AUSTRALIAN CENTRE FOR INTERNATIONAL BUSINESS

INTERNATIONAL BUSINESS SURVEY

NUMBER 1 – JUNE 1999

INTERNATIONAL BUSINESS SURVEY

Number 1, JUNE 1999

Research Coordinators:

Professor Stephen Nicholas, University of Melbourne

Professor Sid Gray, University of New South Wales

Associate Professor William Purcell, University of New South Wales

with
Jascha Zimmermann
Survey Coordinator, University of Melbourne

AUSTRALIAN CENTRE FOR INTERNATIONAL BUSINESS

DEPARTMENT OF MANAGEMENT
UNIVERSITY OF MELBOURNE

AND

SCHOOL OF INTERNATIONAL BUSINESS
UNIVERSITY OF NEW SOUTH WALES

EXECUTIVE SUMMARY

The International Business Opinion Survey
The Australian Centre for International Business in cooperation with *The Australian* conducts six-monthly surveys of international business opinion.
The survey is completed by over 180 CEOs of the most important Australian and foreign – owned international firms in Australia.

The State of the International and Australian Economy
CEOs were ask to provide their assessment of the state of the international and Australian economy for the next six months, including growth prospects, competition and the openness of the international economy.

Investments, Exports and Investment Intentions
The Survey provides information on actual investment and exports over the past six months and forecast investments and exports for the next six months. The Survey also provides data on investment intentions.

Nine Regions
Detailed responses for nine regions are available for investments and exports, including SE Asia, North America and the European Union.

Benchmarking Against Competitors
The data in this Report on investment and export intentions allows your firm to assess your investment and export strategy against your competitors market-by-market.

Major Findings

- Recovery in the growth of the Asian economies predicted by CEOs.
- CEOs forecast more rapid growth in the global economy.
- CEOs confident in the continued growth of the Australian economy, with intense competition and a stronger dollar.
- Planned exports forecast to boom in the SE and N Asian markets.
- SE Asia rated as the region with the best investment opportunities, but CEOs' planned investments to the region lag opportunities.
- Australian CEOs share optimism about the rise of the Asian economies, but pessimistic about global growth.
- Planned investment in the Australian economy forecast to rise, contradicting the ABS deterioration in expected investment.

Centre's Mission Statement
The Australian Centre for International Business is a collaborative venture between the University of Melbourne and the University of New South Wales. Drawing on the strengths of two of Australia's leading universities, the Centre creates a leading international business research group in Australia.

The mission of the Centre is to conduct leading edge research in international business, educate future international business leaders and consult with business and government.

INTERNATIONAL BUSINESS OPINION SURVEY

INTRODUCTION

Surveys of CEOs Investment and Exports Forecasts
The Australian Centre for International Business conducts six-monthly surveys of international business opinion. Over 180 CEOs or chairs of Australia's largest foreign and Australian-owned international firms participate. The survey is confidential; participants are not revealed.

Actual and forecast investments, exports and investment opportunities are surveyed for the previous and for the next six months.

Benchmarking and Strategic Planning: ACIB's In-depth Analysis
The Survey allows your firm:

1. to benchmark your perceptions of the state of the global, Asian and Australian economies against other Australian-owned and foreign MNEs; and
2. to assess your actual past investments and exports and forecast investments and exports in 9 regions against those of other Australian-owned and foreign MNEs.

The ACIB provides an in-depth analysis of the investment and export data. The analysis covers 9 regional markets (including Australia, South-east Asia, North Asia, European Union and North America) for domestic and foreign owned firms; firms with and without Asian operations; large and small firms; and firms in different industry classifications (manufacturing and non-manufacturing).

***The Australian* and the Business Council of Australia**
The Australian exclusively reports the Survey of International Business Opinion in its business pages. The survey project has been endorsed by the Business Council of Australia.

ACCURACY OF THE FORECAST

Actual exports and investments in the June Survey corresponded closely with the planned exports and investments in the November 1998 Survey.

Investment	Nov 98	June 99
Overseas	16	14
SE Asia	4	-1
N. America	45	41
Europe	46	32

