

ASEAN Rising

Industry insights for Australian businesses
to grow and expand in Southeast Asia





Setting the scene

ASEAN is an economic powerhouse. The growth of this 10-nation region is outpacing the rest of the world. With a young and mobile population, it is set to become the world's fourth largest economy by 2030.

The region's cities are expanding exponentially. An estimated 90 million people will move to urban areas by 2030, by which time more than half of the world's middle class will live within a six-hour flight of Bangkok.

There is a rising awareness amongst Australian businesses of the dynamic opportunities presented by ASEAN. Combined with its large, young workforce, and strategic location, ASEAN is an attractive production base that is quickly becoming a hot-spot for regional value chains, integrated into global supply routes.

A recent survey by AustCham ASEAN, which represents Australian businesses in the region, found close to 90 per cent of its members were looking to increase their business interests there. But there is tremendous scope for new market entrants to benefit, too, and the regional free trade agreement – the ASEAN-Australia-New Zealand FTA (AANZFTA), along with a number of bilateral trade agreements – is helping to give Australian businesses a competitive edge.

In the lead-up to the landmark ASEAN-Australia Special Summit in Sydney in March 2018, Asialink Business engaged almost 3000 organisations and individuals nationwide to dive into what the tremendous changes underway in Southeast Asia meant for Australian businesses.

With grant funding from the Australia-ASEAN Council (AAC) of the Department of Foreign Affairs and Trade and Department of Prime Minister and Cabinet, we brought together leading industry experts across urban and regional Australia.

From the growth of the millennial consumer class, to the societal changes that open opportunities for aged care, these experts have identified where and how Australian businesses can get involved.

This timely report shares key insights and recommendations on how to understand and connect with ASEAN's changing consumers and evolving digital economy, leverage the ASEAN Economic Community's (AEC) common market and collaborate to grow knowledge economies, education and service sector links.

The opportunity is clear. For Australian businesses, the next step is equipping themselves with the deep market insights and practical skills to partner with ASEAN on its remarkable rise.



Key Learnings

- 1 Build on areas of strength: take advantage of Australia's existing reputation and expertise;** for example, by leveraging our well-known financial services capability to explore new opportunities with fintech and regtech.
- 2 Think beyond ASEAN:** use ASEAN as a launch pad to enter other Asian regional and international markets.
- 3 Embrace the future:** understand and leverage emerging technologies, and tap into new sunrise industries and the digital economy. For instance, knowing how technology can help bridge skills gaps, as well as how certain countries are leapfrogging technologies, will pay off. Understanding how to use different regional e-commerce platforms will also deliver returns.
- 4 Make it personal:** maximise personal links and develop relationships – use alumni and the diaspora within Australia to forge new connections.
- 5 Ignore the myths:** for investors, balance your perceptions about risk with strengths, such as the region's remarkable macroeconomic stability.
- 6 Stand out from the crowd:** offering unique, high-value experiences is essential, especially for education and tourism. For instance, universities need to understand and align their international education offering with the strategic priorities of key growth industries in each distinct ASEAN market.
- 7 Know your market:** ASEAN's considerable economic diversity means it is essential to look at country and market specific opportunities. Millennial consumers are different to their parents. They increasingly desire premium, high-value products, so make sure you understand and meet their market demands.
- 8 Test the market:** make use of FTAs, but consider small trial runs for your product first.
- 9 Be a team player:** Australia's future is in the ASEAN region, so be part of a cohesive and vibrant 'Brand Australia'.



ASEAN Economic Community: Common Market, Distinct Strengths

ASEAN officially launched its Economic Community in 2015, marking an important economic and political commitment to the region's shared and connected future.

The AEC is a unique model. Essentially, it aims to establish a free trade zone that takes advantage of the economic diversity of the region. As Fraser Thompson, President of AustCham ASEAN, puts it: "You can take the capital access in Singapore, the mid-level manufacturing facilities in Thailand and Malaysia, and the low-cost labour in places like Myanmar, Cambodia and Vietnam to create a real economic beast that is hard to match."

The AEC is still a work-in-progress, but according to the ASEAN Secretariat, 99 per cent of the initiatives planned for the current phase of economic integration have been achieved.

