

# UPS ASIA BUSINESS MONITOR

## EXECUTIVE SUMMARY II

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## Foreword

In its second year, the UPS Asia Business Monitor provides the latest insights into the changing opinions, attitudes and habits of business leaders from the region's small and medium sized enterprises ("SMEs", companies with fewer than 250 employees), the backbone of most Asian economies today.

The UPS Asia Business Monitor follows in the tradition of the UPS Europe Business Monitor, which has been published annually since 1992. Similar to the European edition, the UPS Asia Business Monitor gauges SME business leaders' views of the region's key economic and business indicators, SME competitiveness, as well as current macroeconomic issues that have the potential to affect the business environment-at-large.

### **A note on the research**

The UPS Asia Business Monitor II surveyed 1,203 decision makers of SMEs between November 14, 2005 and January 10, 2006.

Interviews were conducted in the following markets: Australia (100), China (151), Hong Kong (100), India (101), Indonesia (51), Japan (100), Korea (100), Malaysia (100), the Philippines (100), Singapore (100), Taiwan (100) and Thailand (100). Respondents were from a range of industries: automotive, electronics & electricals, garments & textiles, gifts & housewares, healthcare & pharmaceuticals, timepieces, jewellery & optical goods, toys & sporting goods and others. A majority of the SMEs interviewed had an approximate annual turnover between US\$500,000 and US\$10 million.

The average SME has been in business for approximately 20 years. Interviews were conducted by an independent global market research organisation, TNS, using the respondents' native language from the TNS International Calling Centre in Hong Kong.

Graphics shown are the abstracts of key findings from the full survey results. Figures may total less than 100% where only partial data are shown and over 100% where more than one response choice was allowed.

## Main findings

The UPS Asia Business Monitor II finds that SMEs are tremendously bullish on Asia, with most respondents expecting the region as a whole to lead in economic power and trade volume growth in 2006.

Specifically, SMEs remain positive in their outlook of economic and business prospects, with several rising economies - namely Korea and India - gaining an increasing share of Asia's spotlight given their strong growth potential. This is further supported by companies' employment outlook, with respondents across the board expecting to increase or maintain the size of their workforce over the next 12 months.

Most respondents believe China's SMEs are the most competitive in the region, with the exception of Korea where Japan is ranked number one. India continues to solidify its position as Asia's rising star with the biggest increase in the proportion of respondents who believe Indian SMEs are more

competitive, while Southeast Asia's SMEs are also gaining ground particularly in the eyes of their Chinese counterparts.

Cash flow, access to capital as well as the availability of qualified staff are the biggest concerns that keep Asian SME leaders up at night, which can in part be explained by the finding that almost half the respondents report a need for funding on an on-going basis. Respondents in Australia, China, Japan, Taiwan, Korea and Thailand are also found to be relatively dissatisfied with their credit or finance providers on a number of attributes.

SME business presence in China has increased for all countries except Japan where it has fallen significantly. Respondents continue to differ in opinion on whether China represents a threat or an opportunity to local economies. Compared to 2004, fewer Korean respondents perceive China's rising economic power as a threat, while more Japanese respondents believe it is.

SARs, avian flu and other infectious diseases continue to be at the top of mind, but pollution, the state of the environment as well as personal health remain the most prominent social concerns for Asia's SME leaders.

On the macroeconomic front, most believe that the Beijing Olympics 2008 will have a positive effect on China while trade between China and its biggest partners, Japan and Taiwan, is expected to continue to grow. Hong Kong is believed to be losing out to China in some areas, but Korea and India are more confident they would be able to stand their ground despite rising competition. On the free trade front, Singapore's SMEs are found to have benefited less than expected from the free trade agreement with the U.S.



## Growth prospects

### **SMEs bullish on Asia's trade and economic prospects**

SME business leaders in the Asia Pacific remain fairly positive about the region's trade and economic prospects in 2006.

Nearly 70% of respondents expect to see growth in the volume of trade between Asian countries while only 50% believe there will be growth in trade between Asia and the U.S. or Europe. Likewise, 71% of respondents are of the view that Asia's economic power will continue to grow in the next 12 months, compared to less than 50% who feel the same about other major countries and regions.

On the country level, SME leaders remain confident that China will continue to lead the region's economic growth, followed by India and Hong Kong. While the proportion of respondents expecting growth in China has not changed since 2004, more respondents are also now focusing on prospects in India and Korea. The percentage of respondents

predicting economic growth in India has increased by 11% while Korea has replaced Singapore in fourth place in terms of growth prospects as compared to 2004.

Indonesia and the Philippines continue to lag behind other markets with the lowest expectations for growth.

### **Winds of change**

Although Korean respondents were generally more pessimistic in 2004, things have taken a positive turn with 50% expecting economic growth in the next 12 months, compared to only 7% in 2004. This may be attributed to the higher proportion of respondents reporting improved business prospects since a year ago. On the contrary, 23% less Taiwanese respondents consider their current business prospects to have improved, compared to 2004.

In general, fewer respondents across the region believe business prospects have improved in the last 12 months compared to 2004.

### **Bright outlook for 2006**

Despite a slight dip in optimism over the past 12 months, more than half the respondents in the region, except Hong Kong and Japan, expect improved business prospects in 2006. Korea again showed the biggest hike in optimism while there has been a slight drop in the proportion of Australian respondents who expect prospects to improve compared to 2004.

### **Few layoffs expected**

While approximately two thirds of respondents in India, Thailand and China are expected to increase the size of their workforce, the majority of respondents in the rest of the region expect employment to remain unchanged. Few expect to cut employment.

## Growth prospects

How would you rate the prospects in the next 12 months for volume of trade growth between your country and the following countries and regions?

- Intra-Asia is expected to lead in trade volume growth
- Only about half the respondents expect trade growth between Asia and the U.S. or Europe

% Grow	Intra-Asia	U.S.	Canada	Europe	Middle East	Latin America	Africa
All Countries	69%	49%	28%	49%	43%	25%	24%
Australia	56%	<u>27%</u>	<u>7%</u>	<u>17%</u>	<u>22%</u>	<u>4%</u>	<u>4%</u>
China	72%	63%	<u>58%</u>	<u>73%</u>	53%	<u>47%</u>	<u>51%</u>
Hong Kong	<u>50%</u>	64%	33%	63%	26%	29%	15%
India	59%	<u>76%</u>	38%	65%	57%	31%	31%
Indonesia	65%	41%	<u>37%</u>	47%	47%	24%	25%
Japan	68%	38%	13%	30%	30%	15%	15%
Korea	<u>87%</u>	<u>34%</u>	24%	49%	53%	45%	28%
Malaysia	73%	35%	14%	35%	<u>60%</u>	12%	20%
Philippines	75%	57%	32%	53%	29%	14%	50%
Singapore	69%	51%	17%	37%	51%	16%	15%
Taiwan	68%	46%	22%	49%	23%	18%	12%
Thailand	77%	44%	<u>27%</u>	54%	59%	30%	50%

Green text indicates higher than regional average  
 Red text indicates lower than regional average  
 Underline indicates the country with the highest and lowest scores

How do you see the economic power of the following countries and regions changing over the next 12 months?

- Majority of respondents believe there is most growth potential in Asia's economic power
- Other major countries or regions trail behind

% Grow	Intra-Asia	U.S.	Canada	Europe	Middle East	Latin America	Africa
All Countries	71%	43%	30%	48%	40%	23%	19%
Australia	64%	25%	<u>9%</u>	<u>24%</u>	27%	<u>11%</u>	<u>5%</u>
China	68%	49%	<u>58%</u>	<u>67%</u>	36%	26%	28%
Hong Kong	61%	53%	35%	47%	38%	27%	12%
India	<u>59%</u>	<u>60%</u>	27%	53%	45%	25%	18%
Indonesia	75%	57%	49%	55%	43%	16%	18%
Japan	76%	28%	12%	25%	<u>24%</u>	21%	20%
Korea	<u>89%</u>	<u>24%</u>	17%	48%	55%	<u>34%</u>	29%
Malaysia	67%	36%	26%	46%	40%	13%	13%
Philippines	77%	54%	40%	58%	40%	19%	<u>70%</u>
Singapore	63%	40%	15%	35%	<u>54%</u>	16%	10%
Taiwan	82%	44%	30%	57%	37%	33%	12%
Thailand	78%	44%	35%	53%	47%	28%	45%

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 Underline indicates the country with the highest and lowest scores



## Growth prospects

How do you rate the prospects for economic growth in your country and in each of the following countries in the next 12 months?

- SMEs remain fairly positive about the region's economic growth prospects in 2006
- Growth potential of emerging markets such as India and Korea is on the rise

% Grow	Australia	China	Hong Kong	India	Indonesia	Japan	Korea	Malaysia	Philippines	Singapore	Taiwan	Thailand
All Countries	43%	88%	62%	69%	22%	44%	60%	38%	15%	54%	44%	45%
Australia	40%	88%	49%	60%	14%	21%	<u>37%</u>	<u>23%</u>	12%	<u>28%</u>	34%	<u>19%</u>
China	54%	<u>71%</u>	68%	54%	23%	34%	62%	34%	<u>26%</u>	61%	35%	44%
Hong Kong	32%	86%	<u>39%</u>	68%	<u>8%</u>	35%	63%	26%	9%	46%	32%	39%
India	50%	87%	66%	<u>79%</u>	21%	53%	51%	43%	17%	62%	51%	37%
Indonesia	55%	96%	71%	<u>49%</u>	22%	<u>71%</u>	73%	<u>67%</u>	14%	65%	61%	67%
Japan	<u>21%</u>	85%	54%	70%	30%	43%	41%	32%	11%	29%	39%	43%
Korea	32%	<u>98%</u>	60%	<u>89%</u>	<u>35%</u>	37%	50%	43%	23%	59%	52%	41%
Malaysia	40%	93%	64%	66%	11%	40%	57%	25%	<u>3%</u>	48%	51%	<u>56%</u>
Philippines	64%	88%	71%	61%	24%	68%	72%	58%	25%	72%	61%	63%
Singapore	25%	91%	53%	72%	19%	<u>19%</u>	39%	28%	12%	34%	<u>22%</u>	52%
Taiwan	36%	93%	71%	83%	31%	60%	<u>91%</u>	40%	13%	61%	32%	53%
Thailand	<u>65%</u>	97%	<u>75%</u>	76%	21%	62%	85%	56%	11%	<u>79%</u>	<u>71%</u>	39%

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# 2004

% Grow	Australia	China	Hong Kong	India	Indonesia	Japan	Korea	Malaysia	Philippines	Singapore	Taiwan	Thailand
All Countries	43%	88%	56%	58%	24%	44%	52%	46%	19%	53%	43%	49%
Australia	<u>59%</u>	90%	58%	60%	27%	41%	43%	36%	19%	49%	46%	37%
China	37%	<u>69%</u>	59%	52%	18%	39%	50%	27%	16%	53%	<u>24%</u>	31%
Hong Kong	29%	94%	<u>54%</u>	<u>36%</u>	<u>13%</u>	51%	62%	32%	13%	49%	34%	37%
India	41%	92%	<u>70%</u>	<u>78%</u>	27%	51%	62%	56%	21%	64%	<u>64%</u>	57%
Indonesia	54%	91%	69%	64%	<u>50%</u>	54%	<u>70%</u>	<u>71%</u>	<u>29%</u>	<u>68%</u>	61%	74%
Japan	<u>14%</u>	90%	<u>40%</u>	50%	40%	<u>30%</u>	46%	38%	20%	<u>34%</u>	54%	54%
Korea	36%	<u>95%</u>	54%	56%	18%	45%	<u>7%</u>	25%	15%	49%	36%	<u>23%</u>
Malaysia	49%	91%	53%	53%	22%	46%	59%	<u>54%</u>	21%	43%	36%	58%
Philippines	55%	94%	60%	63%	20%	48%	62%	66%	<u>27%</u>	66%	54%	<u>76%</u>
Singapore	30%	85%	47%	75%	30%	31%	44%	63%	17%	<u>45%</u>	<u>24%</u>	67%
Taiwan	38%	82%	41%	50%	<u>13%</u>	36%	53%	<u>23%</u>	<u>10%</u>	35%	<u>32%</u>	34%
Thailand	<u>59%</u>	93%	57%	56%	23%	<u>55%</u>	61%	59%	17%	65%	53%	<u>55%</u>