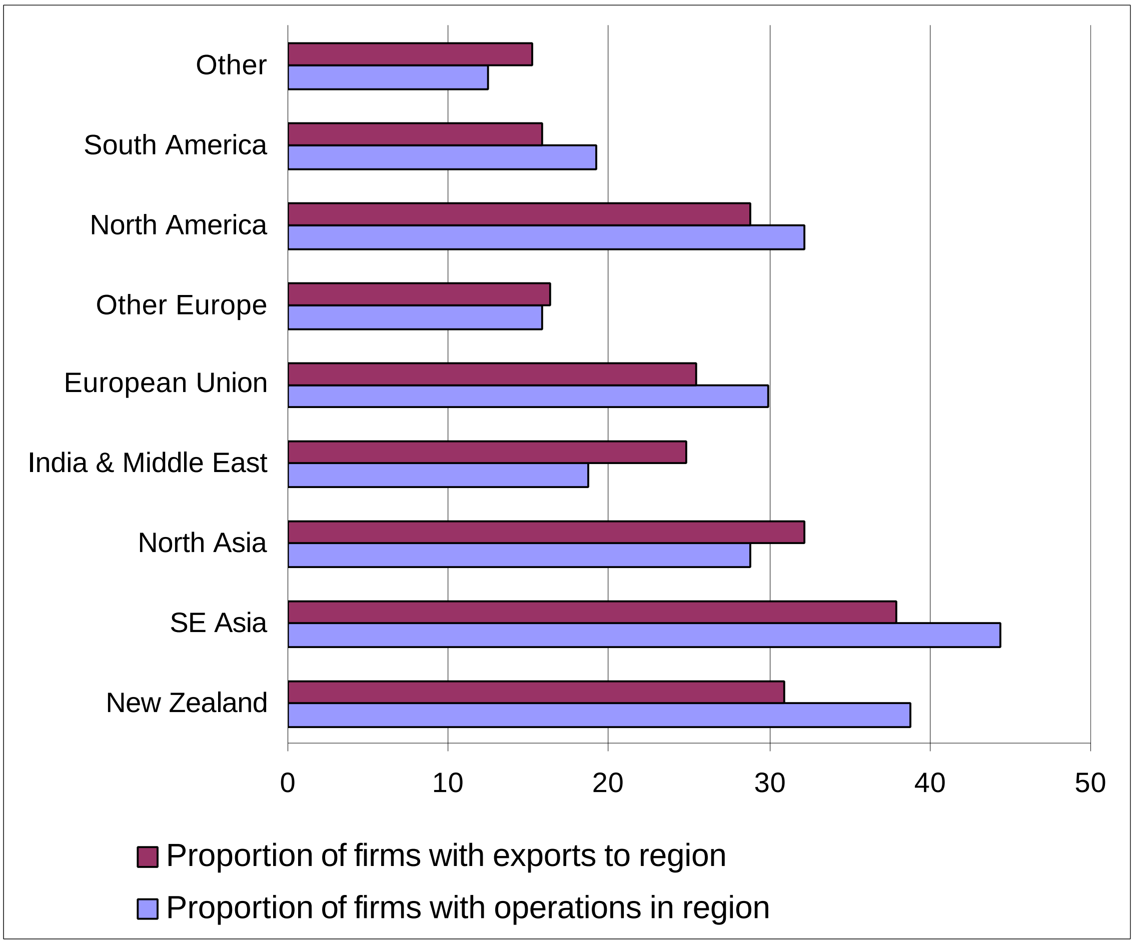
Exports	Nov 98	June 99
Overseas	14	5
SE Asia	-23	-25
N. America	42	47
Europe	49	23

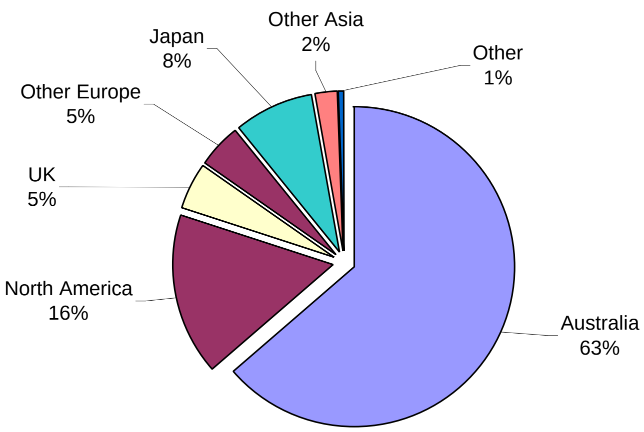
THE DATA

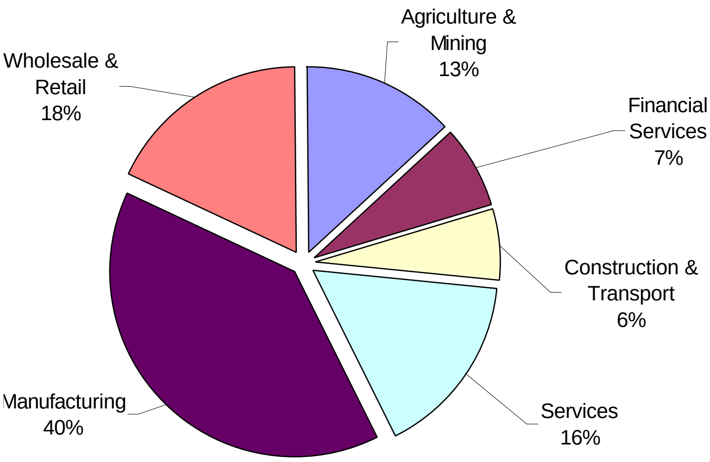
Figure 1 displays the profile of the responding companies.