ASEAN has made solid progress towards promoting more seamless movement of goods, services, capital, skilled labour and communication. Tariff barriers have been removed across the five largest member countries, as well as Brunei. An ASEAN Single Window has been implemented across Singapore, Malaysia, Indonesia and Thailand to expedite customs clearance and enable the electronic exchange of border documents.

And while the ASEAN-Australia-New Zealand FTA is currently underutilised by some Australian businesses, it offers a real competitive advantage to Australian exporters. This is underpinned by extremely low economic volatility in key ASEAN markets.

As would be expected in such a diverse region, progress does vary from sector to sector. For example, cosmetics is fully integrated, but financial services and healthcare still have

a long way to go. Businesses need to research their own industries carefully before moving into a particular ASEAN market.

For those that go ahead, ASEAN can be a great stepping stone into other international markets, says the Hon. Niall Blair MP, NSW Minister for Primary Industries, Regional Water, and Trade and Industry.

"For a business in NSW that is venturing into the international marketplace, ASEAN is a great start, a launching pad into other markets"

The Hon Niall Blair MLC, Minister for Primary Industries, Minister for Regional Water, and Minister for Trade and Industry, NSW Government

Particular opportunities exist in fintech and cybersecurity, regulation technology, and pharmaceutical and medical technology.

Established businesses in Australia are well placed to capitalise on their expertise in these areas within ASEAN, which has many distinct and complementary strengths. For example, Singapore is renowned for its financial services sector, Thailand has built a strong manufacturing industry, Malaysia and Vietnam have established ICT hubs and Myanmar can provide access to expanding pools of labour.



Blackmores

Health supplements business Blackmores has 900 staff in the ASEAN region, substantially more than they employ in Australia. Already the market leader in Malaysia and Thailand, the company has taken advantage of the FTA to expand into other markets, including Singapore and Vietnam. Indonesia is set to become its biggest market outside Australia and China within the next three years.

Getting to this stage has not always been easy. Dean Garvey, Blackmores' Deputy Managing Director, Asia and International, says using the FTA can be "perilous" given the strict bureaucratic guidelines businesses must follow. He advises new market entrants to carry out a few test exports before shipping large quantities into ASEAN. He suggests making sure newcomers know how to escalate issues and to avoid exporting around religious holidays.

The company has also faced challenges due to the different regulations that each country imposes on health supplements. It has found innovative ways of tackling these; for example, Blackmores facilitated meetings between Indonesian and Australian regulators so they could learn more about how each assesses risk.

Mr Garvey is confident that Australia's future lies in ASEAN. "Blackmores only succeeds where Brand Australia succeeds, and Brand Australia resonates really well in these countries – so, for us, we sell Australia and Blackmores," he says.

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Dean Garvey, Deputy MD, Asia and International, Blackmores



Cochlear

Hearing loss is a major public, social and economic issue that affects the lives of millions of people worldwide – around 47 million in Asia alone. Cochlear’s technologies can help many of those affected, but it has not always been easy for people in the ASEAN region to access these revolutionary implants.

Until 1995, people – usually children – had to travel to the U.S. or Australia to have cochlear implants fitted. This had huge implications for families, says Georgina Sanderson, Cochlear’s Vice President, Policy and Market Access, Asia Pacific.

“It’s not just a surgery. This is an intervention that requires a lifetime of care and support from audiologists, from speech therapists, and so coming to a foreign country to receive that surgical intervention is extremely challenging when you go back home,” she says.

“Families would stay in-country for perhaps two years to ensure their child got the adequate support before moving back to their home country.”

That has changed with the increased availability of Cochlear products in the ASEAN region, through local partners. The company has also opened a Training and Experience Centre in Jakarta, which is a training hub for hearing professionals from Indonesia and other ASEAN economies.

Cochlear also has an ICT centre in Kuala Lumpur to provide company-wide tech support and, in 2016, centralised its global repair activities there. Ms Sanderson says Malaysia was a great option because of its skilled workforce, business-friendly culture and favourable tax rules.



Innovation and the Digital Economy

The ASEAN region is becoming a hotbed of innovation.