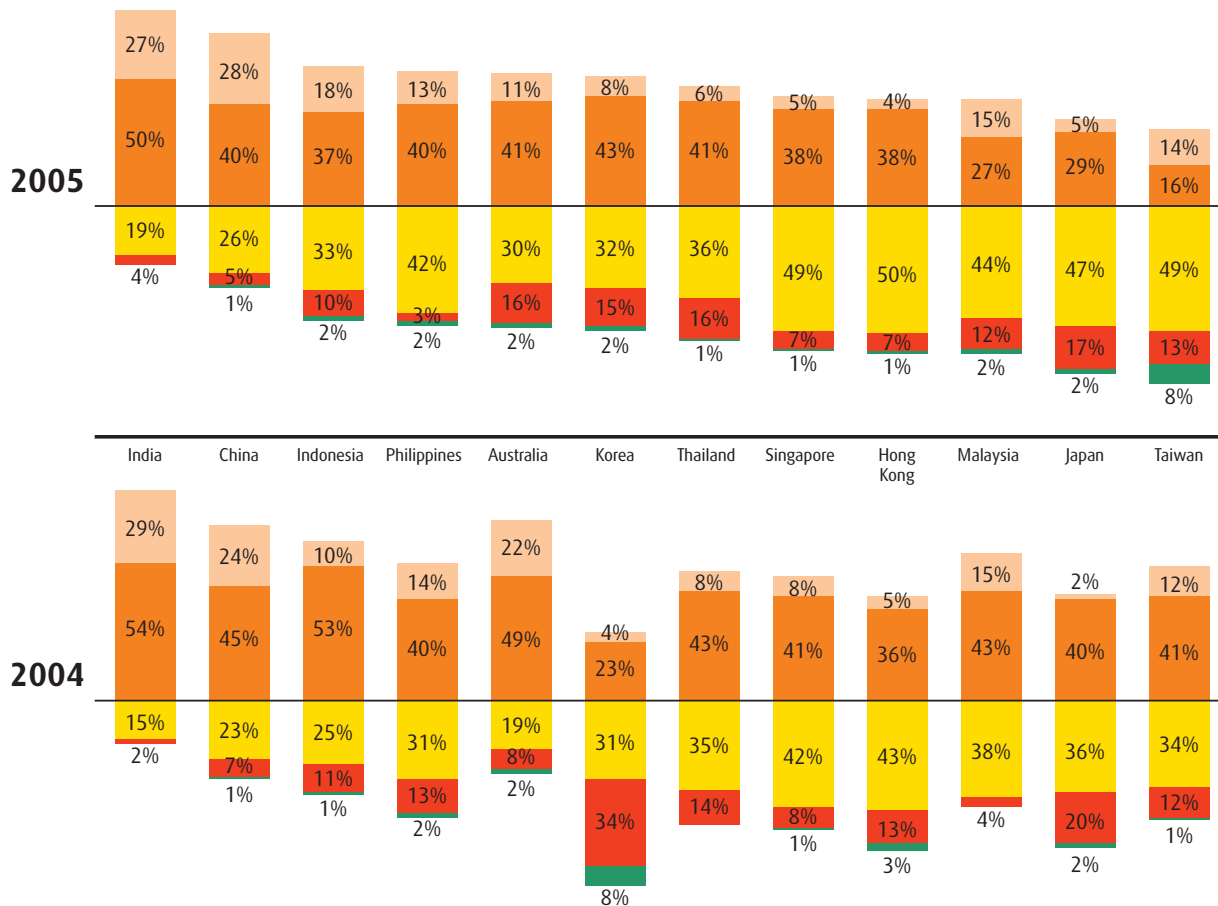
Green text indicates higher than regional average  
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 Underline indicates the country with the highest and lowest scores



## Growth prospects

Are your company's overall prospects better, worse or about the same as 12 months ago?

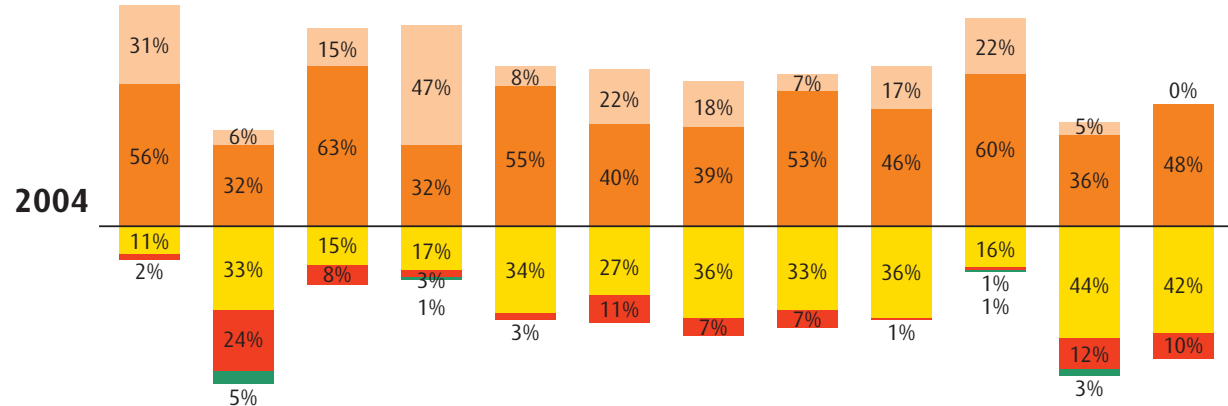
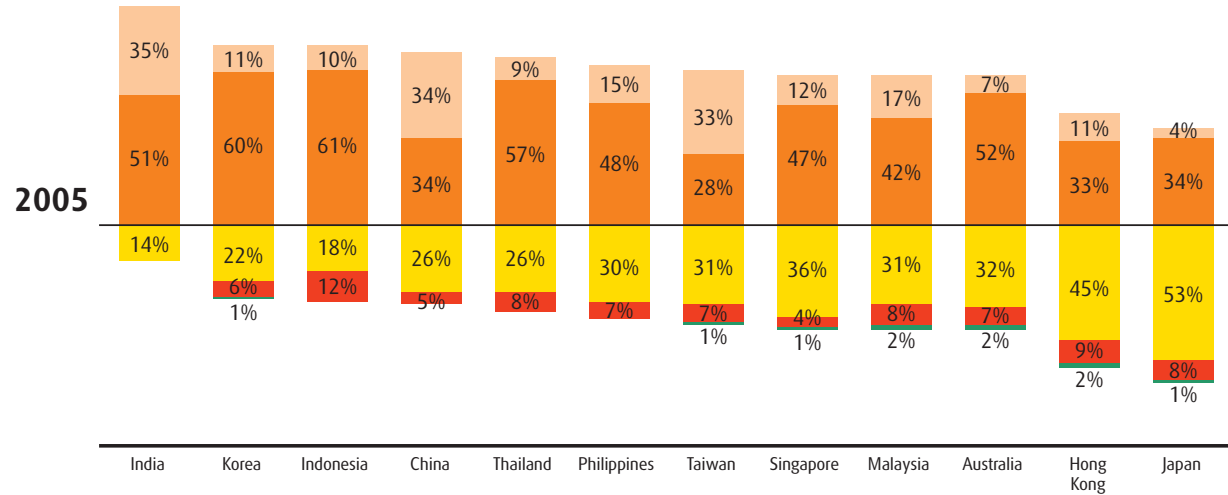
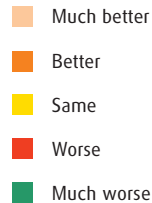
- Generally fewer respondents believe prospects have improved from a year ago compared to 2004, except in Korea
- But on average, half the respondents still believe business prospects have somewhat improved
- India's SMEs are more positive about their current prospects than SMEs in China



## Growth prospects

Do you think your company's overall prospects 12 months from now will be better, worse or about the same as they are now?

- Led by India, close to half the respondents in the region, except those in Hong Kong and Japan, expect improved prospects
- Significantly more respondents in Korea are optimistic

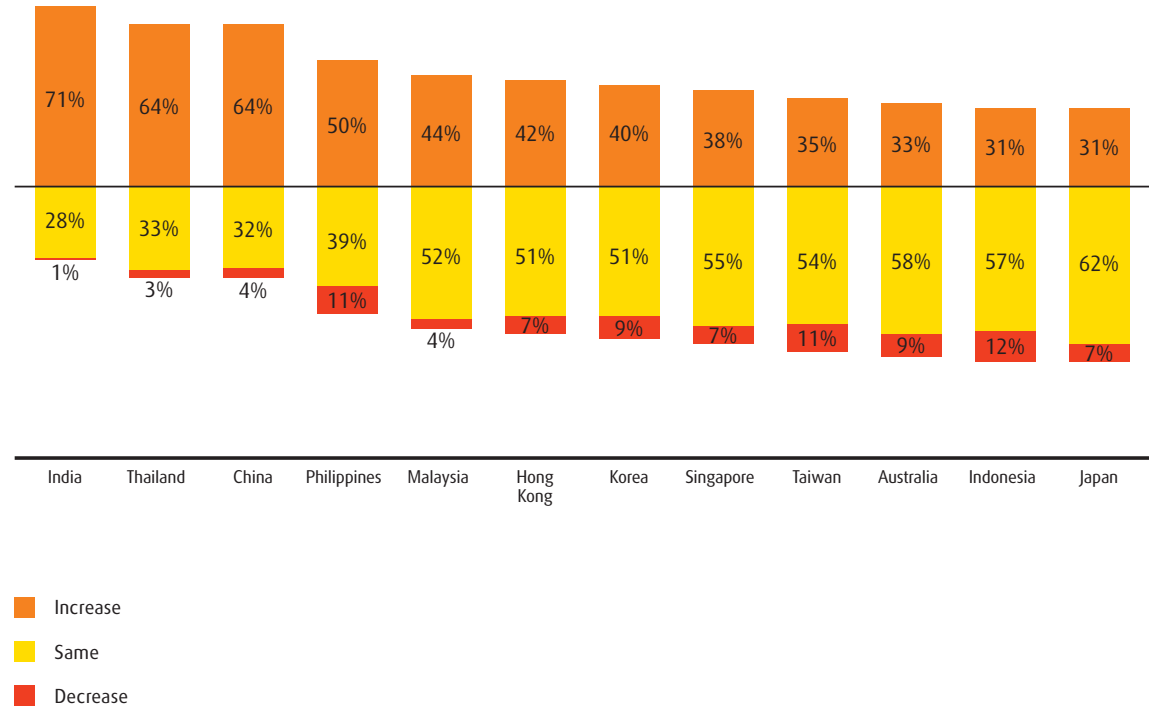




## Growth prospects

Does your company plan to increase, reduce or maintain its workforce over the next 12 months?

- All SME leaders around the region expect to maintain the current level of employment or increase the size of its workforce, especially in India, Thailand and China



## Importance of industry sectors

### Information Technology and Telecoms remains key sector for Asia

Overall, SME leaders predict that Information Technology and Telecoms (IT&T) will remain the most important sector to Asian countries, particularly China, India, Indonesia, Korea, Taiwan and Thailand, in the next two years. This is followed by Financial Services (FS), Healthcare & Pharmaceuticals (H&P) and Utilities & Energy (U&E). Seven of the 12 surveyed markets rank at least three of these top four sectors as their most important industries. As with 2004, the Building & Construction (B&C) sector receives relatively low ranking in most economies with the exception of India.

