



AUSTRALIA'S
INTERNATIONAL
BUSINESS
SURVEY 2015

AIBS 2015
SUMMARY REPORT

EXECUTIVE SUMMARY

This report provides an overview of some of the key findings from Australia's International Business Survey 2015 (AIBS 2015).

- AIBS 2015 is the successor to AIBS 2014 and is one of Australia's largest and most in-depth surveys of internationally-active businesses (IBs).
- AIBS 2015 reports on the views of 1,237 Australian IBs drawn from 19 industry sectors (and 93 sub-sectors) and operating across 114 international markets.
- Survey participants are involved in a broad range of international activities including exporting, importing, receiving and making international investments, undertaking international research and development (R&D) activities and offshore manufacturing.
- They earn international revenues from selling a mix of goods, services and intellectual property and access overseas markets using a range of methods including through direct sales and via the presence of foreign affiliates and joint ventures.
- Key target markets identified for the next two years include the United States, China, Indonesia, the United Kingdom and India. The presence of strong future growth prospects is the most important factor determining market attractiveness.
- According to survey participants, visiting overseas customers in person is the single most important market development activity conducted by IBs. Expanding a firm's international sales and marketing team, overseas promotion campaigns and international trade shows also make important contributions. Respondents are more conservative in their use of digital marketing and e-commerce, however.
- A relatively large proportion of survey participants have made use of the export market development grant (EMDG) scheme and the vast majority of recipients judge that it made an important contribution to their international marketing efforts.
- Many IBs say that they are uncertain about how and whether Australia's Free Trade Agreements (FTAs) apply to their business and a smaller number are unaware of the existence of some agreements altogether.
- Consistent with the findings of AIBS 2014, respondents identified information barriers in the form of local language, culture and/or business practices as the most important barrier in those overseas markets they considered both the most important and the most difficult.

- Survey participants overwhelmingly rely on retained earnings to finance international business. Where IBs have sought additional funding from a financial institution, around a third failed. For small IBs, the share of failed funding attempts rose to 46 per cent. Security issues are cited as the single most common reason for failing to clinch funding.
- Almost half of all respondents found borrowing harder for international business opportunities than for domestic opportunities; just six per cent found it easier.
- The single most important Australia-based factor identified by participants as limiting their ability to take advantage of international opportunities is the level of the Australian dollar.
- Survey participants are generally more optimistic about the current year than they were about 2014, with the weaker dollar the main explanation for this optimism.
- A more complete analysis of all the results along with a detailed description of the sample and the methodology is provided in the full report, produced by the University of Sydney and available from the websites of the partner organisations.



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UNDERSTANDING TRADE AND FOREIGN INVESTMENT REQUIRES UNDERSTANDING INTERNATIONAL BUSINESSES

Australia is in the midst of a major economic transition. For much of the past decade, our economic trajectory reflected a familiar narrative: rising commodity prices and soaring terms of trade driven by booming international demand for resources powered in turn by a rapidly industrialising and urbanising Chinese economy. As a result, the Australian dollar appreciated, producing significant increases in both our nominal trade-weighted and real exchange rates and delivering a sizeable adjustment in relative international competitiveness. These developments transformed Australia's international trade and investment profile, with a dramatic shift both in the direction of Australian trade, as seen in the rise of China to be our largest trading partner, and in the composition of that trade, in the form of a substantial increase in the share of mineral resources in total exports. The pattern of foreign direct investment into Australia adjusted too, with a rise in the share of foreign capital flowing into the mining sector in order to help fund the resource investment boom.

Now, however, the commodity cycle has turned, Chinese growth has slowed, the terms of trade are falling, nominal and real exchange rates have weakened and the mining investment boom is ending.

As the economy adjusts to this new environment, Australia's trade and investment profile is changing too. But while much of the focus on the adjustment story to date has been on the macro drivers – movements in the value of the Australian dollar, falls in commodity prices, swings in the trade balance and shifts in capital flows – these adjustments, and the subsequent trade and investment outcomes they produce, will all play out at the level of individual Australian businesses. In order to better understand how Australia's international economic engagement will fare in these changing times, we also need to understand how the businesses that drive that engagement are travelling.

AIBS 2015 DELIVERS A DETAILED PROFILE OF AUSTRALIA'S INTERNATIONALLY-ACTIVE BUSINESSES (IBs)

Australia's International Business Survey (AIBS) offers an important source of insight into the profile and activities of Australia's internationally-active businesses (IBs).

Supported by Austrade, Efic and the Export Council of Australia and conducted by the University of Sydney, AIBS is one of Australia's largest and most in-depth surveys of Australia's IBs. The results from the inaugural survey in the series, AIBS 2014, which were released last year, represented some of the most extensive research of their kind that had been undertaken for more than a decade. AIBS 2015 is the second in this series and builds upon AIBS 2014 to deepen our understanding of Australia's international business engagement.

Survey work for AIBS 2015 was conducted between October and December 2014 and captures the responses of 1,237 Australian companies involved in international business. Respondents are drawn from 19 industry sectors (and 93 sub-sectors) and operate in 114 markets across the globe. Thirty-one per cent of respondents are from the manufacturing sector, which is the single largest source of survey participants, while around half of respondents are drawn from a range of services sectors. More than 50 per cent of participants are small and medium-sized businesses (earning between \$250,000 and \$50 million in international revenues over the past financial year); and more than 60 per cent are small and medium-sized enterprises by employment size, with between five and 200 employees. More comprehensive information about respondents is set out in the main survey report produced by the University of Sydney.

AIBS 2015 also provides detailed information about key markets and key sectors. Again, a comprehensive analysis is provided in the full report, but this summary report includes boxed examples looking at the two largest overseas markets for survey participants (the United States and China) and at the two sectors that supplied the greatest share of respondents (manufacturing and professional, scientific and technical services).



WHO RESPONDED? 1237 BUSINESSES.

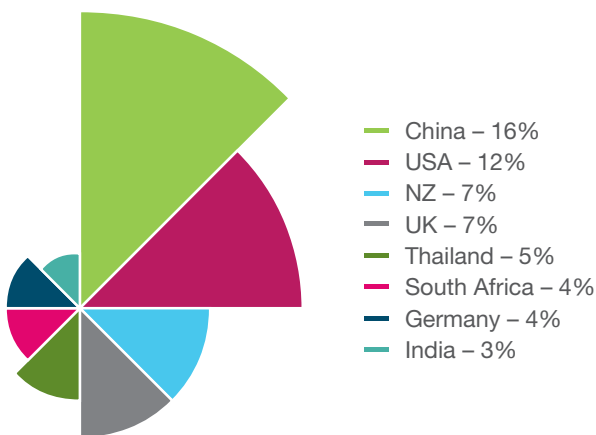
WHAT IS THE MAIN BUSINESS OF YOUR COMPANY?



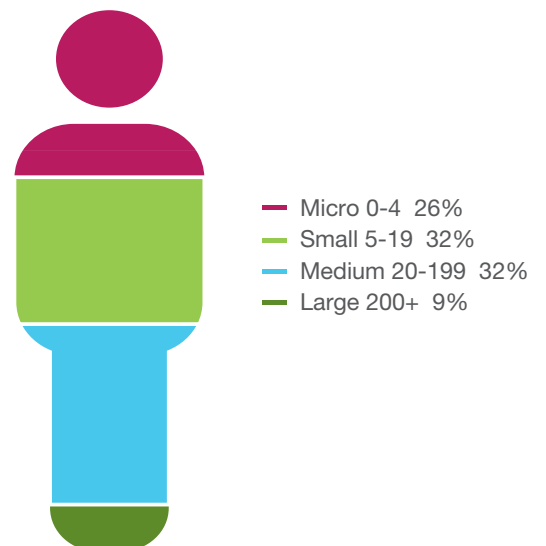
DOES YOUR COMPANY HAVE FAMILY TIES WITH AN IMPORTANT COMPANY THAT YOU DO BUSINESS WITH?

YES 12%
NO 88%

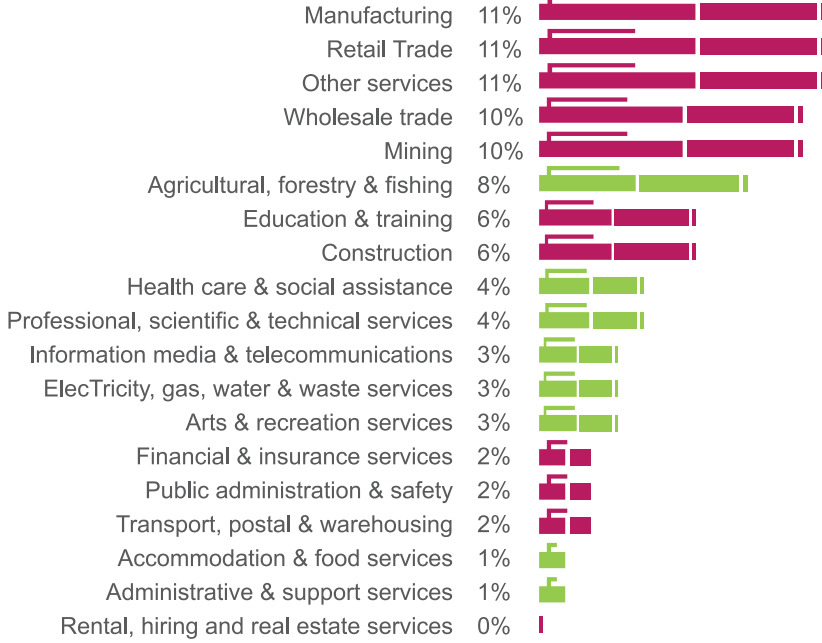
IF YES, WHICH COUNTRY IS IT?