'The Survey provides an indispensable guide to benchmarking your firm's perceptions of the global, Asian and Australian economies against other Australian-owned and foreign MNEs.''

Figure 1: Profile of Survey Respondents







NATIONALITY OF PARTICIPANT FIRMS

ACTIVITY OF PARTICIPANT FIRMS

GLOBAL AND ASIAN ECONOMIES

Introduction

Our first Survey of International Business Opinion for 1999 shows dramatic changes in CEOs views of the prospects for world business since the end of last year.

Recovery of the Global Economy

CEOs expressed their most optimistic view of the global economy since the Asian financial crisis of 1997. Figure 2 shows that the global index increased from –81 to +4 in the past 6 months. Six months ago, 83% of CEOs predicted weaker growth in the global economy. This bleak picture of depressed growth has now been reversed. Today only 23% of CEOs see a weaker global economy while 27% predict stronger global economic growth over the next 6 months.

Non-manufacturing firms were significantly more optimistic than manufacturing about global growth.

Turn-around of the Asian Economies

Optimism about Asia is driving a newly found confidence in the future of the global economy. Our survey shows that CEOs believe that the bottom of the Asian financial crisis has been reached. The Asian index rose from –74 to +43 in a dramatic turn-around in growth prospects.
Compared to 80% of CEOs predicting weaker Asian growth 6 months ago, now 58% of CEOs predict stronger growth.

CEOs with investment in Asia were significantly more optimistic about the growth outlook for Asia than those CEOs without Asian experience; and non-manufacturing firms were significantly more optimistic than manufacturing about Asian growth.

Performance of Overseas Operations

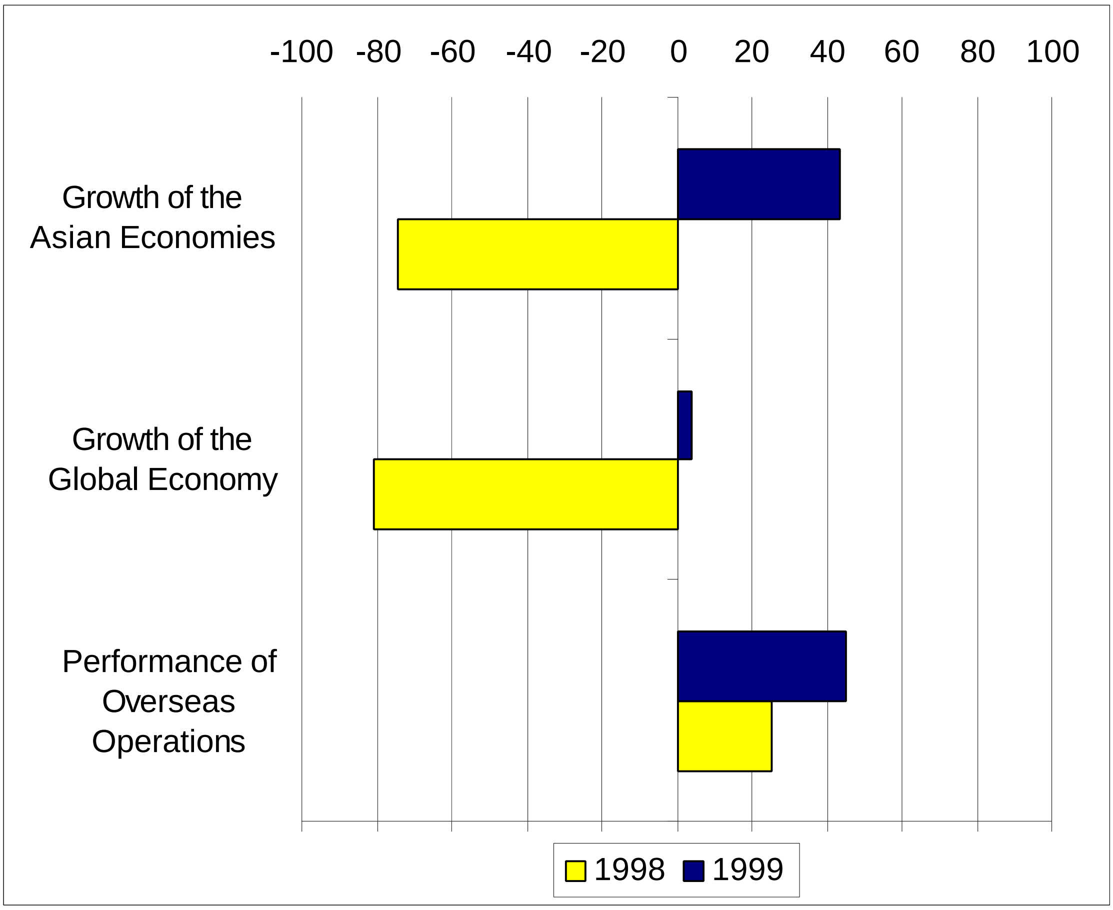
Fifty-six percent (56%) of CEOs predicted an improvement, and only 11% a deterioration, in the performance of their overseas operations. The cost cutting and market development decisions over the past 6 months have paid off, contributing to the improved outlook for the performance of overseas operations.