A number of unique factors have combined to drive rapid and unprecedented digital transformation in the region: the rise of the consumer class (set to double to 125 million people by 2025), easy access to cheap devices, improved connectivity, and youthful, tech-loving populations.

According to 2016 research from Google and Temasek, there are more than 7000 digital start-ups in Southeast Asia, 80 per cent of them in Indonesia, Singapore and Vietnam.

And e-commerce is expanding at pace: it is projected to grow by 14 per cent over the next five years, a figure only matched by India. Conversely, China – widely regarded as the world's biggest e-commerce market – is predicted to achieve just four per cent growth.

The region has embraced social media enthusiastically. Collectively, ASEAN is the largest adopter of Facebook in the world. Jakarta is the global Twitter capital.

As these technologies revolutionise how people go about their daily lives, businesses need to seriously rethink how they engage with consumers in ASEAN's diverse markets.



“With its strong start-up sector, investment from multinationals and growing economies, [ASEAN] is a launch pad from which businesses from across the world can vault into new markets.”

The Hon Philip Dalidakis MP, Minister for Trade & Investment, Innovation & the Digital Economy, Small Business, Victorian Government



The Internet of Things is changing practices on the supply chain side of business, too. As the cost of this technology comes down, it can be used at scale throughout the retail chain, with amazing impact. For instance, supermarkets and retail suppliers have already reduced the out of stock rates of goods by around twenty per cent, thanks to the uptake of new technologies that make it easier to track and respond to low stock rates.

While ASEAN has a young, willing workforce, there are significant skills gaps which technology can fill. For example, in Indonesia, midwives in remote areas are using mobile ultrasound technology and sending the scans back to city-based doctors to process.

Agriculture is another sector ripe for tech innovation, and one that plays well to Australia's strengths, says Fraser Thompson, President of AustCham ASEAN. As populations become more urbanised, technology is needed to address the rural manpower shortage.

Farmers are also increasingly facing issues related to climate change that threaten their productivity – but innovation can help. Mr Thompson cites the example of a Thai start-up that uses satellite technology to assess potential improvements in farming practices and advises small farm holders by phone on what they need to do.

Businesses need to think outside the box when it comes to innovation, says Lucy Liu, co-founder and Chief Operating Officer of fintech firm Airwallex. The adoption of technology

is not necessarily following the linear path seen in Australia. Myanmar, for example, is leapfrogging traditional retail banking and moving straight to digital finance.

And in ASEAN nations where take-up of bank accounts is still low, companies are finding novel ways to help customers. Payments by phone are increasingly common. For example, in Jakarta, tech start-up GoJek already enables its customers to use GoJek's app-based wallet to pay for much more than just a ride home, enabling payments for everything from coffee to fried rice or a massage. GoJek also uses motorbike riders to pick up cash from customers and drive it to a business.

"It's actually a lot more efficient and faster than doing bank transfers," says Ms Liu. "You think it's not as innovative as building digital wallets or prepaid cards but it gets things done."

Stone and Chalk, a Sydney and Melbourne-based fintech start-up hub offers another interesting example. It recently partnered with Jakarta-based UnionSPACE to enable its users to utilise co-working spaces across Jakarta, Manila and Kuala Lumpur.

Understanding ASEAN's Changing Consumer

With rising disposable incomes and increased connectivity, ASEAN's consumers are transforming how they spend their money.

However, ASEAN is far from a single homogeneous market. The region's considerable economic diversity means companies must look at country and market-specific opportunities.

Major cities will remain significant drivers of demand, but rising consumer power is likely to be most pronounced in satellite and second-tier cities.

Australia's dairy and agricultural industries are particularly well placed to take advantage of the growing consumer base, but a smart approach to marketing is required.

The University of Southern Queensland's Professor of Value Chains, Alice Woodhead, says religion is a major factor in what will sell in ASEAN countries. With 42 per cent of the population being Muslim, with a similar number of Buddhist or other Taoist faithful, demand for pork is low but high for vegetarian foods.

Age also has an influence. "The millennials are very different to the traditional families they come from," says Professor Woodhead. "Whereas, the older generations tended to be more religious and more based in tradition, these millennials are having this fusion diet."