HOW MANY EMPLOYEES DOES YOUR COMPANY HAVE?



IF YOUR COMPANY SELLS TO OTHER BUSINESSES,
IN WHICH SECTOR DO MOST OF YOUR BUYERS OPERATE?



WHAT IS THE OWNERSHIP
TYPE OF YOUR COMPANY?

1028

PRIVATE COMPANY

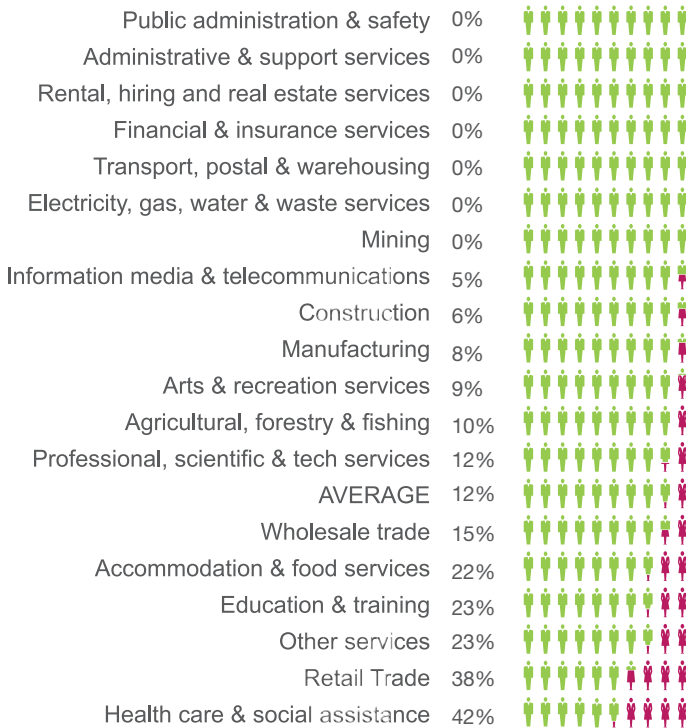
102

PUBLIC COMPANY

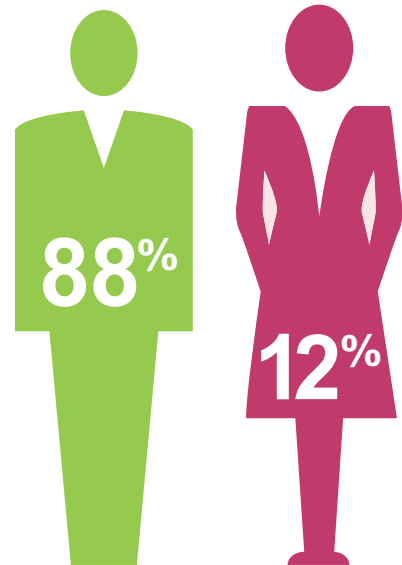
107

OTHER

HEAD OF COMPANY, GENDER BY SECTOR



WHAT GENDER IS THE HEAD
OF YOUR COMPANY?



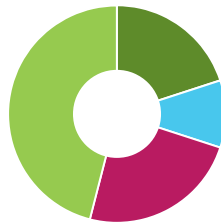
WHO RESPONDED? 1237 BUSINESSES.

WHAT PERCENTAGE OF YOUR COMPANY'S REVENUE WAS INTERNATIONAL IN THE LAST 12 MONTHS?



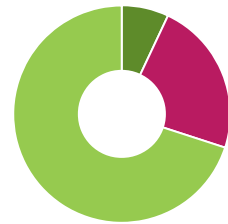
- <10% – 27%
- 10-25% – 21%
- 25-30% – 16%
- 50-75% – 14%
- 75-100% – 22%

HOW MANY YEARS HAS YOUR COMPANY BEEN EARNING INTERNATIONAL REVENUE?



- <2 years – 20%
- 3-4 years – 10%
- 5-10 years – 24%
- 10+ years – 46%

HOW MANY YEARS HAS YOUR COMPANY BEEN OPERATING?



- <3 years – 7%
- 3-10 years – 23%
- 10+ years – 70%

WHERE IS YOUR HEAD OFFICE?



- NSW 32%
- TAS 2%
- VIC 27%
- ACT 1%
- QLD 17%
- NT 0%
- WA 9%
- O/S 5%
- SA 6%

WHAT WAS YOUR COMPANY'S TOTAL REVENUE LAST FINANCIAL YEAR?



- >\$1M – 30%
- \$1-2M – 14%
- \$2-5M – 15%
- \$5-20M – 21%
- \$20-50M – 9%
- \$50-100M – 5%
- \$100M> – 8%

HOW LARGE WAS YOUR TOTAL INTERNATIONAL REVENUE LAST FINANCIAL YEAR?

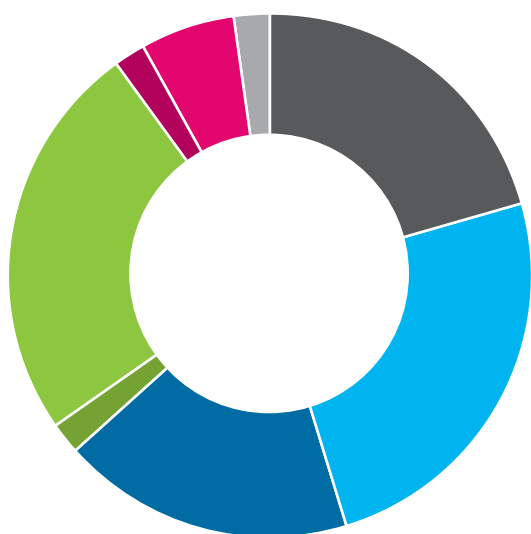


- >\$100,000 – 29%
- \$100,000-250,000 – 11%
- \$250,000-1M – 19%
- \$1-2M – 11%
- \$2-5M – 10%
- \$5-10M – 7%
- \$10-50M – 7%
- \$50M> – 4%

AUSTRALIAN IBs ENGAGE IN A RANGE OF COMPLEMENTARY CROSS-BORDER ACTIVITIES

AIBS 2015 confirms one of the key findings of AIBS 2014 in highlighting the way in which Australian IBs now participate in a diverse range of complementary cross-border activities. About 88 per cent of AIBS respondents are involved in exporting, 50 per cent in importing and 47 per cent are engaged in a range of other international activities. The latter includes 35 per cent of respondents involved in greenfield investment overseas and 22 per cent involved in offshore mergers and acquisitions (M&A); 37 per cent are undertaking research and development (R&D) activities overseas; 25 per cent are involved in the offshore manufacturing of products or components; 22 per cent are receiving investment from offshore; and 19 per cent are employing temporary skilled labour from overseas.¹

FIGURE 1. INTERNATIONAL BUSINESS ACTIVITIES



- Export, import and other international activities **21%**
- Export and import **25%**
- Export and other international activities **18%**
- Import and other international activities **2%**
- Export only **25%**
- Import only **2%**
- Other international activities only **6%**
- Others **2%**

These results also emphasise the fact that, instead of seeking to classify businesses as pure exporters, importers or investors involved in just one activity, it's more accurate to see Australian IBs as participating in a portfolio of international engagements. For example, only 25 per cent of AIBS 2015 respondents self-identify as 'pure' exporters engaging in no other international activities.

On the other hand, 25 per cent of respondents are engaged in both exporting and importing. Indeed, AIBS 2015 confirms that for many Australian IBs involved in importing, exporting is also a crucial activity. Thus more than three quarters (77 per cent) of those respondents involved in importing said that importing of material, parts or components that would be incorporated into products that would subsequently be exported is either moderately important or very important to their current business. Similarly, more than one third (36 per cent) reckon that the import of services or intellectual property (IP) to serve as inputs into future exports is either important or very important to their business.

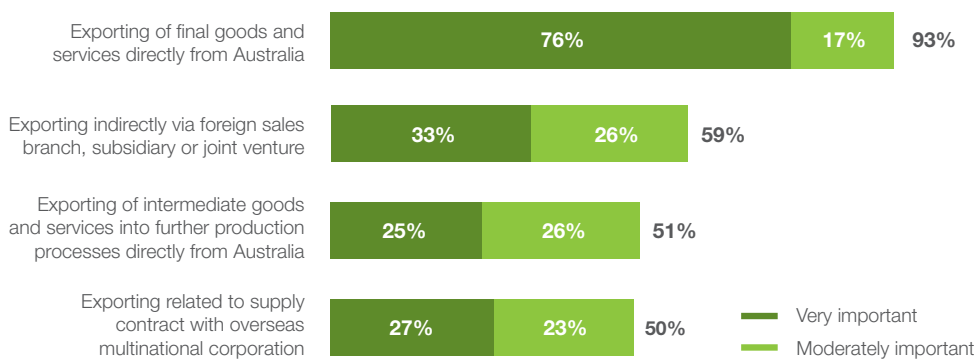
As well as exporting and importing, about 18 per cent of AIBS 2015 respondents are involved both in exporting and in other international activities such as outward and inward investment or overseas R&D, although not in importing, while 21 per cent are involved in exporting, importing and one or more of these other international activities. The remaining 12 per cent of respondents are not involved in exporting but are engaged in importing or some other international activity.

¹ Note that in cases where multiple responses were possible, as here, totals may sum to more than 100. More generally, even where multiple responses were not allowed, percentage shares in this report may not always sum exactly to 100 due to rounding.