Leisure & Tourism (L&T) is regarded as an important industry sector by more than half the respondents in all economies except Japan, where it is considered the second least important sector. In Taiwan, 81% of respondents rate it as an important sector compared to 65% in 2004.

### Asia: a melting pot of industries

Asia's competitiveness comes from its diverse range of economic and industrial strengths. This is reflected in the individual industry rankings, which differ between countries.

The Financial Services sector, which receives a low ranking in Korea, is seen as the most important industry in Hong Kong and receives strong votes in Thailand and China. Transport & Logistics (T&L) is most important to Indonesia, followed closely by the region's fastest growing economies of China, Thailand and India. Consumer Goods (CG) remains a strong sector in highly populated countries such as China, India, Thailand and the Philippines.

### Industries shift in importance

The Automotive sector is less important to the economies of Australia, Malaysia and China but have gained more ground in Korea, Taiwan and the Philippines since 2004. Utilities & Energy remains key to developing nations including the Philippines, Indonesia and Thailand but is considerably less significant in Hong Kong compared to a year ago.

In Australia, most industries have received less votes than the previous year, with the biggest drop led by the Media sector where only one-fifth of respondents believe it is important, compared to 50% in 2004.

Healthcare & Pharmaceuticals is found to be significantly more important in Korea than in 2004.



## Importance of industry sectors

How important will each of the following industry sectors be to your country in the next two years?

- IT&T maintains its leadership across the region
- Automotive sector is falling in importance in Australia, Malaysia and China but gaining attention in Korea, Taiwan and the Philippines

- Healthcare & Pharmaceuticals is significantly more important in Korea than in 2004

2005

% Important	IT & T	FS	L & T	Auto	H & P	Media	U & E	CG	B & C	T & L
All Countries	86%	76%	70%	52%	74%	61%	74%	61%	49%	72%
Australia	<u>61%</u>	65%	69%	26%	<u>53%</u>	<u>19%</u>	66%	48%	51%	63%
China	<u>95%</u>	85%	72%	62%	81%	75%	85%	72%	58%	84%
Hong Kong	78%	<u>89%</u>	73%	<u>21%</u>	62%	59%	<u>58%</u>	62%	37%	75%
India	93%	82%	64%	<u>77%</u>	79%	71%	82%	74%	<u>89%</u>	81%
Indonesia	96%	82%	71%	53%	82%	76%	90%	67%	67%	<u>86%</u>
Japan	85%	63%	<u>38%</u>	63%	71%	63%	66%	<u>40%</u>	31%	<u>53%</u>
Korea	94%	<u>58%</u>	72%	81%	84%	79%	70%	43%	46%	76%
Malaysia	77%	68%	76%	40%	65%	45%	60%	53%	<u>28%</u>	55%
Philippines	87%	83%	72%	51%	67%	52%	89%	72%	53%	77%
Singapore	84%	82%	73%	23%	76%	50%	59%	49%	35%	64%
Taiwan	90%	69%	81%	43%	78%	53%	64%	70%	34%	68%
Thailand	93%	88%	<u>78%</u>	74%	<u>85%</u>	<u>84%</u>	<u>95%</u>	<u>75%</u>	58%	84%

Green text indicates higher than regional average  
 Red text indicates lower than regional average  
 Underline indicates the country with the highest and lowest scores

2004

% Important	IT & T	FS	L & T	Auto	H & P	Media	U & E	CG	B & C	T & L
All Countries	88%	77%	73%	54%	75%	67%	78%	61%	52%	78%
Australia	<u>77%</u>	78%	81%	49%	74%	<u>51%</u>	84%	62%	55%	64%
China	86%	87%	81%	<u>79%</u>	76%	80%	94%	74%	64%	86%
Hong Kong	86%	85%	<u>92%</u>	<u>23%</u>	74%	68%	80%	64%	48%	86%
India	93%	84%	61%	78%	81%	67%	78%	<u>77%</u>	<u>86%</u>	87%
Indonesia	84%	74%	66%	65%	73%	75%	86%	73%	64%	84%
Japan	92%	64%	<u>42%</u>	56%	74%	46%	<u>50%</u>	<u>20%</u>	<u>22%</u>	64%
Korea	84%	<u>45%</u>	52%	61%	<u>66%</u>	74%	59%	26%	36%	<u>63%</u>
Malaysia	88%	84%	79%	65%	69%	62%	70%	68%	53%	73%
Philippines	92%	86%	83%	35%	73%	63%	<u>94%</u>	73%	49%	81%
Singapore	81%	<u>91%</u>	73%	32%	79%	60%	64%	41%	28%	73%
Taiwan	92%	77%	65%	26%	76%	<u>51%</u>	63%	54%	39%	<u>79%</u>
Thailand	<u>97%</u>	81%	83%	63%	<u>85%</u>	<u>90%</u>	92%	76%	53%	<u>88%</u>

Green text indicates higher than regional average  
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## SME competitiveness

### China continues to lead in SME competitiveness ratings

The majority of SME leaders agree that China's SMEs are more competitive than those in their own countries, although significantly fewer respondents in Hong Kong agree with this compared to a year ago.

Around the region, the top five rankings of SME competitiveness largely remain the same as 2004 with Japan in second place after China. Korea and Hong Kong have switched in third and fourth place, respectively, and are followed by Taiwan and Singapore.

### India shows most improvement in competitiveness ratings

India is capturing more attention from its neighbours - particularly Thailand, Hong Kong, Taiwan and Korea, with a 9% increase in the number of respondents who believe India's SMEs are more competitive. This represents yet another vote of confidence from India's neighbours that it is Asia's rising star.

### Southeast Asian countries get a nod from China

China is consistently rated as the most competitive in the SME segment, but from its perspective, it is the Southeast Asian countries that are gaining clout and even catching up with the more developed markets. Compared to 2004, the proportion of respondents in China who believe SMEs in developed countries such as Hong Kong and Japan are more competitive has decreased or remained the same. On the contrary, more respondents compared to a year ago believe SMEs in Southeast Asian countries such as the Philippines and Thailand are more competitive.



## SME competitiveness

2005

### How would you rate the competitiveness of SMEs in other countries compared to SMEs in your own country?

- An increasing proportion of Mainland Chinese respondents believe Southeast Asia's SMEs are more competitive
- SMEs in India are capturing more attention from its neighbours, particularly Thailand, Hong Kong, Taiwan and Korea

% Competitive	Australia	China	Hong Kong	India	Indonesia	Japan	Korea	Malaysia	Philippines	Singapore	Taiwan	Thailand
All Countries	35%	70%	53%	41%	18%	58%	55%	27%	14%	50%	50%	32%
Australia		65%	<u>36%</u>	<u>51%</u>	24%	<u>41%</u>	41%	30%	23%	32%	54%	31%
China	48%		56%	38%	<u>29%</u>	54%	54%	32%	<u>26%</u>	48%	38%	36%
Hong Kong	19%	58%		35%	19%	44%	54%	15%	12%	42%	<u>32%</u>	22%
India	36%	74%	47%		23%	50%	46%	27%	18%	48%	50%	33%
Indonesia	51%	86%	59%	45%		76%	76%	<u>61%</u>	16%	67%	<u>73%</u>	53%
Japan	<u>11%</u>	64%	<u>36%</u>	40%	11%		<u>39%</u>	14%	7%	<u>24%</u>	<u>32%</u>	13%
Korea	19%	64%	47%	35%	15%	71%		15%	7%	58%	46%	12%
Malaysia	41%	80%	58%	<u>32%</u>	15%	57%	64%		13%	54%	64%	<u>54%</u>
Philippines	49%	73%	62%	<u>51%</u>	<u>29%</u>	64%	63%	49%		58%	62%	53%
Singapore	25%	69%	58%	46%	16%	45%	51%	32%	13%		50%	41%
Taiwan	25%	<u>45%</u>	57%	33%	<u>5%</u>	64%	50%	<u>7%</u>	<u>3%</u>	51%		<u>11%</u>
Thailand	<u>59%</u>	<u>90%</u>	<u>76%</u>	46%	<u>5%</u>	<u>89%</u>	<u>78%</u>	27%	6%	<u>74%</u>	70%	

Green text indicates higher than regional average

Red text indicates lower than regional average

Underline indicates the country with the highest and lowest scores

## 2004

% Competitive	Australia	China	Hong Kong	India	Indonesia	Japan	Korea	Malaysia	Philippines	Singapore	Taiwan	Thailand
All Countries	31%	73%	55%	32%	17%	59%	54%	28%	12%	49%	52%	32%
Australia		68%	56%	<u>44%</u>	17%	<u>44%</u>	<u>32%</u>	19%	15%	42%	41%	32%
China	31%		60%	27%	<u>10%</u>	63%	51%	16%	7%	50%	46%	14%
Hong Kong	25%	71%		<u>21%</u>	14%	55%	48%	17%	13%	39%	<u>30%</u>	25%
India	32%	76%	57%		20%	56%	54%	33%	<u>21%</u>	54%	56%	37%
Indonesia	40%	80%	<u>68%</u>	38%		65%	<u>73%</u>	51%	15%	64%	60%	55%
Japan	<u>4%</u>	60%	<u>26%</u>	38%	20%		34%	14%	<u>4%</u>	<u>20%</u>	38%	22%
Korea	28%	63%	48%	<u>21%</u>	11%	73%		16%	6%	59%	51%	13%
Malaysia	34%	78%	56%	37%	22%	53%	61%		13%	43%	59%	49%
Philippines	<u>42%</u>	<u>83%</u>	60%	<u>44%</u>	<u>32%</u>	63%	71%	<u>64%</u>		62%	<u>74%</u>	<u>63%</u>
Singapore	25%	72%	60%	40%	19%	45%	50%	36%	18%		50%	38%
Taiwan	32%	<u>58%</u>	36%	25%	<u>10%</u>	53%	43%	<u>13%</u>	8%	33%		<u>11%</u>
Thailand	37%	<u>83%</u>	59%	28%	16%	<u>82%</u>	69%	27%	12%	<u>65%</u>	61%	