Openness of the Global Economy

Twice as many CEOs view the global economy as more open compared to 6 months ago. Although manufacturing firms were less optimistic than non-manufacturing enterprises, both manufacturing and non-manufacturing CEOs were significantly more confident about the openness of the global economy today than 6 months ago. International competition remains intense, with 66% predicting stronger competition, down from 79% in our last Survey.

'The bottom of the regional economic crisis has been reached, CEOs display a new optimism about the global and Asian economies.'

Figure 2: Forecasts For Global Economy



Stronger Australian Dollar

Nearly half (46%) of CEOs predicted a stronger dollar, significantly up on our previous Survey where mixed views were expressed. This will make it harder for firms in Australia to export in spite of CEOs' optimistic views of global and Asian growth over the next 6 months.

'Stronger dollar will make it harder for firms in Australia to export.'

EXPORTS

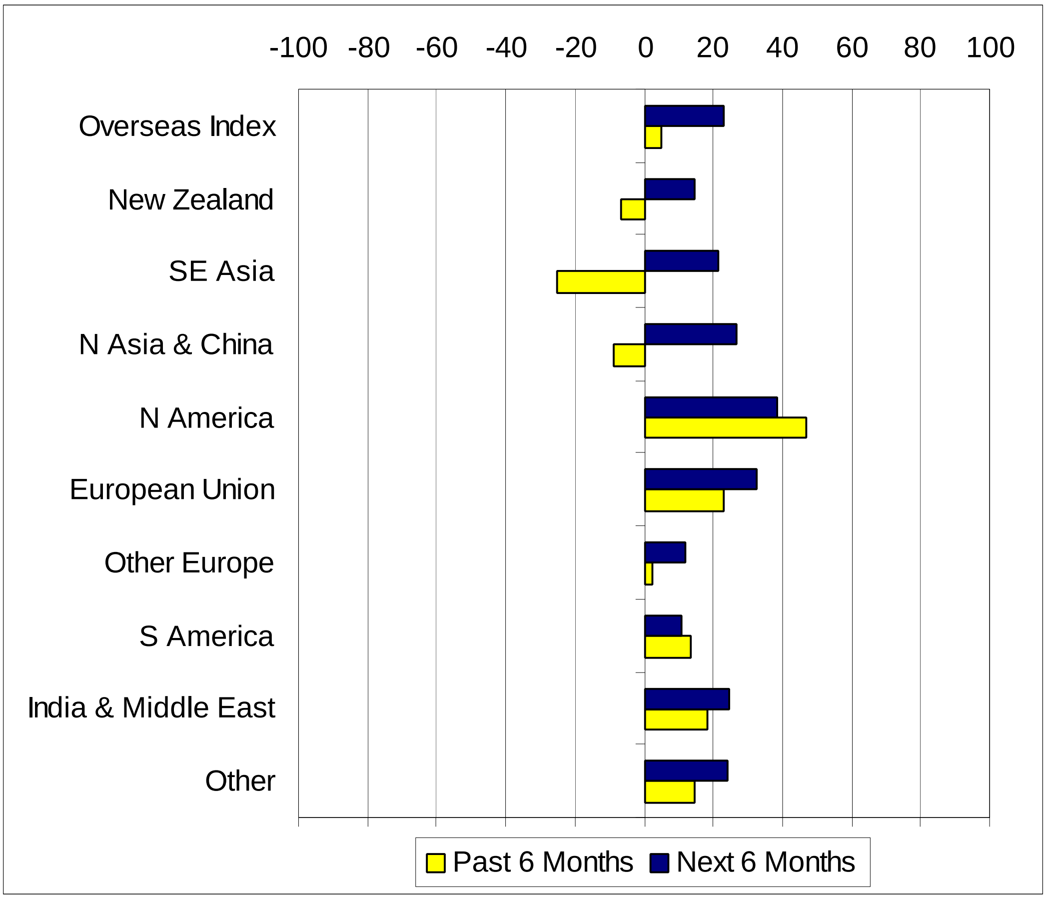
'CEOs bullish on Asian export growth, as CEOs signal dramatic turn-around in Asian markets.'