This breadth of international engagement by IBs also applies to the way in which they conduct their exporting activities. For example, while 93 per cent of those firms involved in exporting said that the traditional approach of exporting final goods and services directly from Australia is either important or very important to their business, a clear majority (about 59 per cent) also said the same was true for exporting indirectly via foreign sales branches, subsidiaries and joint ventures. Participation in

global value chains and in relationships with major multinational corporations (MNCs) is likewise important for those IBs involved in exporting: about 50 per cent of these respondents said that exporting related to a supply contract with an overseas MNC is moderately important or very important to their business, while 51 per cent said the same about the export of intermediate goods and services into further production processes.

FIGURE 2. IMPORTANCE OF EXPORT ACTIVITIES



FOCUS ON MANUFACTURING

The manufacturing sector is the source of the most contributors to AIBS 2015 by industry, accounting for 31 per cent of respondents. Within manufacturing, the most common sub-sector is machinery and equipment, which accounts for just over one quarter of all manufacturing companies that participated in the survey, followed by food product manufacturing (15 per cent).

By market, the United States is the most important source of international revenue for AIBS 2015 manufacturing businesses (cited as such by 17 per cent of respondents), followed by New Zealand (ten per cent) and China (seven per cent).

Twenty-five per cent of manufacturing businesses nominated China as the most difficult country in which they do business from among their most important markets.

The top three future markets targeted by the industry over the next two years are China (nominated by 14 per cent of respondents), the United States (13 per cent) and the United Kingdom (six per cent).

The most commonly cited Australian-based factor restricting manufacturing firms from taking advantage of international opportunities is the current value of the Australian dollar, cited as either very important or moderately important by 94 per cent of respondents.

This was closely followed by costs of production, cited as important by about 93 per cent. Interestingly, while 64 per cent of respondents said the value of the dollar is very important in this regard, that is below the 72 per cent of respondents who said that costs of production are very important.

Transportation costs also continue to be significant factors for manufacturing businesses, with 86 per cent saying that the cost of transporting goods from Australia to overseas markets is an important impediment, and 76 per cent saying the same with regard to transport costs within Australia.

Sixty-eight per cent of manufacturing firms said that the overall outlook for their company's international operations is better in 2015 than it was in 2014. Only eight per cent think it is worse.

SERVICES MAKE AN IMPORTANT CONTRIBUTION TO AUSTRALIAN IBs INTERNATIONAL REVENUE

Another important finding of AIBS 2015 relates to the importance of the sale of services (and to a lesser extent, IP) for Australia's IBs. While on average across survey participants the majority of international revenue (about 55 per cent) is derived from the sale of goods, services revenues now account for about 35 per cent of the total and sales of IP for a further 11 per cent.

For those IBs involved in selling services, AIBS 2015 confirms that all four so-called modes of service supply are important, including sales through foreign affiliates. Thus for those survey participants involved in the sale of services, on average only just over one third (35 per cent) of their international services revenue is earned via the 'traditional' export route of sales made in Australia and then delivered to overseas markets. Roughly 29 per cent of revenue is derived from sales through a foreign sales branch or subsidiary, and more than one quarter (26 per cent) through temporarily sending an employee or contractor to an overseas market. The balance of services revenue, about 11 per cent, is derived from sales to overseas visitors present here in Australia.

Given the importance both of overseas investment and of sales made through an overseas presence such as foreign affiliates or joint ventures, AIBS 2015 also asked participants about the role played by barriers to offshore investment in these cases. Some 75 per cent of respondents cited difficulties in transferring payments or profits as either a moderately or a very important barrier to this kind of investment, followed by 71 per cent citing the impact of local taxation rates. Requirements to partner with a local firm or the presence of regulations and subsidies benefitting only local competitors were cited as important by 66 per cent of respondents, and access to finance by 62 per cent.

AUSTRALIAN IBs ARE TARGETING THE UNITED STATES AND CHINA, AND 'GOING FOR GROWTH'

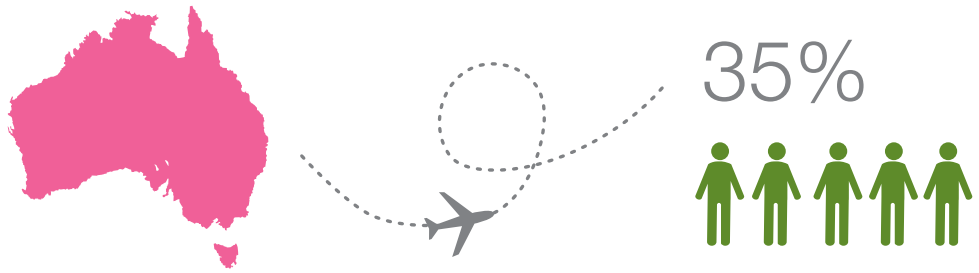
By far the majority of AIBS 2015 participants (83 per cent) are planning to expand to additional countries over the next two years. When respondents were asked which new country they expected to be the most important for them in terms of additional revenue, the top five target markets they identified are the United States (cited by 14 per cent of respondents), China (13 per cent), Indonesia (six per cent), the United Kingdom (five per cent) and India (also cited by five per cent of respondents).

The most important factor identified by survey respondents as determining their choice of future markets is the presence of strong growth prospects in these economies, which is cited by 95 per cent of respondents as either moderately or very important. This is closely followed by strong expected profitability (identified as important by 93 per cent) and the presence of personal networks and contacts (90 per cent).

FIGURE 3. INTERNATIONAL SERVICES REVENUE

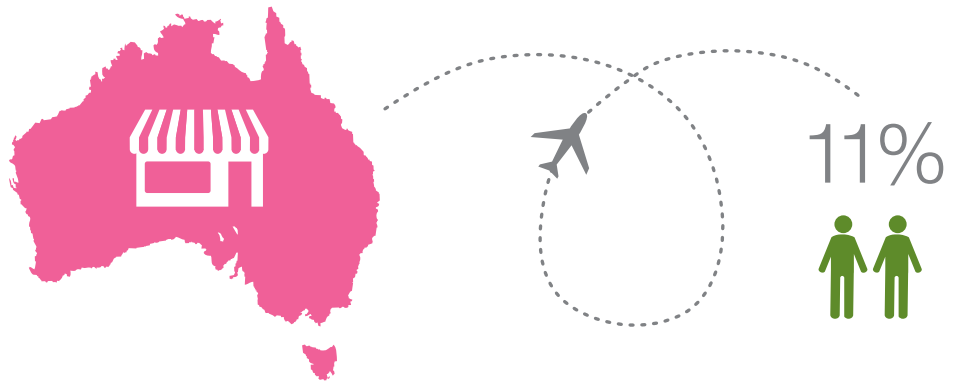
CROSS BORDER SUPPLY

Sales made from here in Australia then delivered to overseas markets



CONSUMPTION IN AUSTRALIA

Sales made by overseas visitors present here in Australia



COMMERCIAL PRESENCE IN COUNTRY OF EXPORT

Sales by a foreign sales branch, subsidiary or other overseas presence



SHORT-TERM LABOUR MOBILITY

The provision of services through temporarily sending an employee or contractor to an overseas market



FOCUS ON PROFESSIONAL, SCIENTIFIC AND TECHNICAL SERVICES

Firms from the professional, scientific and technical services sector are the second most represented group in AIBS 2015, accounting for 14 per cent of respondents. It is also the most represented services sector. Within this overall grouping, important sub-sectors include other professional and scientific services, which account for 31 per cent of all participants in this category, management and related consulting services (23 per cent) and architectural, engineering and technical services (18 per cent).

The three most important overseas markets for these services businesses are the United States (nominated by 13 per cent of respondents), China and the United Kingdom (both eight per cent).

China was identified as the most difficult country to do business in from among the sector's most important markets, cited as such by 26 per cent of respondents.

Top future markets targeted by this industry group over the next two years according to AIBS 2015 are the United States (chosen by 19 per cent of respondents), Indonesia (nine per cent) and China (seven per cent).