Green text indicates higher than regional average

Red text indicates lower than regional average

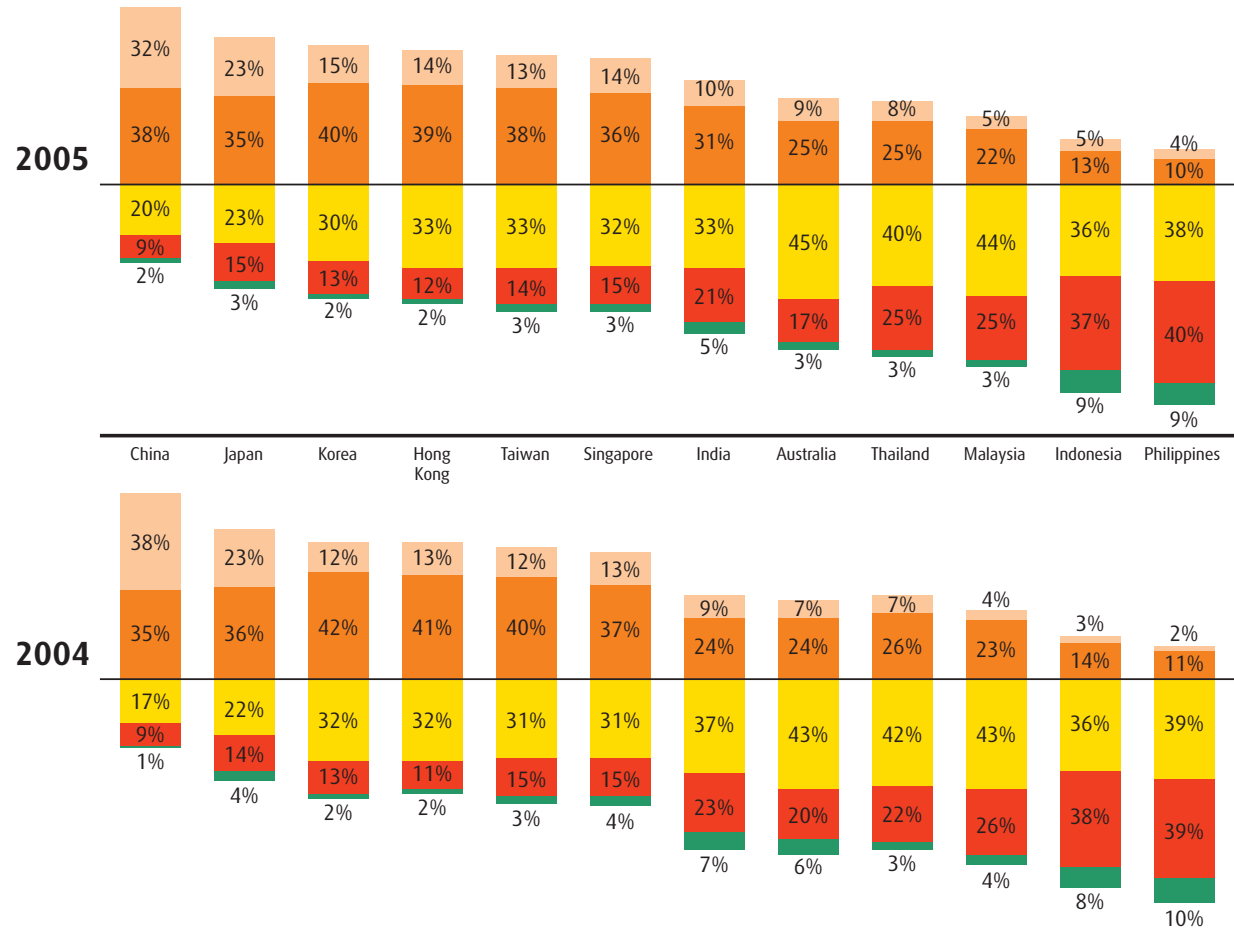
Underline indicates the country with the highest and lowest scores



## SME competitiveness

How would you rate the competitiveness of SMEs in other countries compared to SMEs in your own country?

- China remains the leader in SME competitiveness
- India records the highest year-on-year growth in perceived competitiveness



## Contributions and obstacles to SME competitiveness

### **Innovation, talent and financing abilities top priorities for SMEs**

Across the region, respondents generally believe 'hardware' such as transportation infrastructure and IT adoption are available, but 'software' such as innovation, availability of qualified staff, and access to funding and working capital remain lacking, making these the three biggest obstacles to SME competitiveness. According to SME leaders, shortage of human capital is most prominent in China, Korea, Thailand, Australia, and Indonesia. Respondents are also concerned with access to market intelligence and other business information, access to overseas markets, and labour costs, which are considered as important contributors to SME competitiveness but also lacking in the current business environment.

Besides Singapore, where labour costs are considered to be a significant issue, respondents in all other countries agree that government support for SMEs is generally lacking.

These findings are consistent with the previous year.

### **Developed countries face fewer obstacles**

Respondents in more developed markets such as Hong Kong, Australia and Singapore report the least obstacles in their business environments while those in China, Indonesia, Thailand and the Philippines consider significantly more factors to be lacking.

In Taiwan, however, not only have more obstacles been identified when comparing to other developed markets, but significantly more respondents than in 2004 report that IT adoption, free market economy, transportation infrastructure and access to market intelligence and other business information are lacking.

Interestingly, while China, Indonesia and Thailand regard IT&T as one of the most important sectors in their economies, lacking IT adoption and innovation are also considered the biggest obstacles to SME development. These same respondents report that free market economy is lacking in their countries.

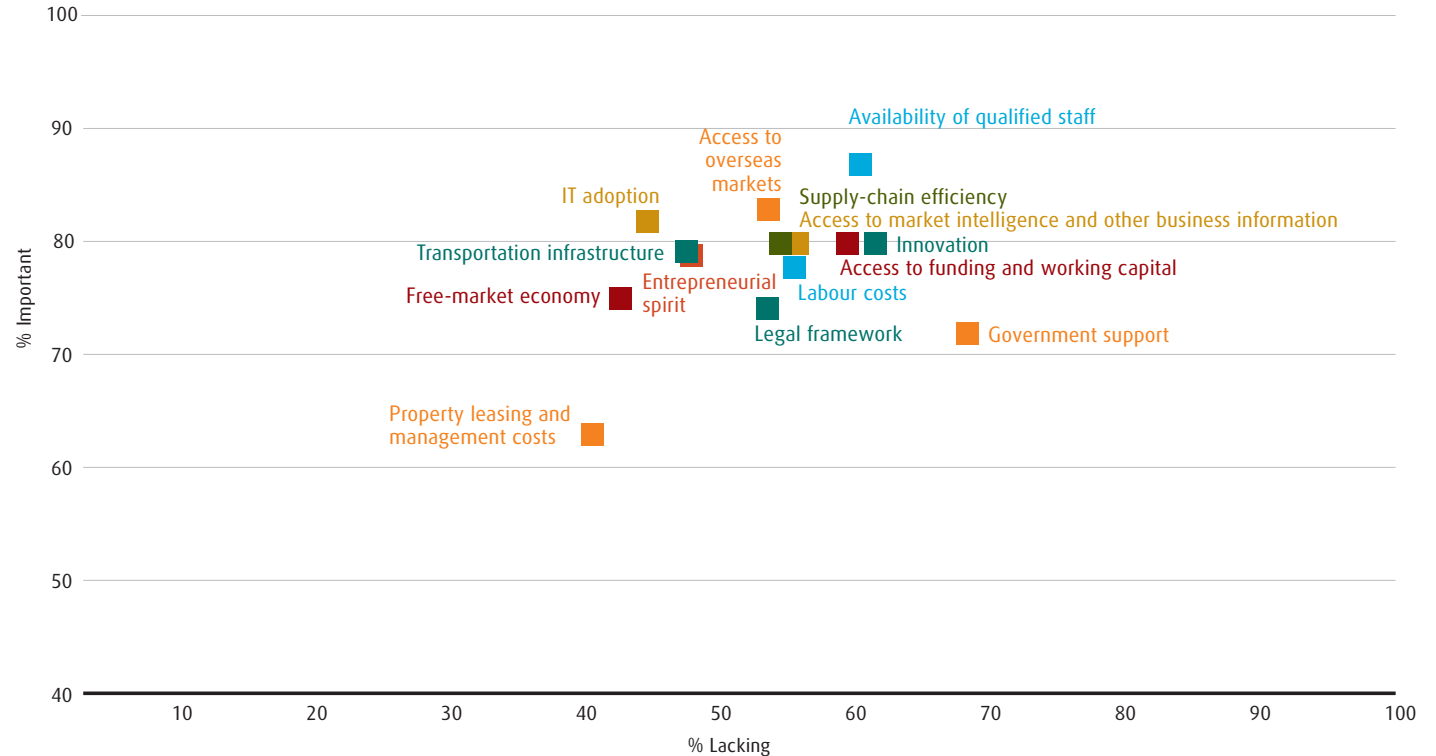


## Contributions and obstacles to SME competitiveness

How important are the following factors in contributing to SME competitiveness in your country?

Which of the following factors do you consider to be lacking and are therefore obstacles to SME competitiveness in your country?

- Overall, 'hardware' such as infrastructure is available, but 'software' such as innovation and availability of qualified staff remains lacking
- Less developed markets generally find more obstacles to SME competitiveness



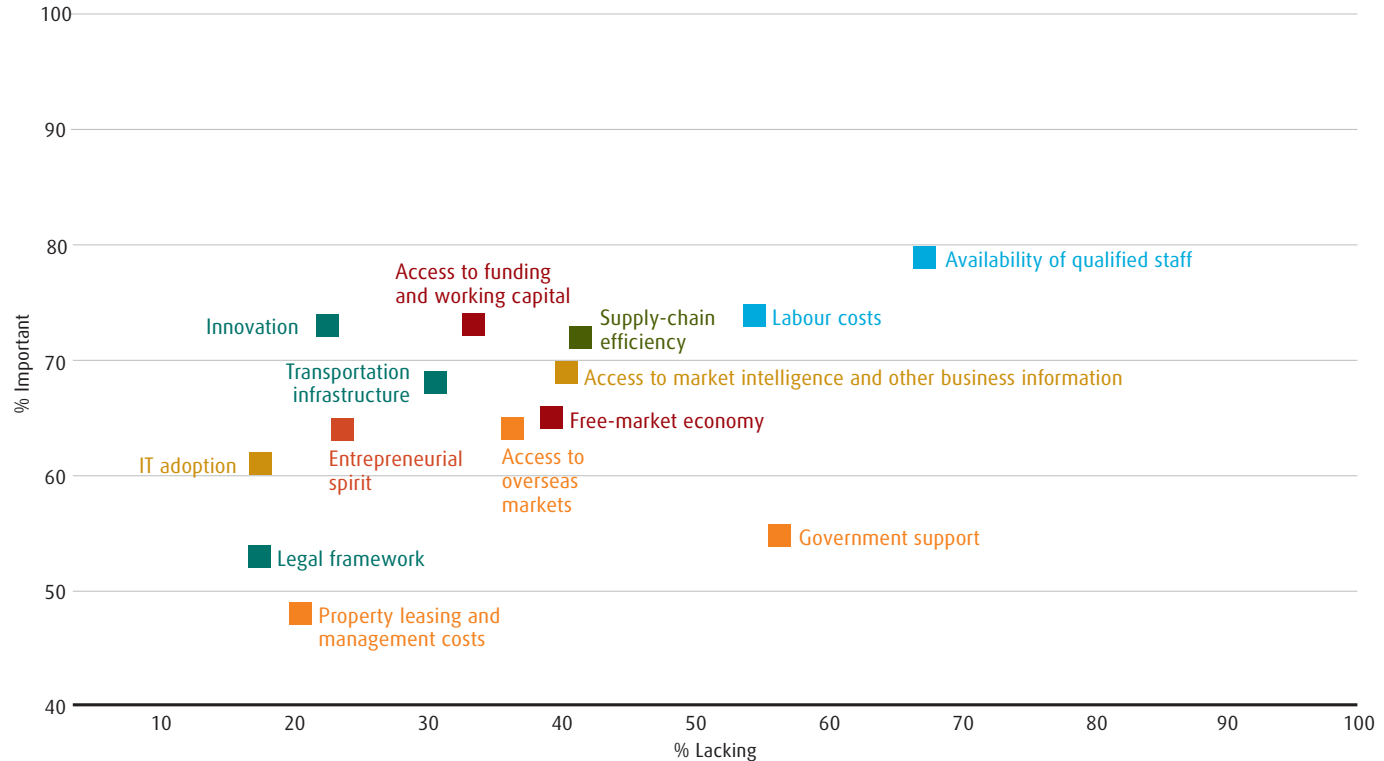
Base: All SMEs

# Contributions and obstacles to SME competitiveness - Australia

How important are the following factors in contributing to SME competitiveness in your country?

Which of the following factors do you consider to be lacking and are therefore obstacles to SME competitiveness in your country?