Significant Rise in Export Index
The overall export index rose sharply from +5 in the previous 6 months to +23 for the next 6 months (See Figure 3). CEOs were bullish about exports, with 34% of firms predicting increased exports and only 11% expecting exports to fall.

Asian Export Recovery
SE Asia, N Asia & China are no longer seen as depressed export markets by CEOs. In Figure 3 the SE Asia export index rose from –25 in the previous 6 months to +21 and the N Asia and China index rose from –9 to +27.

Existing Markets Underpin Export Index
North America (+38) and the European Union (+33) continued to underpin the overall index (+23), despite for the first time some caution about export growth prospects in N America.

Figure 3: Export Index



How Important is Asian Experience for Exporting to Asia?
Both Asian experienced and non-experienced CEOs significantly revised their opinion of the Asian economies of SE and N Asia from negative (-17) in the previous 6 months to positive (+24) in this latest survey.

For the next 6 months, CEOs with Asian experience (+24) had the same export growth index for SE and N Asia as CEOs without Asian experience (+25). Surprisingly, Asian experience was not a significant factor in determining export plans for the Asian region. The optimistic view of Asia was shared by all CEOs.

How Important is Non-Asian Experience to Exporting to Non-Asia?
CEOs without operations in Asia (+51) were significantly more upbeat about the N American economy than CEOs with Asian experience (+27). CEOs without Asian operations also predicted a higher level of exports to the EU and S America.

Small Firms Were More Optimistic than Large Firms About Exporting
CEOs of small firms (+30) were twice as optimistic than CEOs of large firms (+15) about export markets, this applied across all major markets including SE Asia, N Asia, N American and EU.

Large firms certainly had better information flows regarding market prospects, given their span of operations, than CEOs of small firms. The caution expressed by CEOs of large firms is a significant check on the high level of the export index.

Manufacturing Firms and Exports
CEOs of manufacturing firms (+27) had a slightly higher predicted export index than CEOs of non-manufacturing firms (+20), and this applied across all markets.

'CEOs with Asian experience did not view the Asian export markets more optimistically than CEOs without Asian operations'.

NEW INVESTMENT OPPORTUNITIES

'For the first time since the Asian financial crisis in 1997, SE Asia is the most attractive investment opportunity location.'

CEOs See Significant New Investment Opportunities

CEOs overall assessment of new investment opportunities rose significantly from +6 to +16. (See Figure 4) In the previous Survey the new investment opportunity index had been static.

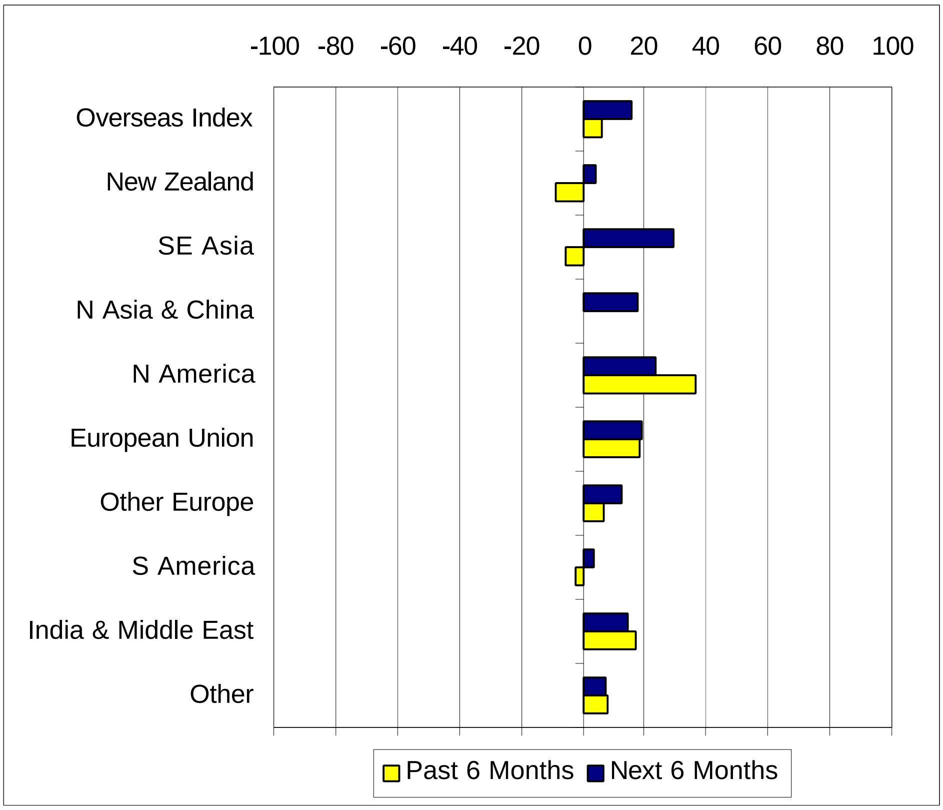
SE Asia Top Investment Opportunity Location

