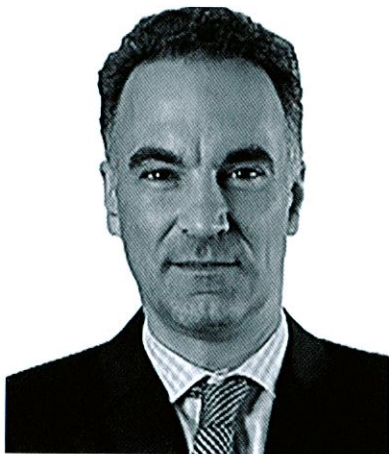


INVESTING IN AN INTEGRATED ASEAN

Australia's role in Asia



L-Martin Desautels

L-Martin Desautels is Managing Partner at DFDL. As head of DFDL's Banking & Finance practice group, Martin's practice focuses on counselling a diversified group of foreign investors on their investments in ASEAN. He has also advised various governmental entities under technical assistance projects on the development of investment, regulatory and legal frameworks.



Chris Robinson

Chris is a Senior Adviser at DFDL. Chris is recognised as a leading lawyer by IFLR100 and AsiaLaw. His practice focuses on M&A, private equity, capital markets, FDI, governance and corporate advisory matters. Chris also serves as a board member of AusCham Cambodia. Before relocating to Asia in 2008, Chris was the General Counsel of McMillan Shakespeare Limited.

In 2012, the Australian Government issued a comprehensive report seeking to define and guide Australia's role in 'The Asian Century', which tacitly acknowledged that Australia needed to engage more deeply with Asia to take full advantage of the immense growth opportunities.

Despite periods of engagement in the late 1970s and early 1990s, Australian investment flows have largely ignored Asia, as Australian business has looked instead to more culturally aligned markets, such as the UK, USA, Canada and New Zealand, for expansion. While Australian corporations have started to pursue more opportunities in Asia since the turn of the century, outside of Hong Kong and Singapore, the focus has gravitated towards China rather than Asia generally. Ironically, Australian corporations have appeared to have been among the least interested in the profound economic transformations occurring so close to home.

The Association of Southeast Asian Nations (ASEAN) was formed in 1967 by Indonesia, Malaysia, the Philippines, Singapore, and Thailand to promote political and economic cooperation and regional stability. According to the ASEAN Secretariat, at the end of 2012, total Australian foreign direct investment (FDI) into ASEAN totalled USD1.8 billion (representing a mere 1.6% of ASEAN total inbound foreign direct investment). As a result, outside of the mining sector and notable success stories, such as ANZ Bank, the influence of Australian business and financial institutions in ASEAN remains relatively low and nowhere near the level needed for Australia to become a long-term competitive force in the region.

In contrast, the US invested USD11.1 billion in ASEAN in 2012, more than its investment into China, India, South Korea, Hong Kong and Taiwan combined. According to Japan's Ministry of Economy, Trade and Industry, Japan invested USD20.8 billion in ASEAN in 2012, principally directed at long-term strategic infrastructure projects, manufacturing, banking and logistics. Chinese enterprises also continue to invest heavily in energy and power projects in the Lao PDR, Myanmar, Vietnam and Cambodia, as China seeks to secure its energy supply lines.

In the past, there appears to have been some reticence on the part of Australian business to invest in ASEAN due to perceptions of expropriation risk, low profitability, restrictions

on profit repatriation and deficiencies in the rule of law. The exponential increase in investment into ASEAN in recent years, as depicted in Figure 1, illustrates the risk for Australian business in not challenging these persistent views.

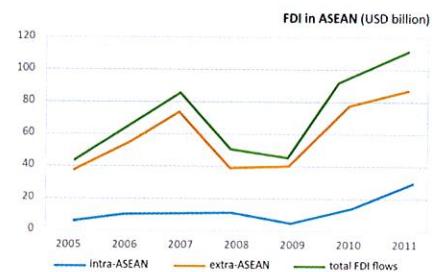


Figure 1: FDI Flow in ASEAN – Significant Growth Story

For many Australian corporations, concentrating investment activities in Australia will continue to be the most appropriate strategy. For many others, ASEAN is one destination that now warrants far greater attention.

ASEAN – The Third Pillar of Asia

ASEAN has one of the world's most dynamic economies. In a world beset by anaemic economic growth and growing debt levels, the ASEAN economies have averaged real annual GDP growth of approximately 6% over the past 15 years. If ASEAN were a single country, it would rank as the world's seventh largest economy – ahead of India – with a combined GDP of USD2.4 trillion in 2013, expected to rise to USD3 trillion in 2015. Collective government debt is less than 50% of GDP, which is considerably lower than any advanced Western economy.

Investing in ASEAN is increasingly seen as an attractive alternative or counterbalance to investing in other parts of Asia, particularly China, where labour and production costs are rising significantly and economic growth is slowing.

Demographics also play a key role in ASEAN's growth prospects. ASEAN countries have a combined population of around 630 million and a median age of only 28. This dynamic demographic not only drives an increasingly productive and affordable workforce but also creates increased domestic demand for goods and services as previously rural populations urbanise and become more prosperous. According to Nielsen, the region currently