- Availability of qualified staff is most lacking
- IT adoption and legal framework are rated as the least lacking



Base: SMEs in Australia

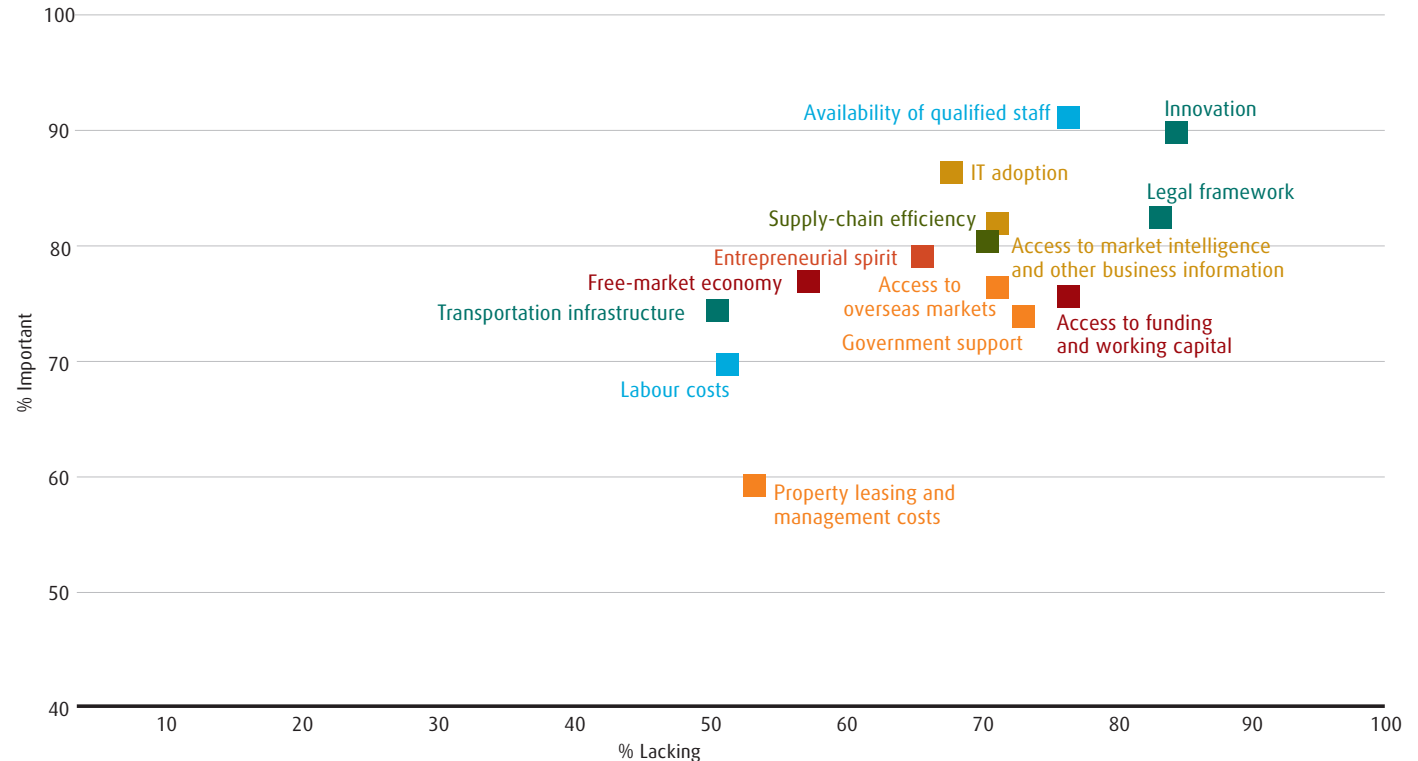


## Contributions and obstacles to SME competitiveness - China

How important are the following factors in contributing to SME competitiveness in your country?

Which of the following factors do you consider to be lacking and are therefore obstacles to SME competitiveness in your country?

- All factors are rated by 50% or more respondents as lacking
- Innovation and legal framework are most lacking, followed by availability of qualified staff and access to funding and capital



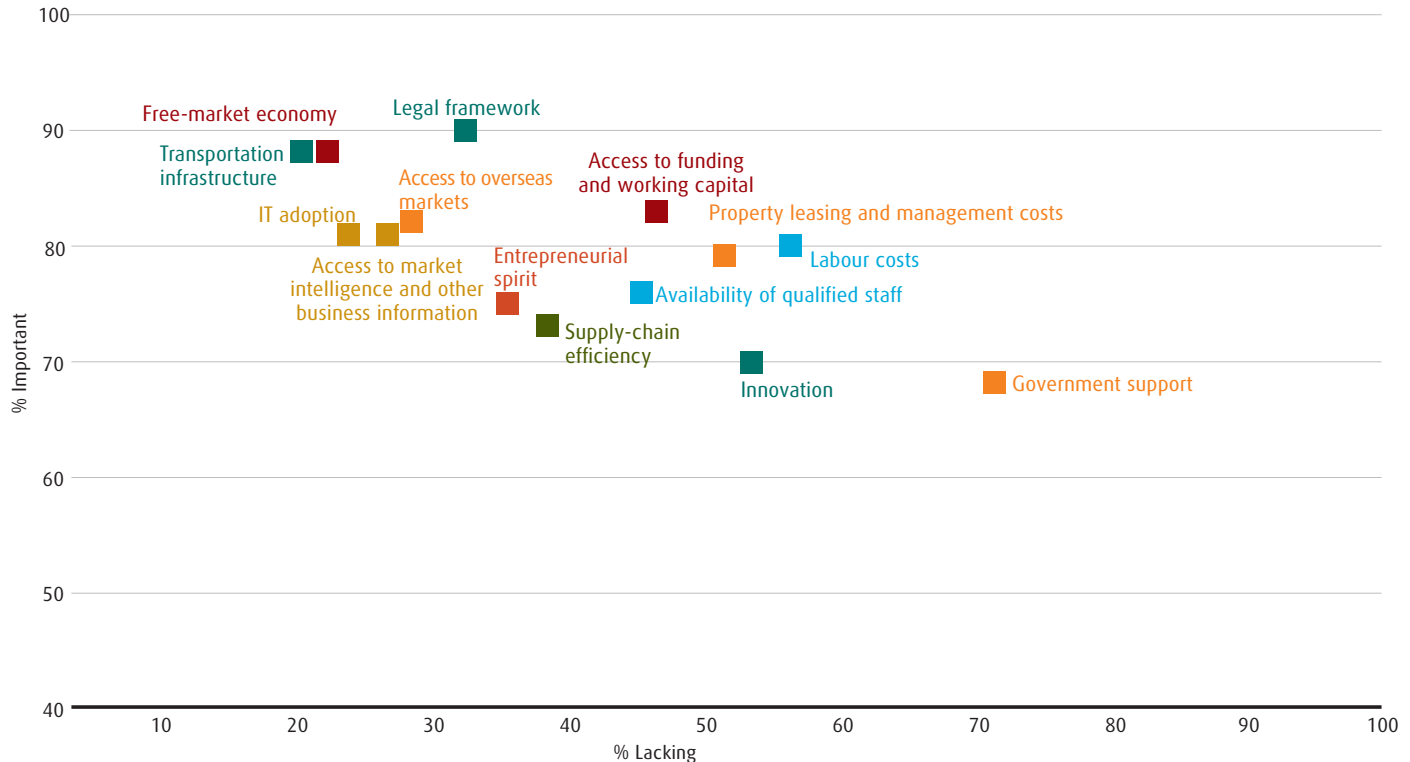
Base: SMEs in China

# Contributions and obstacles to SME competitiveness - Hong Kong

How important are the following factors in contributing to SME competitiveness in your country?

Which of the following factors do you consider to be lacking and are therefore obstacles to SME competitiveness in your country?

- High labour and property leasing and management costs are perceived as obstacles
- Government support is highly lacking but rated lowest in importance



Base: SMEs in Hong Kong

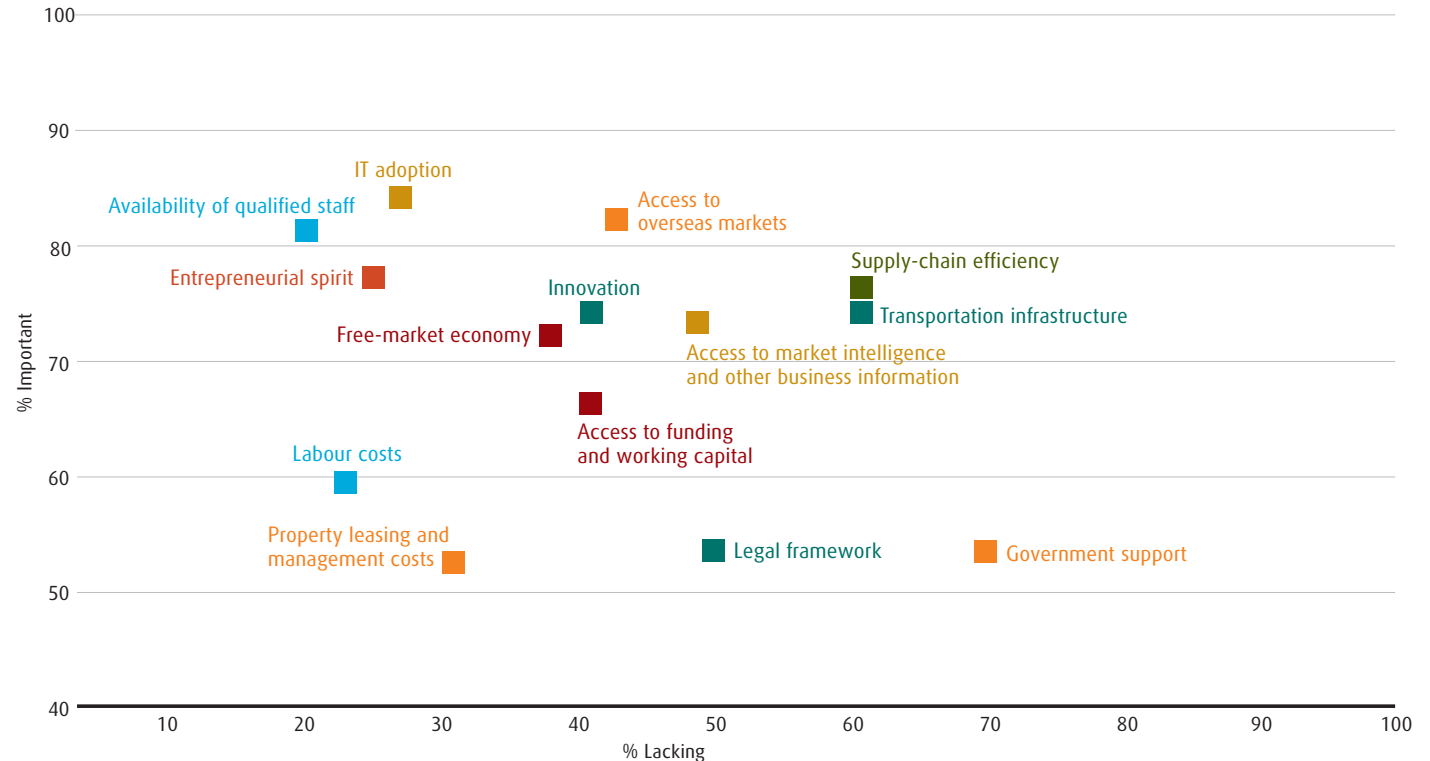


## Contributions and obstacles to SME competitiveness - India

How important are the following factors in contributing to SME competitiveness in your country?

Which of the following factors do you consider to be lacking and are therefore obstacles to SME competitiveness in your country?