For the first time since the 1997 Asian financial crisis, SE Asia is the most attractive region for investment opportunities, with an index of +30 compared to –5 for the previous 6 months.

SE and N Asian Challenge to the West

N America (+24) and the EU (+19) have been displaced as the front-runners as regions with the best investment opportunities, although CEOs continue to view both regions favourably. In spite of problems with the Japanese economy, N Asia & China (+18) has improved its rating as a new investment location rivalling N America and the EU.

Figure 4: Investment Opportunity Index



OVERSEAS PLANNED INVESTMENTS

Planned Investment Lags Opportunities

CEOs displayed no significant increase in their commitment to planned overseas investments in response to enhanced investment opportunities. The planned investment index rose marginally from +14 to +19 in Figure 5, with less than one-third of CEOs planning to increase their investments

SE Asia Fails to Attract New Investment

While SE Asia displaced N American and the EU as the leading region for exports and new investment opportunities, the SE Asia planned investment index only rose from –1 six months ago to +5 for the next 6 months, the lowest planned investment index for any region in Figure 5.

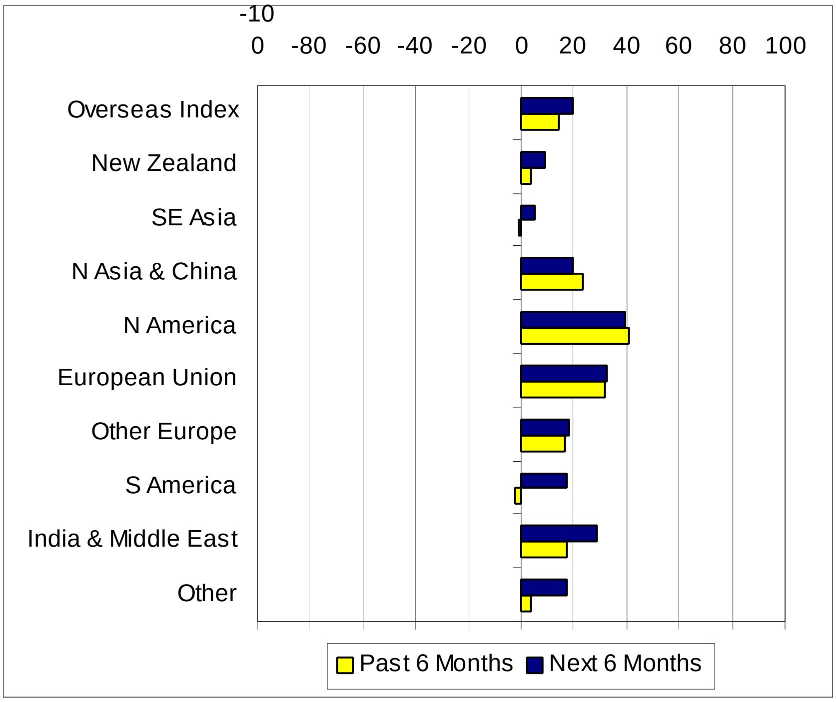
The Dominance of N America and the EU

N America (+41) and the EU (+31) dominated the past 6 months of actual investment, and are predicted to retain their dominance in the next 6 months at +39 and +33 respectively.

Emerging Investment Locations

India & Middle East has become an increasingly important region with planned investments rising from +17 to +29, while S America has grown from –2 to +18 over the past 6 months.

Figure 5: Planned Investment Index



'Planned investment lags investment opportunities, especially in SE Asia.'

AUSTRALIAN CEOs AND THE GLOBAL ECONOMY

Australian CEOs Pessimistic About International Economy
CEOs of Australian firms were more pessimistic than CEOs of foreign firms about the growth of the global economy (-9 versus +26) and the openness of the global economy (+2 versus +17) than the CEOs of foreign-owned firms.

Australian CEOs Share Optimism About Asian Economies
CEOs of Australian firms shared the same optimism as their foreign counterparts about the growth of the Asian economies, with 54% of Australian CEOs predicting stronger growth over the next six months.