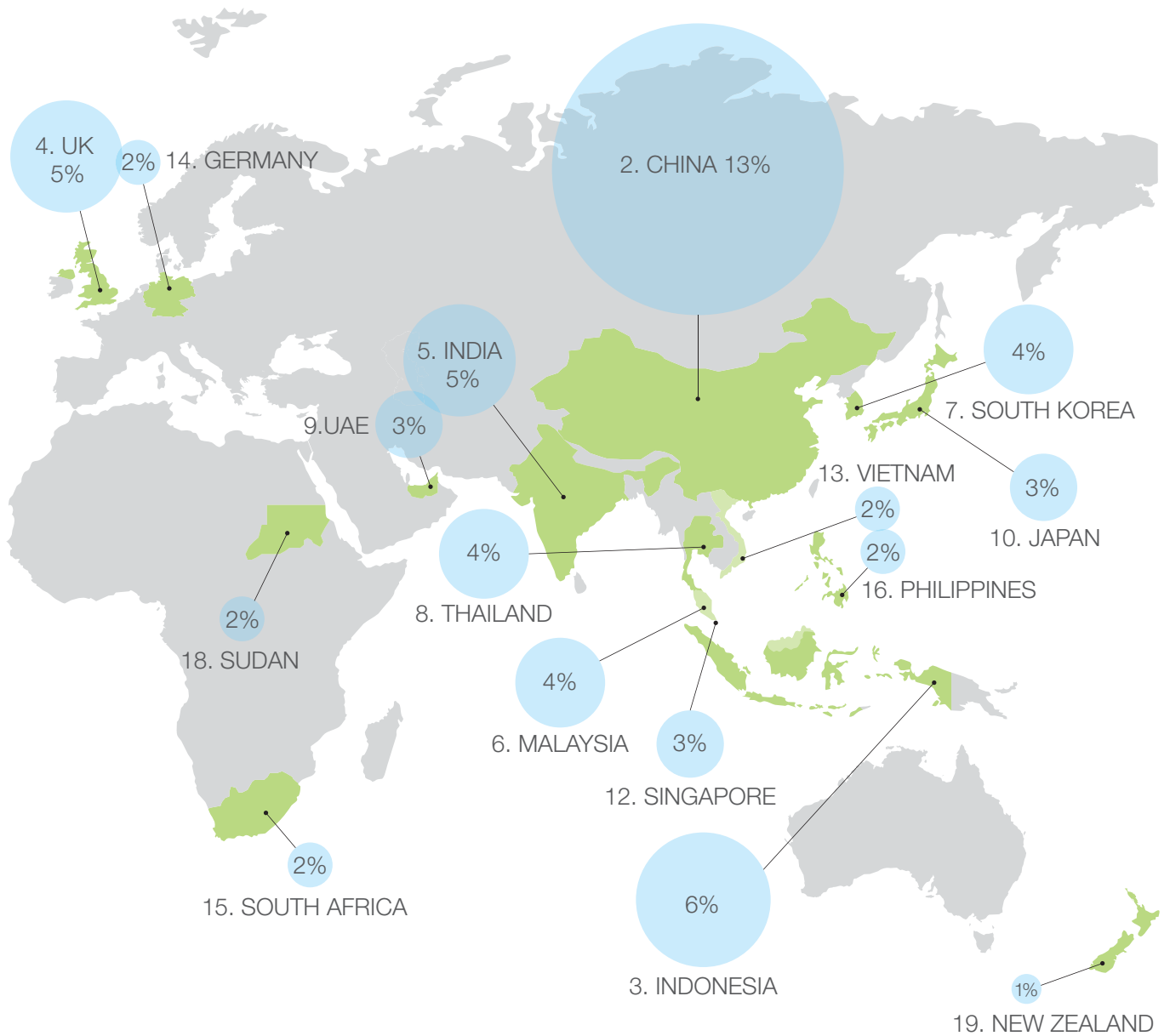
Seventy-four per cent of businesses in the professional, scientific and technical services sector cited the current value of the Australian dollar as either very important or moderately important in limiting their ability to take advantage of future business opportunities, although only 35 per cent said it was very important. The level of the dollar is followed by access to and/or the cost of R&D (58 per cent) and labour productivity (55 per cent). Unsurprisingly, transportation costs are much less important for these services businesses, with 72 per cent saying that transport costs within Australia are not important or not relevant, and 68 per cent saying that the same applies to the cost of transporting their product from Australia to their overseas markets.

This services sector is generally upbeat about the outlook for its international operations in 2015, with 74 per cent saying that it is better than it was in 2014 and just six per cent saying it looks worse.

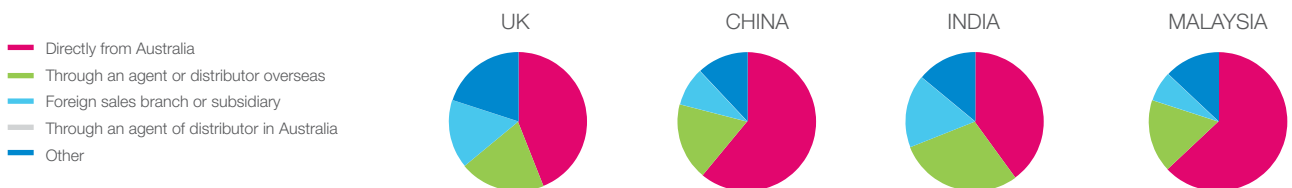


NEW TARGET MARKETS

Which new markets are expected to be the most important for respondents in terms of additional revenue over the next two years?



Main modes of servicing markets



Target markets by industry



	Agricultural, forestry and fishing
	1. China 2. USA 3. Vietnam
	Education and training
	1. China 2. Indonesia 3. Malaysia
	Processed food and beverage
	1. China 2. South Korea 3. UK
	Manufacturing
	1. China 2. USA 3. UK
	ICT
	1. USA 2. UK 3. Indonesia
	Agricultural equipment, technology and services
	1. China 2. USA 3. Thailand
	Mining equipment, technology and services
	1. Indonesia 2. USA 3. India
	Professional, scientific and technical services
	1. USA 2. Indonesia 3. China

SINGAPORE



JAPAN



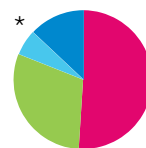
PNG



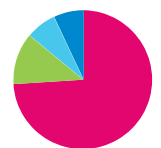
USA



INDONESIA



NEW ZEALAND



*Equal third with Joint Venture

FOCUS ON THE UNITED STATES

AIBS 2015 participants were asked to nominate their top two current overseas markets in terms of revenue earned. The United States is the market nominated by the greatest share of respondents, with around 27 per cent identifying it as their first or second most important market.

Businesses that nominated the United States as their most important market are also likely to identify the United Kingdom (about 27 per cent of the relevant respondents) or New Zealand (11 per cent) as their second most important source of overseas revenue.

The United States is also the market nominated by the most AIBS 2015 respondents (14 per cent) as the new export destination most likely to be their most important source of additional revenue over the next two years. Ninety-eight per cent of those IBs who nominated the United States in this way said that strong growth prospects are either very or moderately important in their decision to target the US market, and 97 per cent said the same about strong expected profitability. The presence of personal networks and contacts is cited as important by 91 per cent of respondents.

According to AIBS 2015, Australian IBs prefer to service the US market directly from Australia (53 per cent of respondents) while other popular choices include the use of overseas-based agents and distributors (17 per cent) and the establishment of a foreign sales branch or subsidiary (15 per cent). A small but still significant share of respondents also report using digital channels to tap the US market, with six per cent saying their main mode of servicing the United States is by online sales from their own website, although only one per cent nominated online sales from a third party web site.

About 20 per cent of respondents found doing business in the United States easier than doing

business in Australia and 41 per cent said that there was no difference. Only 39 per cent said it was more or much more difficult than operating in Australia.

Consistent with the overall findings of AIBS 2015 on market barriers, participants cited local language, cultural and business practices as the main barrier to doing business in the US market, although this only accounted for 14 per cent of respondents which is not far ahead of the 11 per cent of respondents who cited local regulations as their most important impediment.

Survey respondents were generally optimistic about the outlook for their operations in the United States, with about 76 per cent of respondents judging that it is better this year than it had been in 2014, compared to only five per cent who thought that the outlook was worse this year.

FIGURE 4. TOP 5 BARRIERS



FOCUS ON CHINA

China is the second most popular choice for AIBS 2015 respondents' top two current markets this year, nominated by around 20 per cent of participants. These same businesses are also likely to nominate either Japan (11 per cent) or Singapore (ten per cent) as their second most important international market.

Chosen by 13 per cent of respondents, China is also the second most popular country to be nominated by survey participants as likely to be their most important new market over the next two years. Strong growth prospects were again a key theme, with 98 per cent of respondents citing this factor as either moderately or very important in targeting the Chinese market. This was followed by strong expected profitability (94 per cent) and the presence of personal networks and contacts (92 per cent).

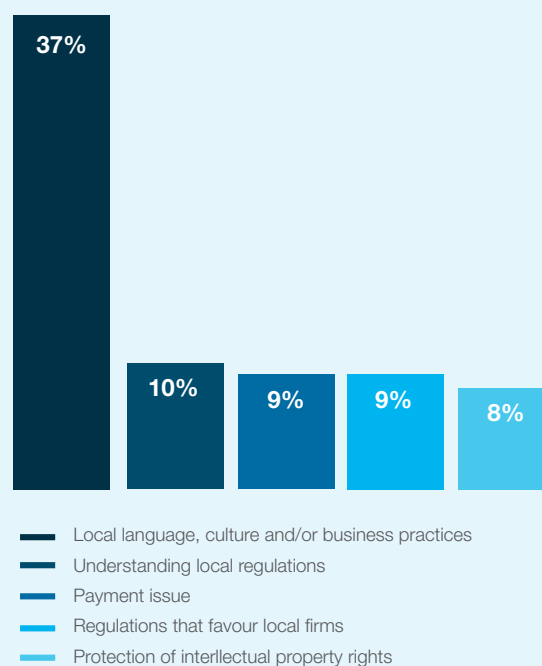
AIBS 2015 participants tend to service the China market directly from Australia (61 per cent of respondents) with other popular approaches including the use of an overseas agent or distributor (18 per cent) or a foreign sale branch or subsidiary (nine per cent).

Just ten per cent of AIBS 2015 respondents reported that they found doing business in China easier or much easier than Australia, and 20 per cent said there is little difference between operating in the two markets. In contrast, 70 per cent of respondents said that they found operating in China more difficult or much more difficult than operating in Australia.

Once again, survey participants identified local language, culture and business practices as the main barrier to doing business in China, with 37 per cent of respondents selecting this option. The second most commonly-identified barrier cited by respondents related to understanding local regulations (ten per cent).

Sixty per cent of respondents said that the overall outlook for their company's China operations is better this year than it had been in 2014. Only eight per cent thought that the outlook had worsened.