This is creating a new market for 'fusion' foods, demand that Australian firms have yet to fully tap.

Further opportunities exist for marketing foods with added health benefits, as nations across ASEAN tackle the rise in obesity and diabetes. Younger consumers in particular are seeking premium products that will boost their wellbeing.





Jeta Gardens

By 2035, Indonesia will have more people aged 65 and over than any other ASEAN country, followed closely by Vietnam, Thailand, the Philippines and Myanmar.

This changing demographic will create opportunities in the aged care sector, particularly as the concept of “filial piety”, in which younger family members care for older generations, is evolving. The need for appropriate aged care services is expanding, as increasing numbers of young people receive tertiary education and move away from villages into major urban centres.

Australian aged care provider Jeta Gardens is one company that has successfully leveraged this demographic change. However, it wasn’t as simple as exporting their Australian care model to Asia. Jeta Gardens had to adapt its offering to suit local markets where there was little or no regulatory framework for aged care, no real pension or superannuation

arrangements and in some cases, artificially young retirement ages – just 60 in Malaysia, for example.

Jeta Gardens focused on servicing lower socio-economic groups, and those who were isolated as a result of their families’ younger generations moving away. Its so-called “4H Policy” – home, hotel, holiday resort and hospital – was tweaked to recognise that only once a person has completely lost their independence do they move into residential aged care.

Director and Company Secretary Peter Hennessy says this appreciation of the local culture has been key to their success. “We have to ensure that we respect [Asian cultural] values,” he says.



Brisbane Airport

Think of airports and Indonesia and many people think tourism and Bali. But this is a perception Brisbane Airport is working hard to change as opportunities open up across ASEAN for more than holiday travel.

Jim Parashos, Head of Aviation Business Development for the Brisbane Airport Corporation, says education, visiting friends and relatives, and high-value exports are all growth areas that airport managers across Australia can capitalise on.

Some 21,000 tonnes of goods were exported from Brisbane to the ASEAN region by air in 2017. Air freight volumes between Brisbane and specific countries showed remarkable growth: volumes to Indonesia grew by 20 per cent, the Philippines by 69 per cent, Thailand by 76 per cent and Vietnam by 85 per cent, the latter without a direct service.

While education, visits by family and friends, and tourism certainly have strong potential, Mr Parashos says for some

overseas travellers, barriers to entry to Australia remain high. “Not only do we have a \$60 passenger movement charge, but for some of these countries it can cost between \$120 to \$190 just to get a visa to come into Australia, let alone the cost of the airfare,” he says.

Reducing these barriers has been shown to work elsewhere. When Japan removed the need for a visa for Thai visitors, the number of inbound travellers rose 8 per cent, while seat capacity went up by 5 per cent.

“The challenge for us is how we engage with government agencies to demonstrate that putting additional air capacity into Brisbane or Sydney or Melbourne is not only about inbound tourism, but it’s about the student market, it’s about logistics and exports, it’s about visiting friends and relatives, aged care migration,” Mr Parashos says.

International Education: Gaining a competitive edge through quality experiences

International education is big business in Australia: in 2017, it delivered some \$32 billion to the economy. There were around 624,000 international students in Australia in 2017, around 100,000 of them from Southeast Asia.

The benefits go far beyond the financial. “The experiences of international students create long-term and powerful soft diplomatic ties with the rest of the world and provide a global perspective for our domestic students,” says Rod Jones, Chair of Study Perth.

“The cultural linkages, knowledge and exchange, and the development of relationships build our social capital and contribute to successful international business relationships in the future.”

“Education needs to be a partnership – it is not like trading bulk commodities. We need to create a more complicated and deep relationship that is a genuine partnership, or we won’t survive in the relationship.”

The Hon Bill Johnston MLA, Minister for Mines and Petroleum; Commerce and Industrial Relations; Electoral Affairs; Asian Engagement



Across ASEAN, the demand for education, both on and offshore, is growing for several reasons. A rise in productivity in the rural sector means workers are being released for other parts of the economy. Add to that the fact that populations are becoming increasingly urbanised, the middle class is growing at pace and average incomes are rising, and you have massive potential for providers willing to meet the demand for education and training.