Australian CEOs Optimistic About Performance of Overseas Operations
CEOs of Australian firms were more up-beat over the performance of their overseas operations with 63% predicting stronger performance compared to 46% of CEOs from foreign-owned firms.

Investment Opportunities: Asian Turn-around
Six months ago, Australian CEOs saw negative investment opportunities in Asia (-14 in SE Asia and –5 in N Asia). For the next 6 months, Australian CEOs see SE Asia (+22) and N China (+17) matching N America (+21) and the EU (+18) as regions offering the best investment opportunities. But Australian CEOs (+22) remain significantly lower in their assessment of SE Asia than foreign CEOs (+42).

Overseas Planned Investment Index
Australian CEOs aggregate investment index is stuck on +20, while foreign CEOs doubled their planned investment index from +9 to +17 over the past 6 months.

Asia: Investment Opportunities Forgone?
Both Australian CEOs (+5) and foreign CEOs (+6) remain cautious about planned investments into SE Asia. For N Asia & China, Australian CEOs (+23) were slightly more optimistic than foreign CEOs (+16), but planned investment was muted. Given the high levels of investment opportunities in Asia, Australian CEOs are failing to translate their optimism about Asia into planned investments.

N America and EU: Booming Planned Investments
Planned investment by Australian CEOs remained high in N America (+45) and the EU (+37), outpacing foreign CEOs planned investment in N America (+32) and the EU (+29).

'Australian CEOs are not translating their optimism about Asian investment opportunities into planned investments.'

Export Growth
Australian CEOs revised upwards significantly their export index from +8 to +28. Australian CEOs (+28) were also significantly more optimistic about export growth than foreign CEOs (+16).
Planned exports by Australian CEOs to N America (+49) and the EU (+43) were significantly higher than planned exports to SE Asia (+19) and N Asia (+31). However, the improvement in planned exports to Asia augers well for the Australian economy over the next 6 months.

THE AUSTRALIAN ECONOMY

Continued Growth Economy
In our last Survey, over 60% of CEOs predicted a weakening of growth in the Australian economy. This was an inaccurate forecast, with the Australian economy growing strongly over the past 6 months. For the next 6 months CEOs are cautiously predicting continued growth, with 25% of firms forecasting faster growth.

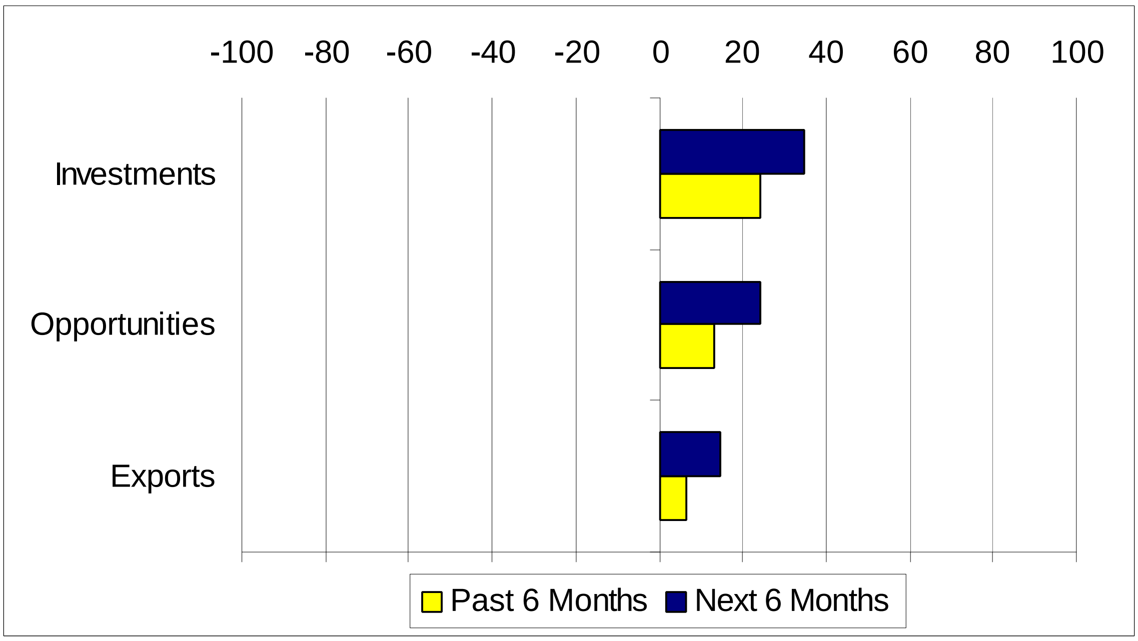
Rise in Planned Investment
The forecast of continued growth is underwriting the investment index for Australia that rose from +24 to +35 for the next 6 months. Our Survey contradicts the ABS investment lookout for Australia, which saw a slump in expected investment.