FIGURE 5. TOP 5 BARRIERS

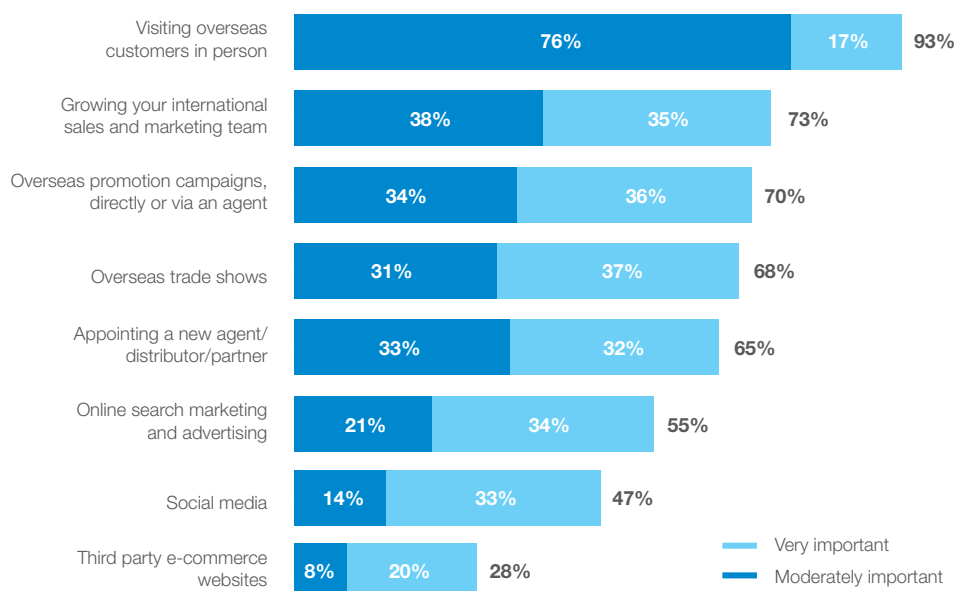


MARKET DEVELOPMENT IS SUPPORTED BY OVERSEAS VISITS AND BY THE EMDG SCHEME

AIBS 2015 also asked participants about how important various market development activities are in helping them to earn international revenue. By far the most important activity identified by respondents is visiting overseas customers in person, which is cited as very important by 76 per cent of respondents and moderately important by a further 17 per cent, giving a total of 93 per cent saying that it is important. This was followed by growing the international sales and marketing team (cited by 73 per cent as important, although only by 38 per cent as very important) and overseas promotion campaigns (cited by a total of 70 per cent as important, but only by 34 per cent as very important). Around 68 per cent of respondents said that overseas trade shows make either a very important or a moderately important contribution to earning international revenue.

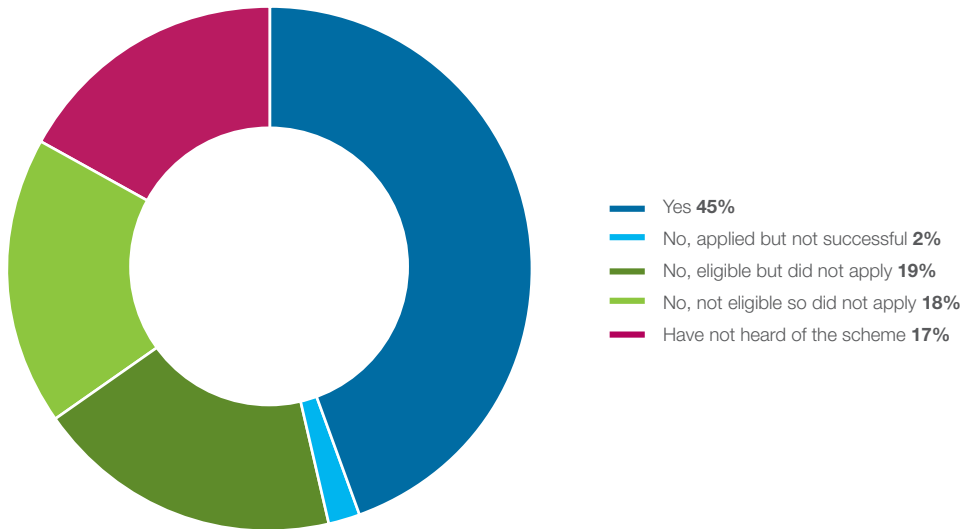
In contrast, a much smaller share of AIBS 2015 participants identified digital channels as important to their international revenue strategies. Fifty-five per cent said online search marketing and advertising are important to their business, for example, while only 47 per cent said the same about social media and just 28 per cent said third party e-commerce websites such as eBay and Alibaba are important. For this year's respondents, 'being there' in person continues to be a vital part of doing business overseas and the digital revolution remains a work in progress, although AIBS 2015 did find that exporters to English language markets in the United States and the United Kingdom make more use of digital channels.

FIGURE 6. MOST VALUED MARKET DEVELOPMENT ACTIVITIES



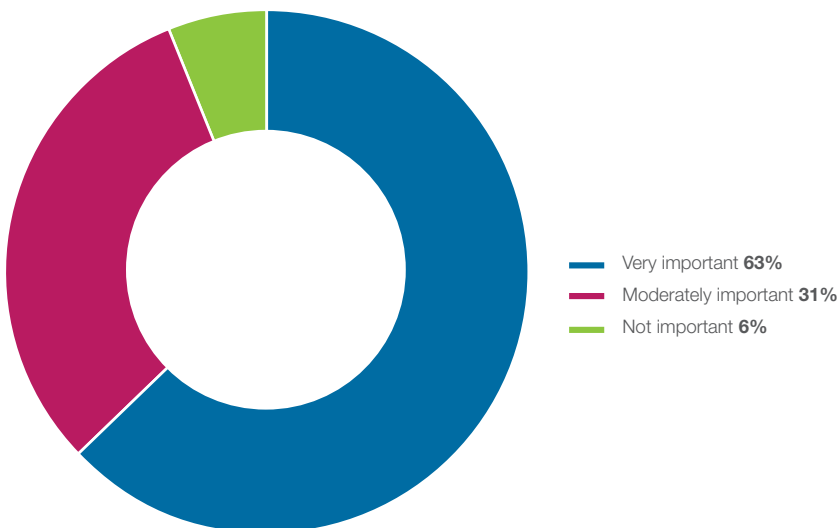
A relatively large number of AIBS 2015 participants (45 per cent) have received an export market development grant (EMDG) in the past, while a further two per cent have applied but not been successful.

FIGURE 7. RECEIVED EMDG



Of those businesses that have received a grant at some point, 63 per cent said that it was very important to their international marketing efforts and a further 31 per cent said that it was moderately important.

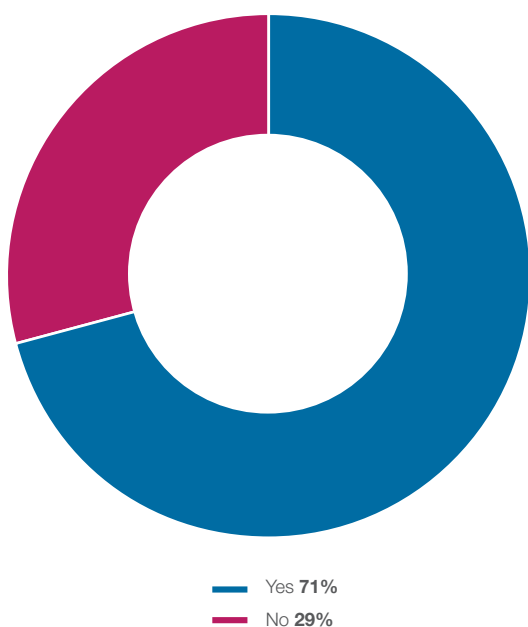
FIGURE 8. IMPORTANCE OF EMDG TO INTERNATIONAL MARKETING EFFORTS



FTAs ARE USEFUL FOR SOME IBs, BUT MANY BUSINESSES DON'T UNDERSTAND THEM

AIBS also asked participants about their understanding of those Free Trade Agreements (FTAs) that were in place at the time of the survey.² Roughly 71 per cent of respondents said that they exported to at least one market where an FTA was already in operation, but their detailed responses relating to individual agreements suggest that many IBs do not fully understand the agreements or how they apply to their business.

FIGURE 9. CURRENTLY EXPORTING TO AN FTA MARKET



In particular, for the seven trade agreements where AIBS 2015 asked a specific question, in no case did less than 40 per cent of respondents say they were uncertain about how and whether the relevant FTA would apply to their business, ranging from a low of 43 per cent in the case of the Malaysia-Australia FTA (MAFTA) to a high of 52 per cent in the case of the Australia-Chile FTA (ACIFTA). Taking into account the fact that a smaller but still significant share of respondents said that they did not know that the FTA in question even exists (ranging from nine per cent of respondents in the case of the ASEAN-Australia-New Zealand FTA (AANZFTA) to 18 per cent in the case of ACIFTA), the survey results suggest that knowledge gaps regarding Australia's existing portfolio of FTAs are significant.

On a more positive note, in most cases (the exception is ACIFTA) between a fifth and a quarter of respondents said they found an FTA useful in accessing the relevant market, with the highest result for the Australia-United States FTA (AUSFTA), with 26 per cent of respondents reporting that they found it helpful for accessing the US market.

Survey respondents were also asked if there were other markets where they thought it would be useful for Australia to have an FTA. Notably, three of the top four suggestions comprise the three Northeast Asian markets where agreements have either recently been signed or negotiations have been concluded, and negotiations are also underway with the other top four nominee, suggesting that current and proposed FTA coverage is in line with the interests of IBs. Thus China, selected by 34 per cent of respondents, was the most popular choice among respondents for a new FTA, followed by India (16 per cent) and then Japan and South Korea (both selected by seven per cent of respondents). Other markets nominated by survey participants for future FTAs include the EU (ranked in fifth spot with five per cent of respondents) and Brazil (also proposed by five per cent of participants).

