's plans for tax and infrastructure," says McKenna. "To that end, the key driver of the US dollar/Singapore dollar cross is going to be the US or the value of the euro, which the Singapore dollar has followed higher in broad terms during 2017."

"So with US dollar against the Singapore dollar at its lowest level for a year, the risk is a continued strengthening of the Singapore dollar drives this trade down before it finds support and heads higher once again," he says.

Turning to the Hong Kong dollar, Marc Lim, head of sales at AFEK, notes Hong Kong's currency has traded outside its normal range this year.

"The Hong Kong dollar/US dollar trade has spiked recently on the back of political woes in the US and North Korea, as well as the appreciating pound and euro," he says.

Lim says the Hong Kong Monetary Authority (HKMA) could intervene in the market at current levels, as currency weakness is normally associated with a fall in the value of the share market and rising financial instability.

"There will be a risk to Asian markets should the trend for this pegged currency persist without central bank intervention," he says.

For the highly watched Chinese renminbi, the expectation is for continued currency stability.

Says Pan: "On a broad level, keeping the currency stabilisation in place will be in the authorities' interest to ensure continued capital inflow and stability ahead of the 19th Communist Party Congress, which will be a driver for the currency with the country's five-year economic plan to be released."

Sustained, robust economic conditions in China would be positive for investor sentiment and, in turn, currency movements.

However, recent gains in the value of the renminbi against the US dollar are relatively flat compared to gains seen in other major Asian currencies this year such as the Singapore dollar.

"The move through the first half of 2017 has been [due to] a combined impact of failed policy delivery from the Trump administration, relations with China's President Xi around currency manipulations and the handling of North Korea," Lim says.

He notes growth forecasts for China have been revised higher. But the International Monetary Fund has warned this is not necessarily an indication the world's second largest economy is entering a new era of expansion.

The Singapore dollar is still dominated by US dollar moves.

Greg McKenna, AxiTrader

"Division still remains among Chinese economists about whether China has bid farewell to overcapacity and entered a new phase of growth."

Lim believes current support for the US dollar/Chinese renminbi currency pair should expect to hold in the near term.

"Further US dollar weakness should dictate this currency pair, with geopolitical risk surrounding the Trump presidency and future policy continuing to linger across markets."

McKenna says Chinese economic growth and the authorities' ability to rein in outflows caught the China doomers by surprise over the past year. "That strength of the economy and Beijing's resolve to shore up the market has stabilised the nation's foreign exchange reserves and given the central bank room to allow the yuan to strengthen against the US dollar."

Nevertheless, McKenna notes the yuan has lagged the US dollar overall as the People's Bank of China let the yuan slide with the dollar but underperform against the euro, while at the same time keeping the Japanese yen and Korean won within a range.

"The PBOC will be happy to let the yuan drift higher again once the US dollar eventually finds a bottom."



Hong Kong's currency has traded outside its normal range this year. PHOTO: AP

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