The impact of these societal changes has been quantified in analysis by Deloitte Access Economics, which showed that with every 1 per cent increase in GDP per capita, participation in higher education rises by 1.1 per cent.

Australia is ideally placed to take advantage of this transformation. Its proximity to the ASEAN nations gives it the edge over competitors in the U.S. and U.K., while the teaching of the soft skills that ASEAN employers seek is already embedded in the Australian education system.

Dr Robynne Walsh, Principal, Phoenix Academy, says those skills – often described as emotional intelligence – are more important in business than technical knowledge. “It’s about people, connectivity, dynamism,” she says. “These skills are qualities that are not defined by your IQ.”

But it will not be enough for Australia to simply offer a standard option to ASEAN students. Understanding the specific needs of different nations, and aligning the education offering with the strategic priorities of key industries and growth sectors, will be vital.

Building relationships needs to be at the core of developing knowledge economies and education-based partnerships. “Education needs to be a partnership – it is not like trading bulk commodities. We need to create a more complicated and deep relationship that is a genuine partnership, or we won’t survive in the relationship,” says Bill Johnston, WA Minister for Asian Engagement.

The education sector will need to take advantage of alumni returning to their home countries after study in Australia, who can act as great advocates for the Australian education system. Engaging the Asian diaspora within Australia will also be important. With nearly one million residents of Southeast Asian ancestry, Australia has a natural asset.

There is also a great opportunity for Australian education providers to enhance the employability of ASEAN students by offering immersive experiences such as internships, professional placements, homestays and semester-abroad programs.





Resources

Country Starter Packs

Asialink Business has produced Country Starter Packs for each of the key ASEAN markets. The Country Starter Packs are comprehensive guides that help Australian businesses looking to establish or expand their operations in Asia.

Download the free guides at: asialinkbusiness.com.au

ASEAN Now Report

Asialink Business proudly supported Austrade, the Department of Foreign Affairs and Trade and the Department of Prime Minister and Cabinet with the launch of ASEAN Now: Insights for Australian Business, which provides an overview of Australia's trade and investment relationship with ASEAN.

Download the report at: <http://dfat.gov.au/about-us/publications/Pages/asean-now-insights-for-australian-business.aspx>

Australian Business in ASEAN Survey 2018

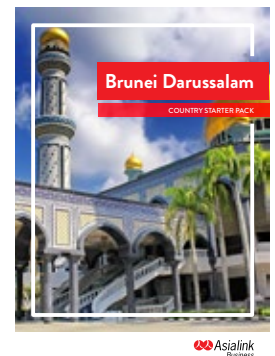
Austcham ASEAN has surveyed Australian businesses in ASEAN about their growth prospects. The survey finds that Australian businesses continue to make a strong economic contribution across ASEAN and are generally positive about their ability to prosper in the region.

Download the report at: <http://austchamasean.com/news/>

Sunrise Industries report

A study from CSIRO's Data61 has identified the top seven emerging industries within ASEAN and neighbouring nations that will fuel future regional growth, international collaboration and job creation.

Download the report at: www.data61.csiro.au



Engage with us

Asialink Business is the market leader in providing practical assistance to organisations seeking to enter, grow and deepen their business with Asia.

Working across all sectors of the economy, we design and deliver impactful solutions tailored to our clients' niche Asian growth needs. Our expertise covers all Asian economies, and includes extensive experience in assisting organisations expand into ASEAN's diverse markets.

With national representation across Australia, Asialink Business has a highly-skilled team of Asian market and sector specialists, business practitioners, market intelligence professionals and capability development specialists.

Our commercially focused solutions enable our clients and partners to optimise their business with Asia, by accessing customised insights, skills and networks, including:

- Country, market and industry-specific insights and research
- Market development planning and opportunity assessments
- Cultural intelligence, negotiation skills and relationship-building to drive business outcomes
- Executive and leadership training
- Business thought leadership
- Asian stakeholder engagement, business facilitation and events

For more information visit asialinkbusiness.com.au. Start growing your business with ASEAN today.

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