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Asean could be Australia's next growth frontier

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RECENTLY, Australia brought its largest ever overseas delegation of businesses to Jakarta as part of the Indonesia-Australia Business Week. It is the latest in a series of actions that seek to build closer economic and political linkages between Australia and South-east Asia. 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.

So this begs the question: Are Australian companies taking advantage of this opportunity? The short answer is no, although there are encouraging signs of progress. While there are leading Australian companies such as 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 invest almost 60 per cent more in New Zealand than they do in Asean, despite the New Zealand economy being less than one-tenth the size of Asean.

Six trends will shape the future direction of Asean and could provide large potential opportunities for Australian businesses. The first is urbanisation. The McKinsey Global Institute forecasts that more than 90 million people will move to urban areas in Asean by 2030. As the region continues to urbanise 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 people 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 US$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 per cent annually. Today, Asean represents the second-largest market of Facebook users (behind the US), 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 this innovation pipeline, Telstra has recently launched an accelerator programme for technology startups in South-east 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 labour 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 financial sector is moving at a slower pace towards integration, but Australian banks such as ANZ are nonetheless becoming increasingly active in the region.

The sixth area relates to the changing competitive landscape. South-east Asia has the highest proportion of family-owned businesses among large companies of anywhere in the world. Some 80-90 per cent of businesses with over US$1 billion revenue in South-east 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.

The world has only glimpsed a portion of Asean's collective potential. While Asean is not without its risks, a greater risk for Australian companies could be having a ringside seat on a major economic transformation without being at the heart of the changes.

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