2. Note that this ruled out questions on the Japan and Korean FTAs as well as the agreement with China which has yet to enter into force.

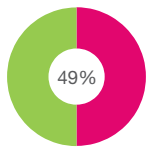
UNDERSTANDING OF EXISTING FTAs AND DEMAND FOR NEW FTAs

FIGURE 10. UNDERSTANDING OF EXISTING FTAs

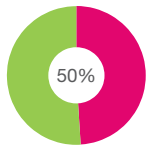
■ Uncertain about how and whether the FTA would apply to my business
■ Other



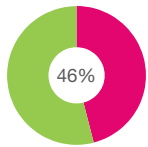
Chile (ACIFTA)



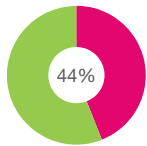
New Zealand (ANZCERTA)



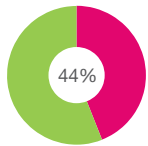
ASEAN and New Zealand (AANZFTA)



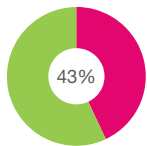
United States (AUSFTA)



Singapore (SAFTA)



Thailand (TAFTA)



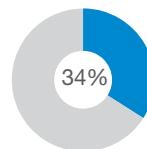
Malaysia (MAFTA)

Note: FTAs for China, Japan and Korea were not in force at the time of the survey.

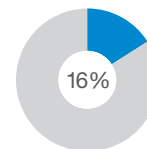
FIGURE 11. DEMAND FOR NEW FTAs

In addition to those countries listed, which other countries do you think it would be useful for Australia to have a Free Trade Agreement with?

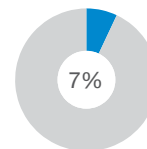
■ Useful
■ Market not nominated



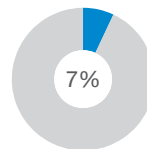
1. China



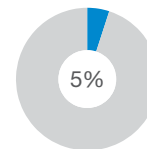
2. India



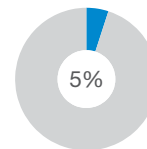
3. Japan



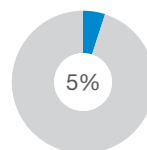
4. South Korea



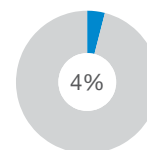
5. European Union



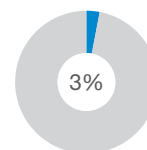
6. Brazil



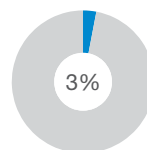
7. Indonesia



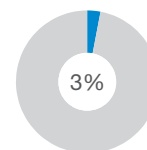
8. UK



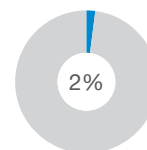
9. Canada



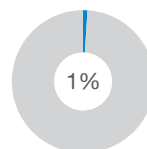
10. Russia



11. UAE



12. South Africa



13. Germany

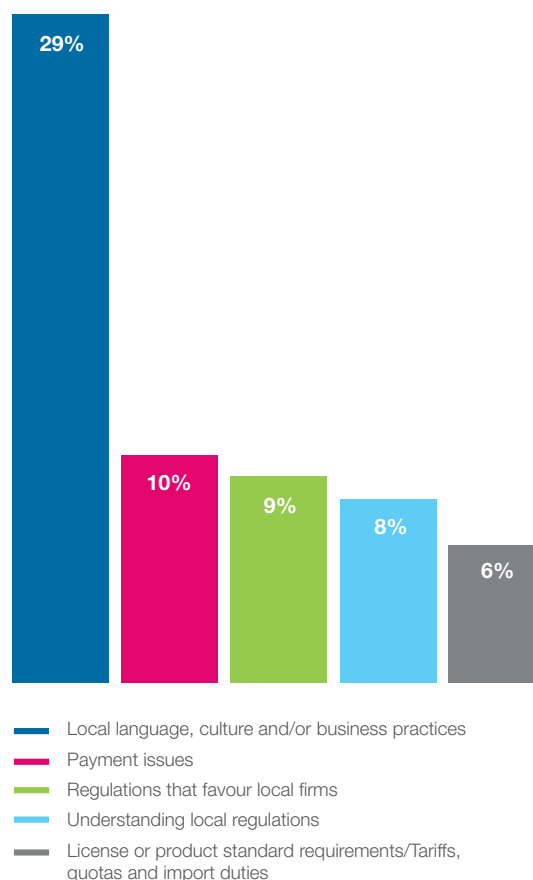
INFORMATION GAPS RELATED TO LOCAL CULTURE AND BUSINESS PRACTICES ARE MAJOR BARRIERS FOR IBs

Building on the work of the inaugural AIBS 2014, AIBS 2015 again sought to identify some of the important barriers facing Australian IBs in overseas markets.

To begin with, survey respondents were asked about the ease of doing business in their two most important revenue-generating markets benchmarked against the challenges involved in operating here in Australia. For the top ten markets identified by participants, the responses ranged from the 15 per cent of respondents who judge that doing business in New Zealand is either more difficult or much more difficult than doing business here in Australia and the 25 per cent of respondents who said the same about the United Kingdom, through the 39 per cent that applied the same judgement to the United States, and up to the 70 per cent for China and 73 per cent for India who report that those two markets are either more difficult or much more difficult to operate in than Australia.

Participants were also asked in more detail about the nature of specific barriers in those markets that they considered both their most important and their most difficult. Consistent with the findings of AIBS 2014, AIBS 2015 also finds that more respondents identify local language, culture and/or business practices than any other factor as the most important type of barrier across these markets, with 29 per cent of respondents selecting this as the most significant barrier they faced. The next most important barrier identified by AIBS 2015 is payment issues (selected by ten per cent of respondents) followed by regulations that favour local firms (nine per cent) and the difficulties posed by understanding local regulations (eight per cent).

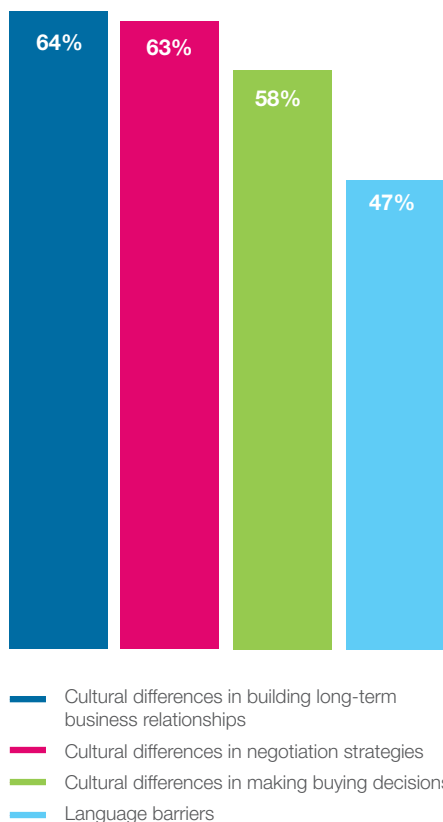
FIGURE 12. TOP 5 BARRIERS – ALL MARKETS



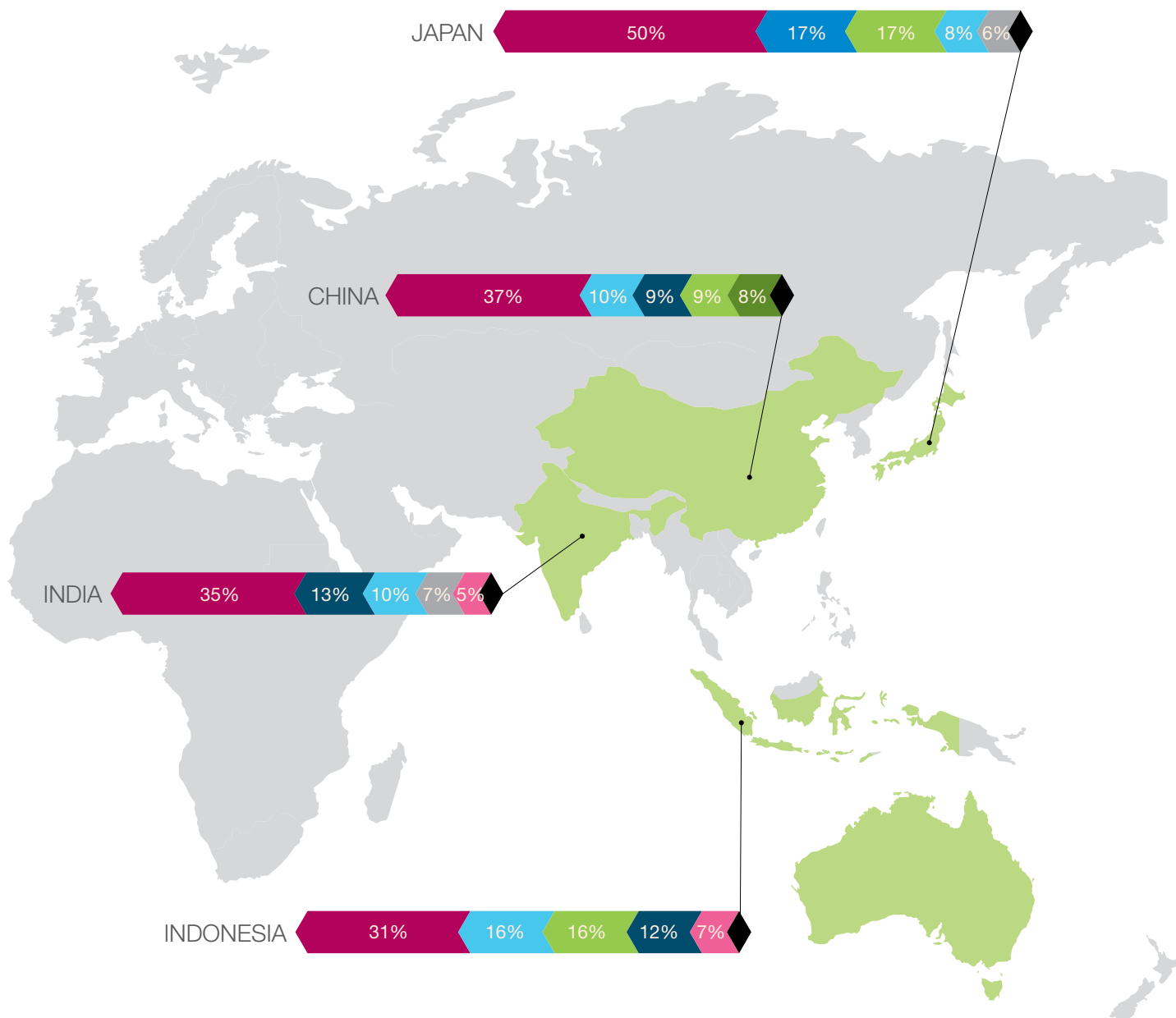
As well as these general findings, the survey results also point to some interesting differences across markets in the remaining categories, with payment issues identified as relatively more important in India and Indonesia, for example, licence and product standard requirements in Japan, and protection of IP rights in China. Additional details are available in the main report and its country annexes.