CEOs of foreign firms (+38) planned to invest about the same as CEOs of Australian firms (+33)

New Investment Opportunities
The new investment opportunity index doubled from +13 to +24, making Australia the most attractive investment location except for SE Asia. Manufacturing and non-manufacturing firms share the same optimism about investment opportunities (+25).

Optimism in the Australian Growth Economy
CEOs are predicting a significant improvement in the performance of their Australian operations (+38 up from +18) and higher exports (+15 from +9) during the next 6 months. Competition in Australia will remain intense (at +58), and with a stronger dollar (+28), create a difficult operating climate for firms in Australia.

Figure 6: Australian Business Trends



AUSTRALIAN CENTRE FOR INTERNATIONAL BUSINESS

The Mission of the Centre is to conduct leading edge research in international business, educate future international business leaders, and consult with business and government.

The Australian Centre for International Business is a collaborative venture between the University of Melbourne and the University of New South Wales (UNSW). Drawing on the strengths of the two Universities, the Centre creates a leading international business research group in Australia.

For more information about the activities of the Centre please contact:

PROFESSOR STEPHEN NICHOLAS
CO-DIRECTOR

DEPARTMENT OF MANAGEMENT
UNIVERSITY OF MELBOURNE
PARKVILLE, VICTORIA 3052
AUSTRALIA
PH: +61 3 9344-5340
FAX: +61 3 9347-3770
EMAIL: acib@ecomfac.unimelb.edu.au
WEB: www.ecom.unimelb.edu.au/acib/

PROFESSOR SID GRAY
CO-DIRECTOR

SCHOOL OF INTERNATIONAL BUSINESS
UNIVERSITY OF NEW SOUTH WALES
SYDNEY, NSW 2052
AUSTRALIA
PH: +61 2 9385-5802
FAX: +61 3 9385-6440
EMAIL: acib@unsw.edu.au
WEB: www.fce.unsw.edu.au/acib/

DISCUSSION PAPERS & BUSINESS / CONSULTING REPORTS

Discussion Papers

1. *The Multinational Enterprise: New research Agendas in International Business*, Stephen Nicholas and Elizabeth Maitland, September 1998.
2. *Do Japanese Buyers Learn? A Longitudinal Study of Japanese MNEs' Subcontracting with Australian Suppliers*, Stephen Nicholas and William Purcell, October 1998.
3. *Industry Consolidation and Global Competition: Multiple Market Competition in the Tire Industry*, Kiyohiko Ito and Elizabeth Rose, October 1998.
4. *Foreign Investment Motivations and Location Patterns: Korean Electronics Companies and the European Union*, Sidney J. Gray and Sunghoon Hong, November 1998.
5. *The Transfer of Human Resource and Management Practice by Japanese Multinationals to Australia: Does Industry, Size and Experience Matter?*, William Purcell, Stephen Nicholas, David Merrett and Greg Whitwell, December 1998.
6. *Genealogical Transformation of Resources: A Study of Japanese Service Firms*, Elizabeth Rose and Kiyohiko Ito, January 1999.

Business Reports

1. *Improving Subcontractor Relations: Lessons from Japanese Manufacturing MNEs and their Australian Suppliers*, Stephen Nicholas and William Purcell, October 1998.
2. *Investing Overseas: Factors in the Overseas Investment Decision by Australian-Based Firms*

Consulting Reports

1. *Report on Australian Investment Overseas and Investment in Australia*, Stephen Nicholas, Sidney J. Gray, and William Purcell, October 1998.

Survey of International Business

1. *International Business Survey*, November 1998
2. *International Business Survey*, June 1999

AUSTRALIAN
CENTRE FOR
INTERNATIONAL
BUSINESS

For more information about the activities of the Centre please contact:

PROFESSOR STEPHEN NICHOLAS
CO-DIRECTOR

DEPARTMENT OF MANAGEMENT
UNIVERSITY OF MELBOURNE
PARKVILLE VIC 3052, AUSTRALIA
PH: +61 3 9344-5340
FAX: +61 3 9347-3770
EMAIL: acib@ecomfac.unimelb.edu.au
WEB: www.ecom.unimelb.edu.au/acib/

PROFESSOR SID GRAY
CO-DIRECTOR

SCHOOL OF INTERNATIONAL BUSINESS
UNIVERSITY OF NEW SOUTH WALES
SYDNEY NSW 2052, AUSTRALIA
PH: +61 2 9385-5802
FAX: +61 2 9385-6440
EMAIL: acib@unsw.edu.au
WEB: www.fce.unsw.edu.au/acib/