- Qualified staff is rated as more readily available compared to other markets
- Government support, supply-chain efficiency and transportation infrastructure are the most lacking



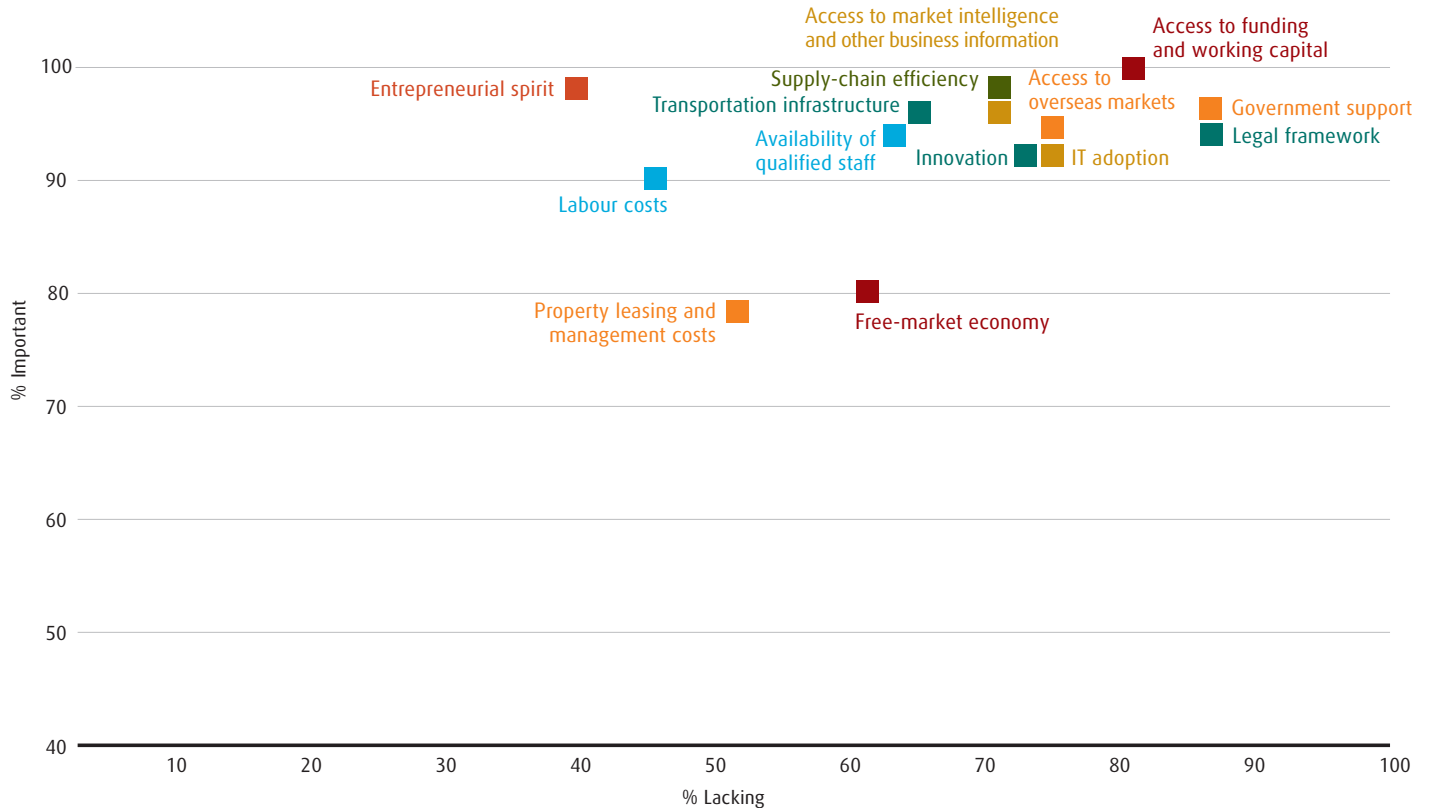
Base: SMEs in India

# Contributions and obstacles to SME competitiveness - Indonesia

How important are the following factors in contributing to SME competitiveness in your country?

Which of the following factors do you consider to be lacking and are therefore obstacles to SME competitiveness in your country?

- Government support and legal framework are considered the biggest issues
- Labour and property costs are relatively smaller concerns



Base: SMEs in Indonesia

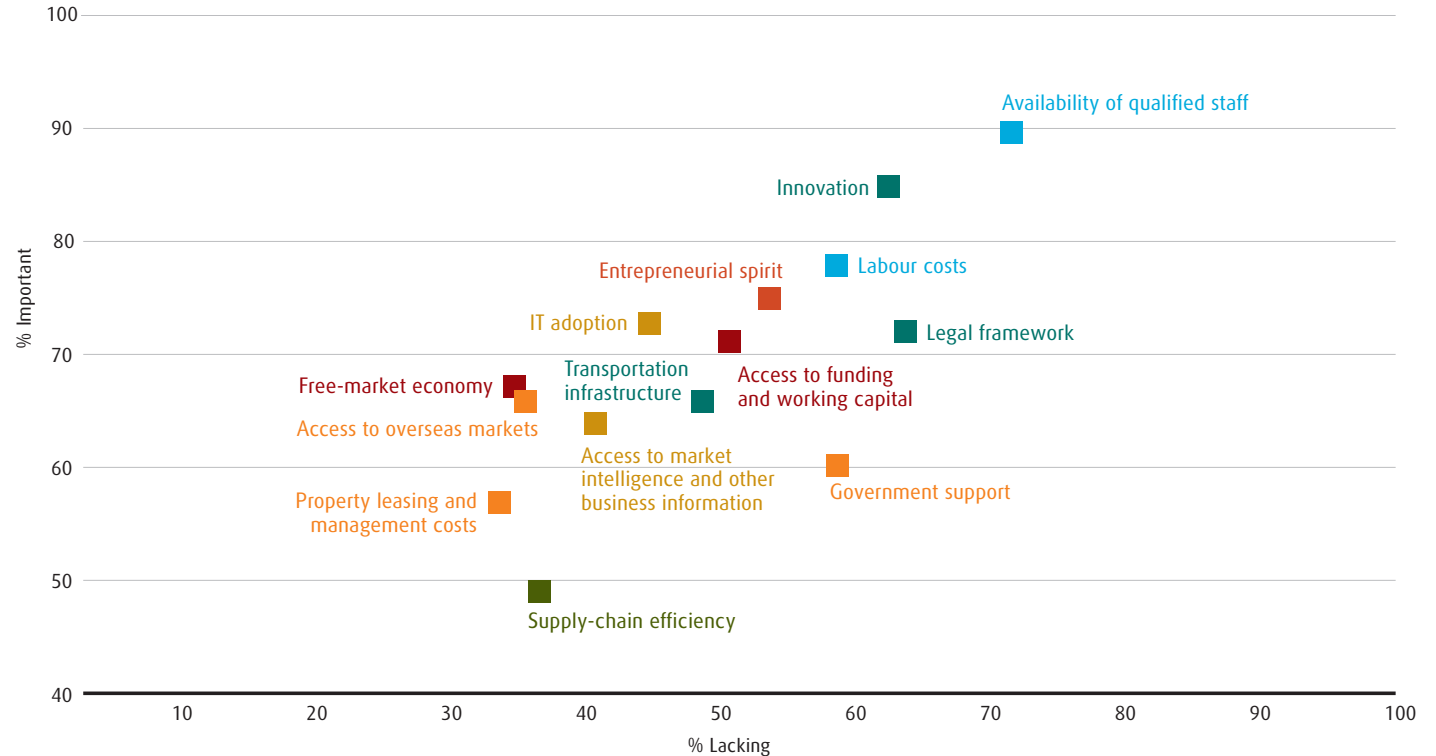


## Contributions and obstacles to SME competitiveness - Japan

How important are the following factors in contributing to SME competitiveness in your country?

Which of the following factors do you consider to be lacking and are therefore obstacles to SME competitiveness in your country?

- Availability of qualified staff is by far the most important and yet most lacking factor, followed by innovation
- Supply-chain efficiency, property leasing and free market economy are largely present



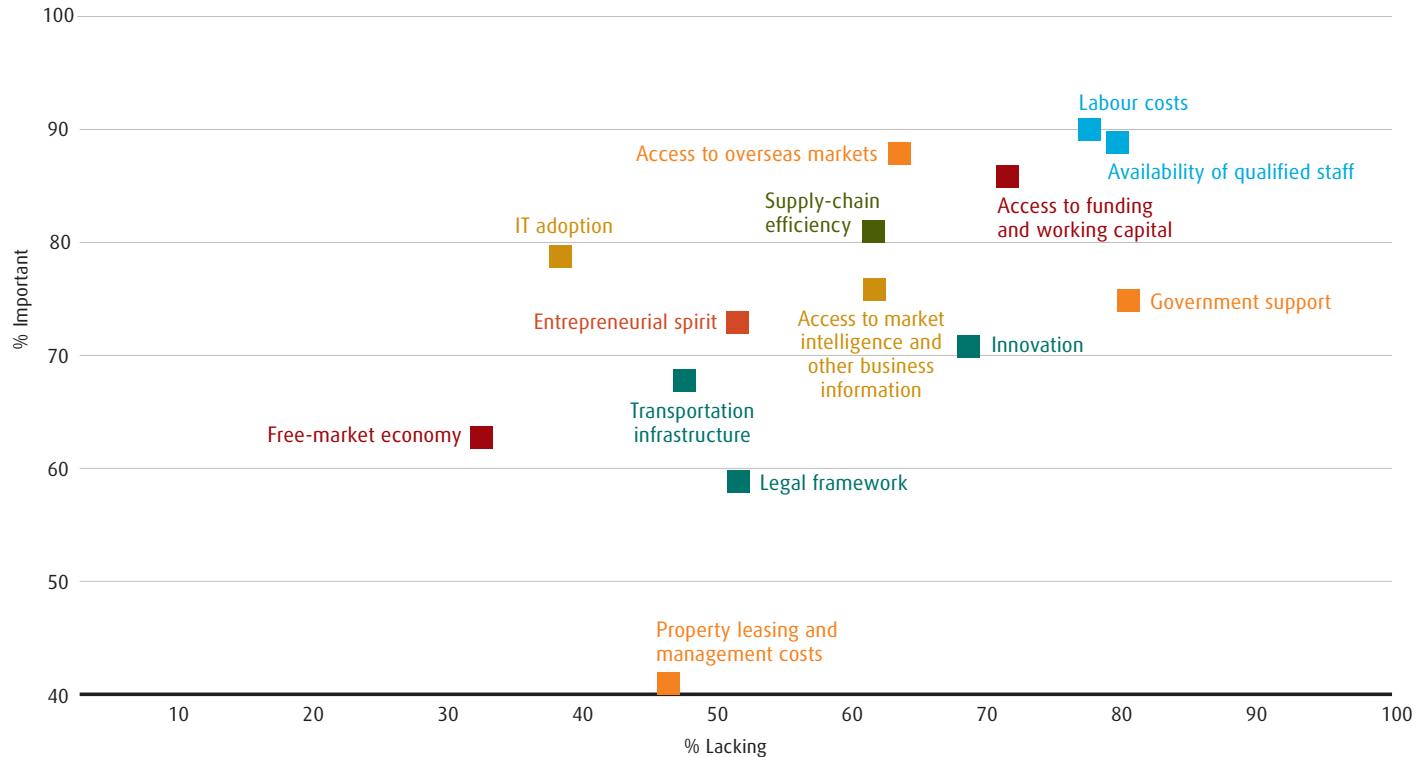
Base: SMEs in Japan

## Contributions and obstacles to SME competitiveness - Korea

How important are the following factors in contributing to SME competitiveness in your country?

Which of the following factors do you consider to be lacking and are therefore obstacles to SME competitiveness in your country?