AIBS 2015 also sought to dig deeper into the specifics of each of the main barriers identified by respondents by asking about the relevant sub-categories in each case. For example, of those participants who cited language, cultural differences and business practices as the main barrier, more than 60 per cent went on to identify cultural differences in building long-term business relationships and cultural differences in negotiation strategies as very important, compared to more than 50 per cent who cited cultural differences in making buying decisions and the less than 50 per cent who identified language barriers as very important.

FIGURE 13. LOCAL LANGUAGE, CULTURE AND BUSINESS PRACTICE BARRIER - KEY FACTORS



BARRIERS FACED BY AUSTRALIAN BUSINESSES IN THEIR MOST DIFFICULT AND IMPORTANT MARKET



- Local language, culture and/or business practices
 - Payment issues
 - Regulations that favour local firms
- Understanding local regulations
 - License or product standard requirements
 - Protection of intellectual property rights
- Requirements to establish a local office or partner with a local firm
 - Access to finance
 - Tariffs, quotas and import duties

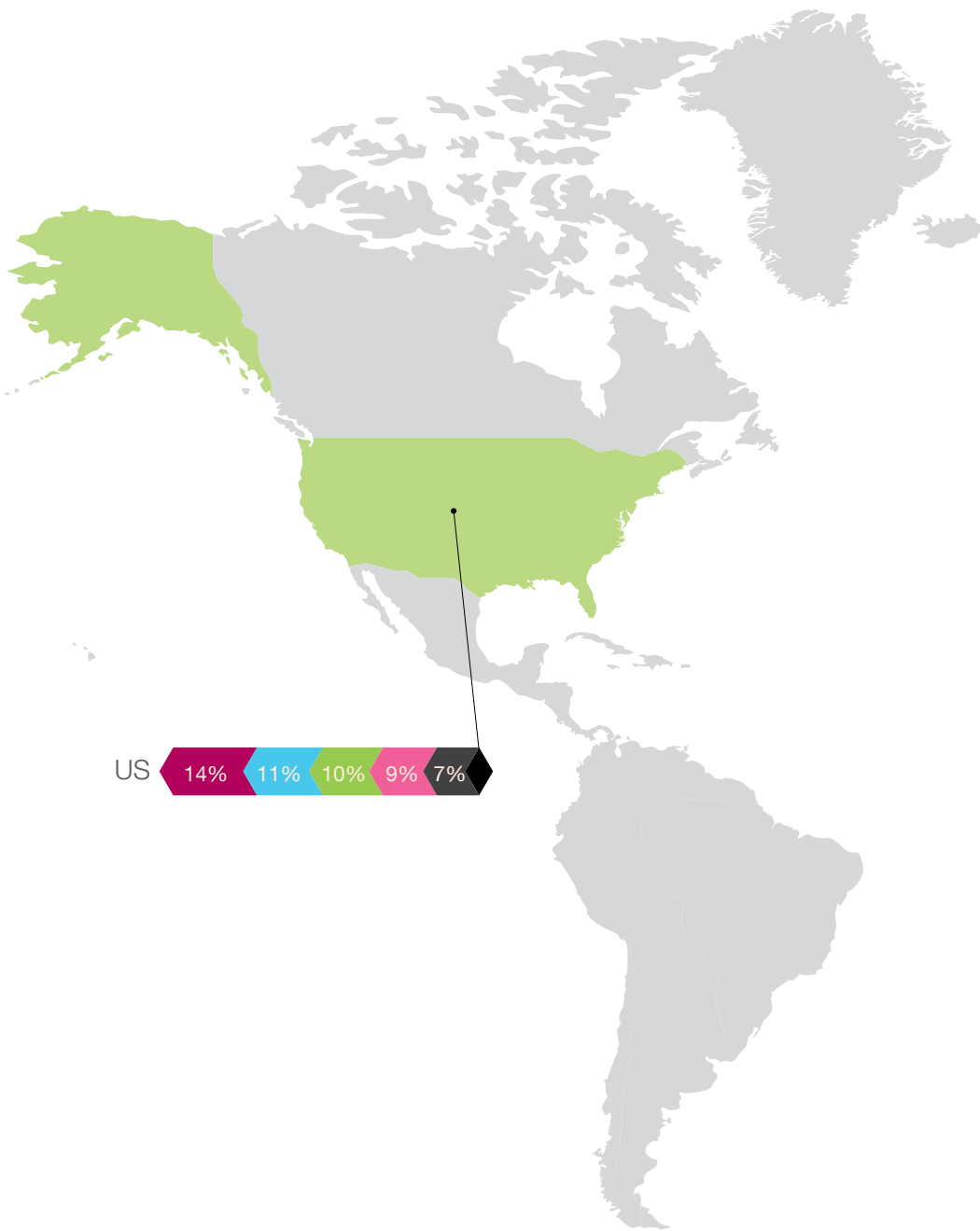
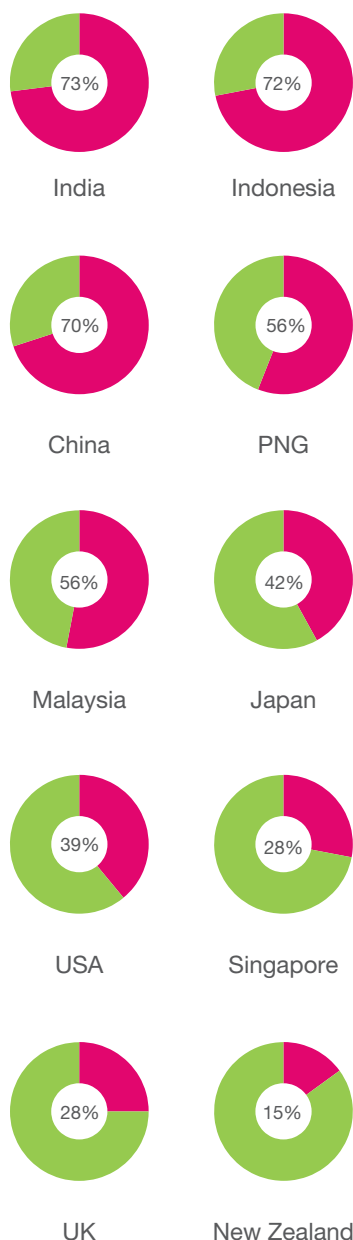


FIGURE 14. EASE OF DOING BUSINESS IN THEIR TWO MOST IMPORTANT MARKETS

— Harder than Australia
 — Same or easier than Australia



SMALL IBs ARE ESPECIALLY HANDICAPPED BY LACK OF FINANCE

According to AIBS 2015, Australian IBs overwhelmingly rely on retained earnings to finance activity in overseas markets. Eighty-six per cent of respondents cited retained earnings as an important source of finance for domestic operations that service export sales. This is more than twice the percentage of exporters who say domestic banks are important. Overseas banks are considered important by just ten per cent of exporters.

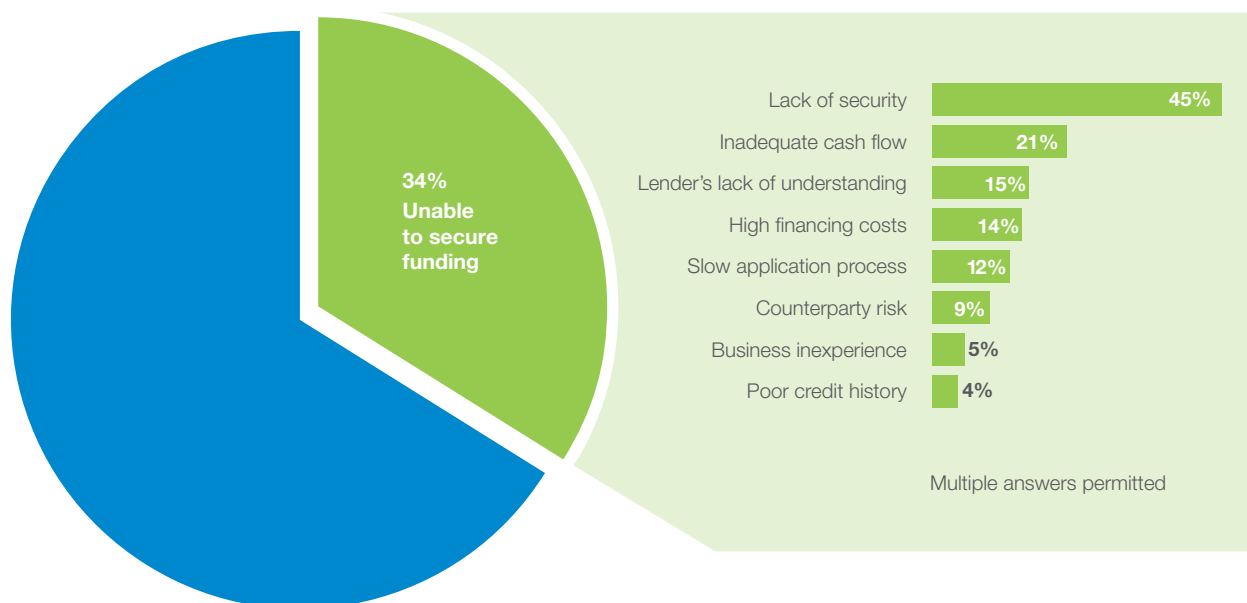
A third of respondents did seek additional funding from a financial institution in the last three years to expand their international business. But of these companies, 34 per cent failed in the attempt. For small IBs (those with turnover below \$1 million) the share of unsuccessful funding attempts rose to 46 per cent.

Unsuccessful funding attempts were more commonly due to the lender declining the applicant (66 per cent) rather than the applicant not proceeding with the lender. Overall, at 45 per cent, security issues were the single most common reason for failed funding attempts. This was followed by the lender declining the application due to inadequate cash flow (21 per cent) and the respondent withdrawing their application due to the lender's poor understanding of the transaction (15 per cent). In contrast, poor credit history and business inexperience were relatively minor factors.

Forty-five per cent of respondents found it harder to source debt finance for international business opportunities than for domestic opportunities, while just six per cent found it easier. The main reasons cited for this greater difficulty include: the lack of business size (28 per cent), unwillingness of bank to lend for overseas business (27 per cent), and lack of finances or security for loans (23 per cent).

These responses suggest that a large minority of exporters could do more international business if sufficient finance were forthcoming.

FIGURE 15. REASONS FOR UNSUCCESSFUL FUNDING ATTEMPTS



THE LEVEL OF THE EXCHANGE RATE IS CRITICAL FOR MOST IBs IN DETERMINING INTERNATIONAL OPPORTUNITIES

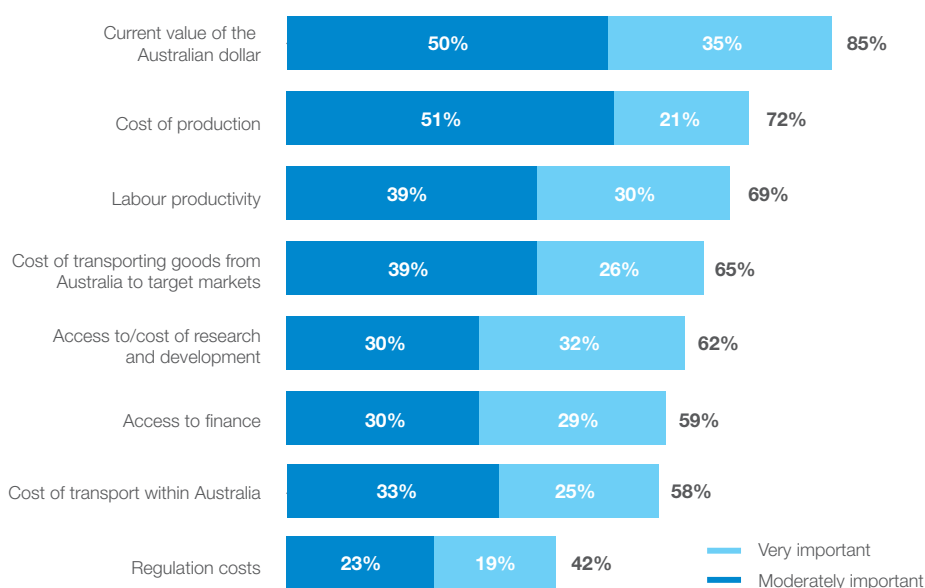
Along with barriers and challenges in overseas markets and factors relating specifically to finance, AIBS 2015 also asked businesses to report on the relative importance of other factors here in Australia that may be restricting their ability to take advantage of new business opportunities.

Unsurprisingly, the single most important of these Australia-based factor identified by participants is the level of the Australian dollar. Some 85 per cent of respondents identified the current value of the currency as either moderately or very important in this regard. This was followed by costs of production (identified by 72 per cent of respondents as important) and the level of labour productivity (69 per cent). Sixty-two per cent of respondents said access to and the cost of R&D is an important barrier, and 59 per cent said the same about access to finance. The factor that was ranked lowest overall was regulation costs, which is seen as an important barrier by 'only' 42 per cent of respondents, although even then, 23 per cent still feel that it is a very important impediment.

Interestingly, respondents also confirmed that distance is still not dead for many Australian IBs. Sixty-four per cent of respondents said that the cost of transporting their products from Australia to their target market is an important constraint while 58 per cent said the same about the costs of transportation within Australia.

Finally, the importance of the exchange rate is also confirmed in the questions AIBS 2015 asked about the overall outlook. Like their counterparts in AIBS 2014, participants in AIBS 2015 are relatively optimistic about the future, with 69 per cent of respondents judging that the overall outlook for their company's international operations this year is better than it was in 2014, while only eight per cent judge that it is worse. When asked to give the main reason for their optimism about this year, the most common explanation provided by respondents is the weakening of the Australian dollar.

FIGURE 16. RESTRICTIONS ON TAKING ADVANTAGE OF NEW INTERNATIONAL OPPORTUNITIES



ABOUT AUSTRALIA'S INTERNATIONAL BUSINESS SURVEY

Australia's International Business Survey 2015 is the follow-up to the inaugural survey of Australia's international businesses published in 2014. The findings of this report are distinctive and significant because they provide key insights into the nature, needs, concerns and future plans of the overall Australian international business community from the company perspective.

The report is based on a survey conducted in late 2014 which resulted in the collection of fully completed and validated responses from 1,237 companies involved in international business.

AIBS 2015 was commissioned by the Export Council of Australia (ECA), with the support of our partners, Austrade and Efic (Export Finance and Insurance Corporation), and was conducted by the University of Sydney (USYD).

AIBS 2015 PARTNERS

Export Council of Australia (ECA)

The Export Council of Australia (ECA) is the peak Industry body for the Australian export community. The ECA is the next exciting step in the evolution of the Australian Institute of Export (AIE) which, for over 50 years, has had the interests of Australian exporters at heart.

Owned by its members and steered by a Board and a Council of Industry specialists, the ECA is a not-for-profit organisation that has the development of Australia's resources via the promotion of Australian industry in international markets as its primary goal. The ECA represents all exporters: large, medium and small.

The ECA is the voice for Australia's exporters:

- Leading Trade Policy Research
- Developing International Trade Skills
- Breaking down Barriers to Trade
- Building Global Networks
- Amplifying Global Trade Success

Austrade

The Australian Trade Commission – Austrade – contributes to Australia’s economic prosperity by helping Australian businesses, education institutions, tourism operators, governments and citizens as they:

- develop international markets
- win productive foreign direct investment
- promote international education
- strengthen Australia’s tourism industry
- seek consular and passport services.

Austrade provides information and advice that can help you reduce the time, cost and risk of exporting. We also administer the Export Market Development Grant Scheme and offer a range of services to Australian exporters in growth and emerging markets.

Efic

When Efic helps you grow, it helps Australia grow.

Efic is committed to unlocking finance for export success.

Efic is a specialist financier that delivers simple and creative solutions for Australian companies – to enable them to win business, grow internationally and achieve export success.

As Australia’s export finance agency, Efic operates on a commercial basis to provide financial solutions for:

- Small and medium enterprises (SMEs) that are exporters
- Australian companies in an export supply chain
- Australian companies looking to expand their business operations overseas to better service their clients
- Australian companies operating in emerging and frontier markets.

Through its loans, guarantees, bonds and insurance products, Efic has helped many Australian exporters and subcontractors take advantage of new contract opportunities that may otherwise have been out of reach.

The University of Sydney

The University of Sydney, founded in 1850, is one of Australia’s leading research intensive universities. In the Business School, the International Business group carries out research in the areas of strategy, entrepreneurship and international business. In the Excellence in Research Australia (ERA) 2012 assessment the quality of research by its members was ranked as “well above world standard” - the highest possible level.

The members of the group teach into coursework programs at both undergraduate and post-graduate level, including the Master of International Business, Master of Management and Master of Business Administration. There is also an honours program and a significant number of PhD students.

The International Business group has an active research program, including research groups on entrepreneurship and innovation, and emerging markets. Research funding is sourced from the Australian Research Council and from industry partners such as Merck & Co. Inc, KPMG and the Export Council of Australia.

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