- Property leasing and management costs are by far the least important factor
- Labour costs is the most important contributor to competitiveness but highly lacking, along with availability of qualified staff



Base: SMEs in Korea

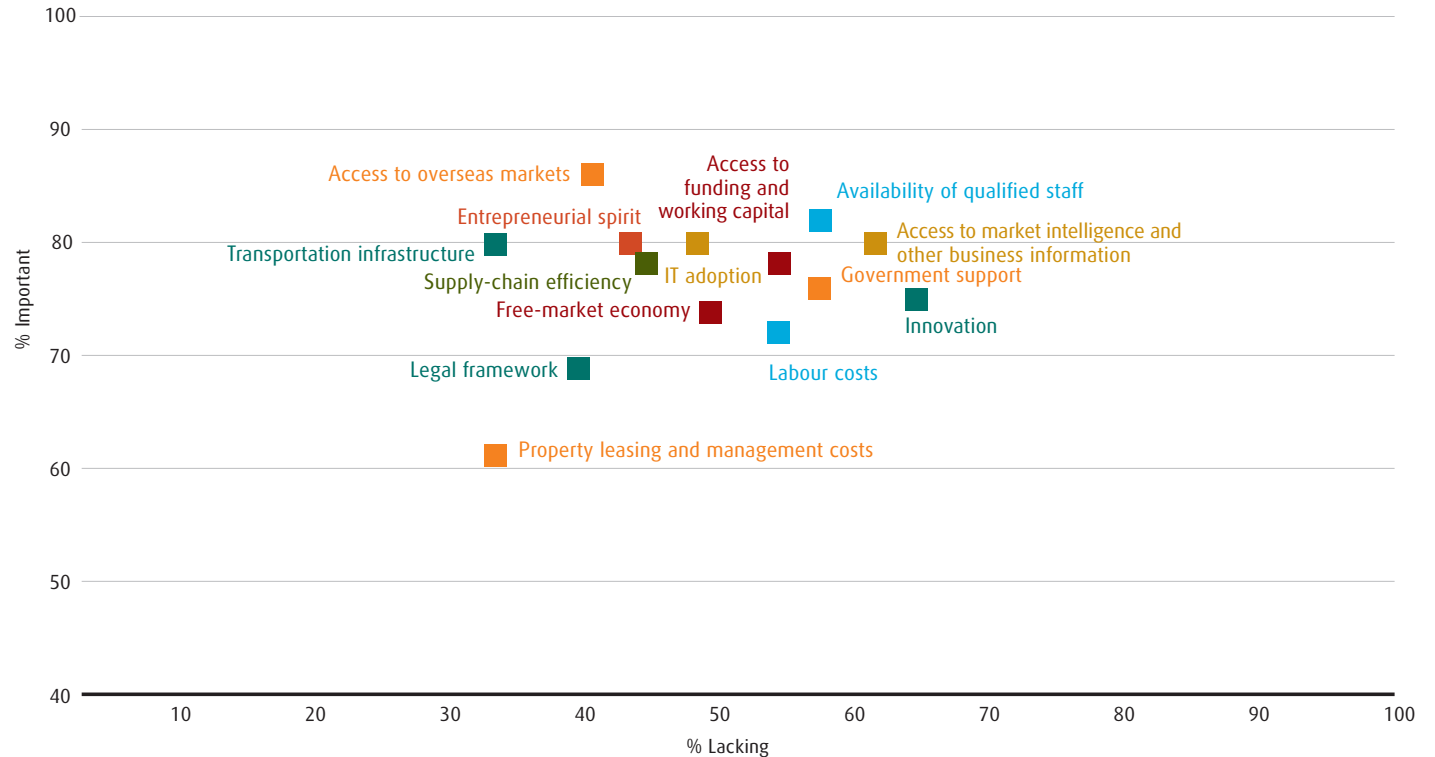


## Contributions and obstacles to SME competitiveness - Malaysia

How important are the following factors in contributing to SME competitiveness in your country?

Which of the following factors do you consider to be lacking and are therefore obstacles to SME competitiveness in your country?

- Innovation and access to market intelligence and other business information are found to be most lacking
- Transportation infrastructure and property costs are less of an issue



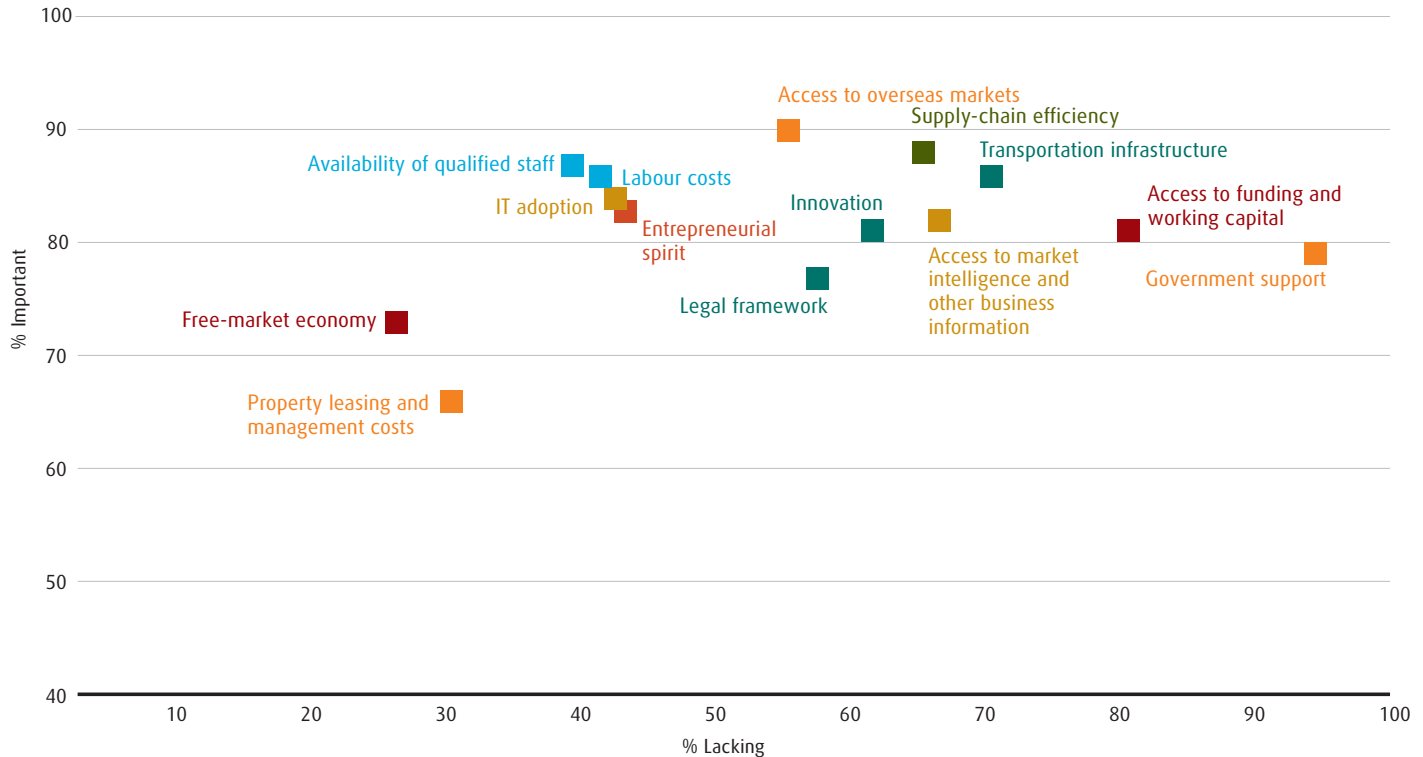
Base: SMEs in Malaysia

# Contributions and obstacles to SME competitiveness - Philippines

How important are the following factors in contributing to SME competitiveness in your country?

Which of the following factors do you consider to be lacking and are therefore obstacles to SME competitiveness in your country?

- Government support, access to capital and transportation infrastructure are substantially lacking compared to other markets



Base: SMEs in the Philippines

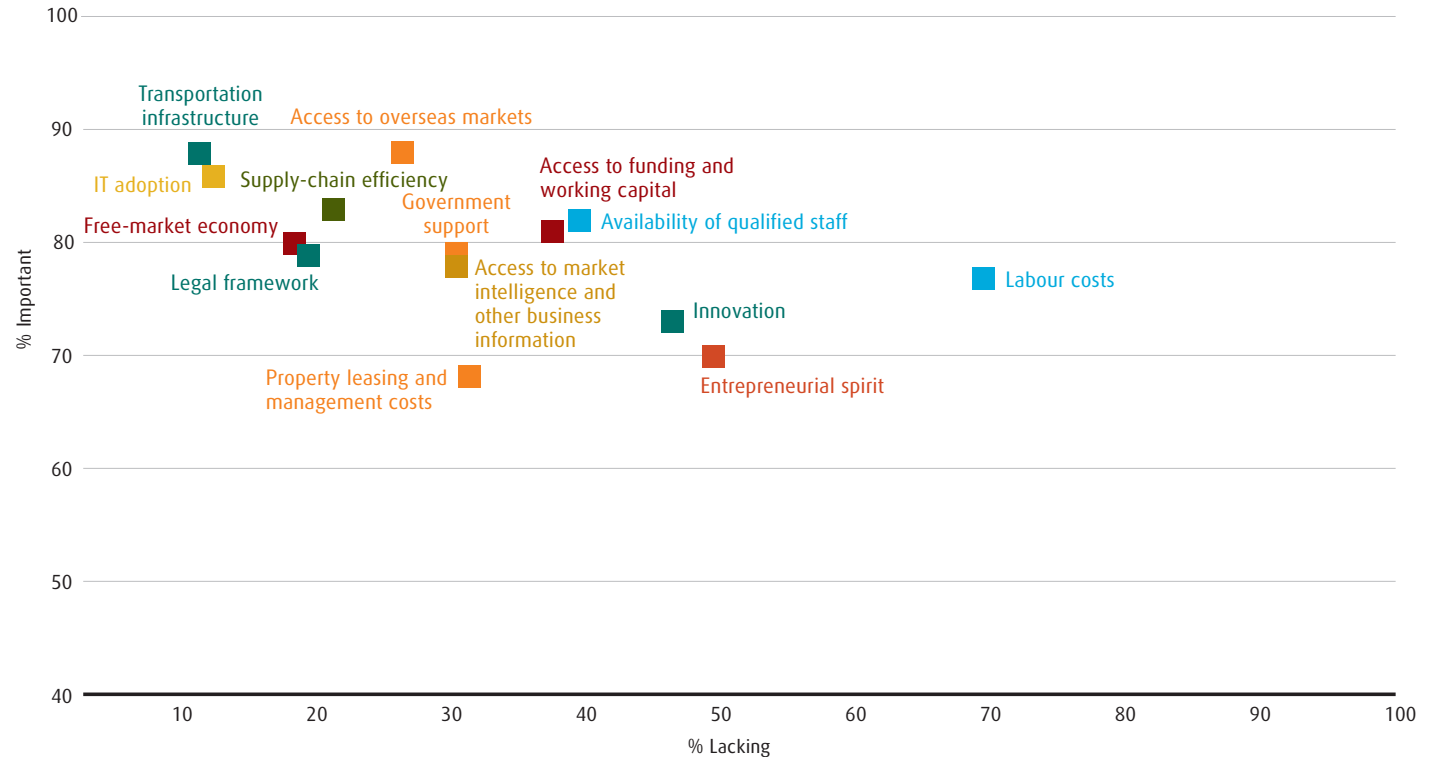


## Contributions and obstacles to SME competitiveness - Singapore

How important are the following factors in contributing to SME competitiveness in your country?

Which of the following factors do you consider to be lacking and are therefore obstacles to SME competitiveness in your country?

- High labour cost is the main obstacle, with majority of other factors considered to be relatively available, compared to other markets



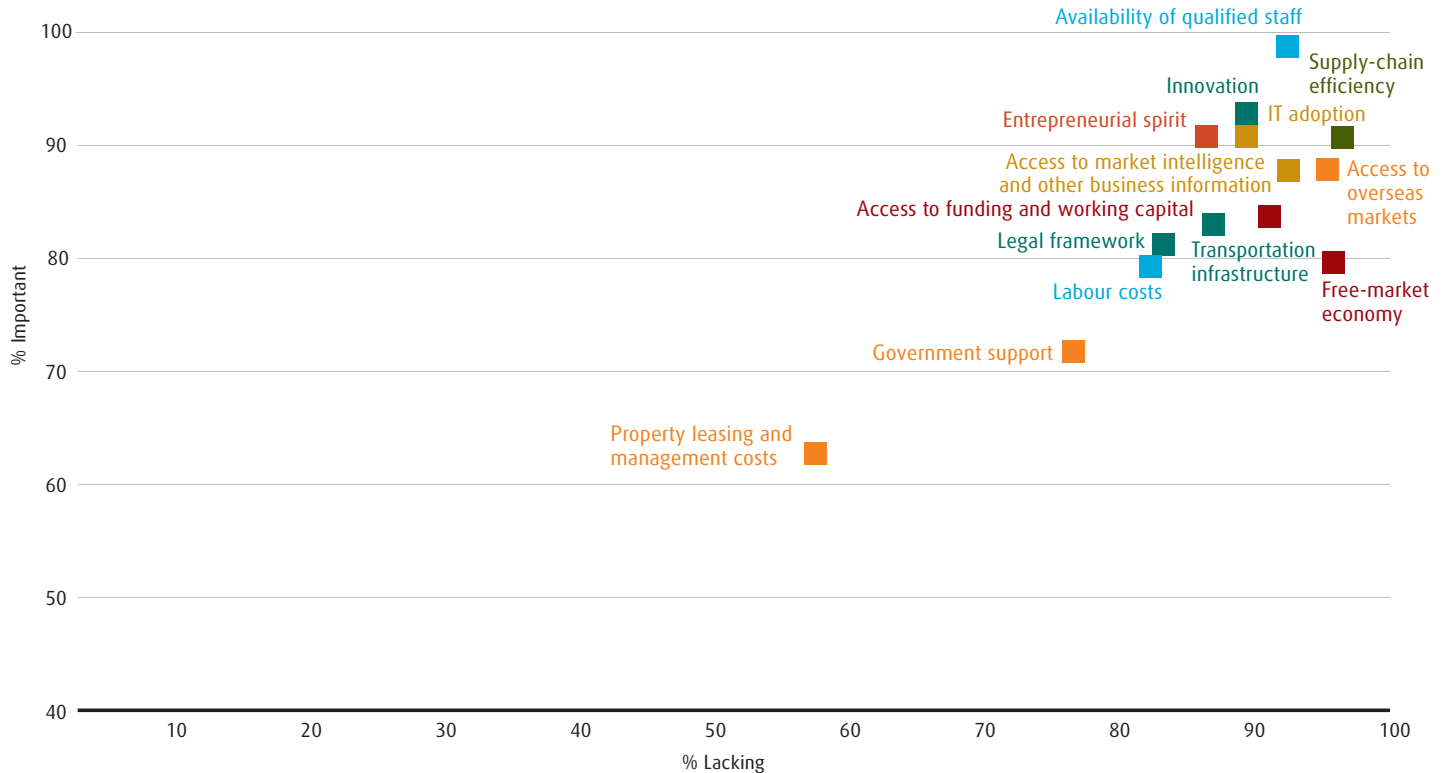
Base: SMEs in Singapore

# Contributions and obstacles to SME competitiveness - Taiwan

How important are the following factors in contributing to SME competitiveness in your country?

Which of the following factors do you consider to be lacking and are therefore obstacles to SME competitiveness in your country?

- High number of obstacles compared to both developed and less developed markets
- Compared to a year ago, significantly more respondents believe IT adoption, free market economy, transportation infrastructure, and access to market intelligence and other business information are lacking



Base: SMEs in Taiwan

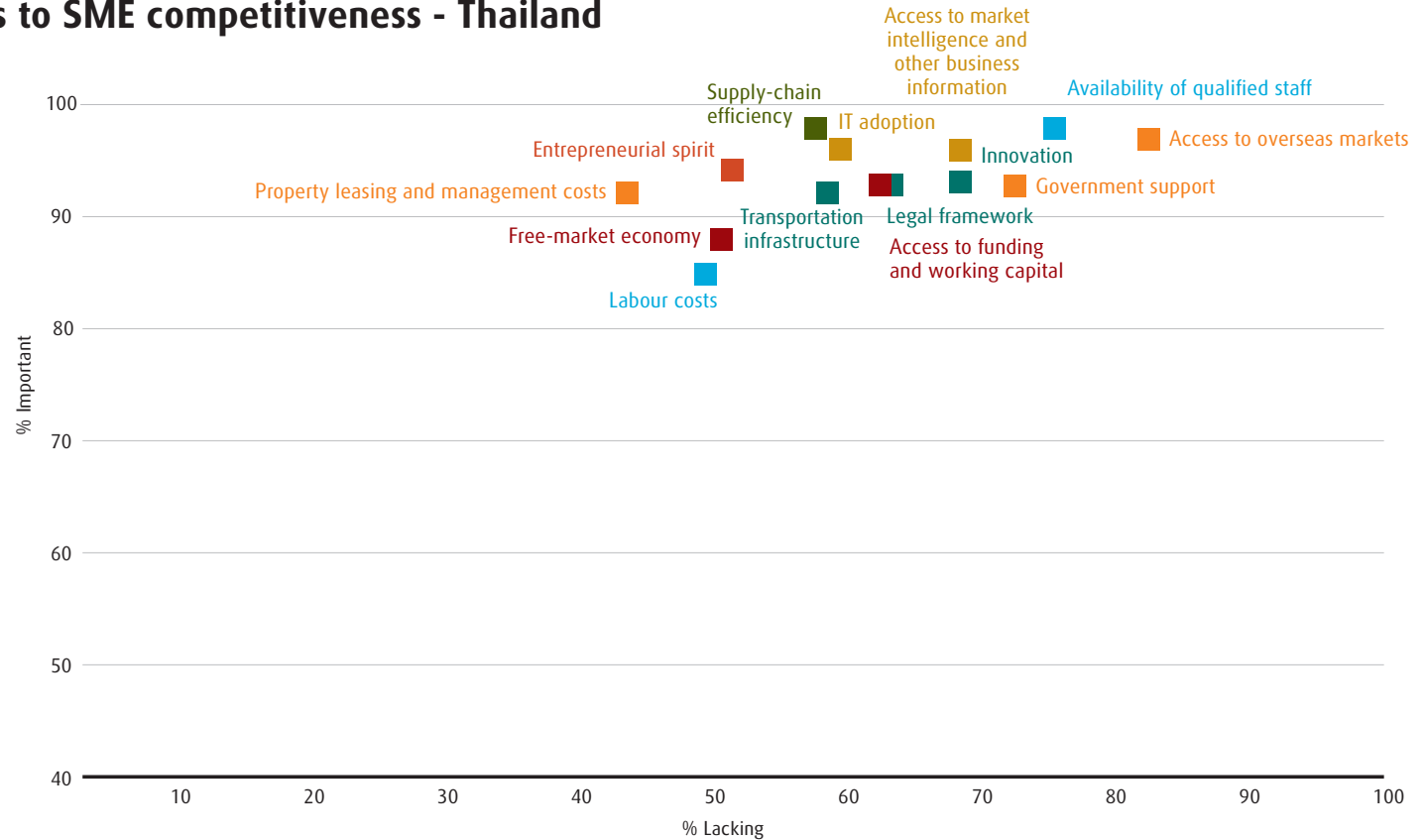


## Contributions and obstacles to SME competitiveness - Thailand

How important are the following factors in contributing to SME competitiveness in your country?

Which of the following factors do you consider to be lacking and are therefore obstacles to SME competitiveness in your country?

- All factors are considered to be highly important
- Access to overseas markets is most lacking



Base: SMEs in Thailand

## Key concerns and needs

### Asia's SMEs most concerned with funding and talent

When asked to identify problems that keep them up at night, SME leaders cite cash flow and capital, government regulations and hiring of qualified staff as their biggest concerns. Issues relating to government regulations are of particular concern to Indonesian and Filipino SME leaders.

As expected, respondents in developed markets including Hong Kong, Singapore and Japan are found to be most concerned with high labour costs while those in less developed countries point to the rising cost of raw materials and oil prices as major issues they face.

### Environmental problems persist

Pollution and the environment remain major concerns for Asia's SME leaders, with nearly three quarters of all respondents across the region citing this as a problem. This is followed by health concerns, cited by more than 90% of respondents

in Taiwan, Malaysia, India and the Philippines, and by more than 80% in China, Hong Kong and Singapore.

Infectious diseases such as SARS and avian flu continue to worry respondents, albeit slightly less than the previous year. Only approximately half of all respondents are concerned with terrorist attacks.

Growing crime rates, natural disasters and political instability and conflict overseas are relatively bigger concerns in Japan, China, Taiwan, Malaysia and the Philippines. These countries, except Japan, but including Indonesia, are also particularly concerned with political instability and conflict at home.

When comparing social concerns at a country level, Australia appears to have the least worries while Taiwan is most concerned about social issues and is seeing an increasing proportion of respondents voicing concerns in this area.

### Credit and financing needs present challenges to SMEs

Across the region, nearly half of the respondents report having credit or financing needs on an ongoing basis, which may explain why cash flow and capital is their foremost concern. While India and Malaysia are found to be in most need of credit and financing, SMEs in Japan and China have the least needs.

Meanwhile, only half the respondents are satisfied with their main finance provider. This is most problematic in Korea with less than 30% of respondents satisfied. Korean respondents generally do not believe that their finance providers have the products and services they need. This is generally consistent with the findings in 2004. SMEs in Indonesia, Malaysia and the Philippines are relatively satisfied, with ratings on all attributes above the regional average.



## Key concerns and needs

### What are the top three business issues that keep you up at night?

- Cash flow and funding, government regulations and hiring of qualified staff remain SMEs' biggest concerns

% Concerned	Cash flow and funding	Government regulations	Qualified staff	High labour costs	Rising cost of raw materials and oil prices	Sales/turnover
All Countries	19%	17%	15%	9%	9%	6%
Australia	<u>30%</u>	11%	21%	5%	3%	9%
China	23%	13%	24%	1%	3%	8%
Hong Kong	17%	5%	10%	12%	2%	<u>13%</u>
India	17%	21%	5%	4%	7%	3%
Indonesia	12%	<u>59%</u>	2%	2%	24%	0%
Japan	8%	5%	<u>29%</u>	14%	4%	1%
Korea	20%	17%	21%	4%	6%	11%
Malaysia	17%	18%	15%	3%	11%	10%
Philippines	21%	31%	2%	15%	<u>25%</u>	6%
Singapore	20%	13%	7%	<u>29%</u>	11%	6%
Taiwan	19%	8%	24%	9%	5%	2%
Thailand	21%	27%	10%	10%	17%	3%

Green text indicates higher than regional average  
 Red text indicates lower than regional average  
 Underline indicates the country with the highest scores

### How concerned are you about the following political and social issues?

- Pollution and the environment remain major concerns for Asia's SME leaders
- Infectious diseases such as SARS and avian flu continue to worry respondents, albeit slightly less than the previous year

% Concerned	Pollution and the environment	Your health	Infectious diseases	Growing crime rates	Political instability at home	Political instability overseas	Natural disasters	Terrorist attacks
All Countries	76%	73%	67%	66%	66%	60%	59%	55%
Australia	<u>54%</u>	54%	<u>31%</u>	<u>31%</u>	<u>30%</u>	50%	<u>19%</u>	29%
China	85%	85%	79%	74%	75%	69%	70%	60%
Hong Kong	74%	84%	75%	53%	59%	47%	50%	40%
India	87%	91%	76%	58%	65%	48%	61%	61%
Indonesia	61%	37%	69%	69%	75%	<u>29%</u>	37%	53%
Japan	68%	51%	81%	81%	34%	64%	<u>80%</u>	46%
Korea	58%	47%	41%	47%	56%	53%	49%	<u>22%</u>
Malaysia	82%	92%	79%	77%	79%	71%	63%	64%
Philippines	90%	93%	72%	<u>82%</u>	90%	71%	72%	74%
Singapore	81%	85%	75%	64%	64%	63%	59%	<u>75%</u>
Taiwan	<u>94%</u>	<u>95%</u>	85%	<u>82%</u>	<u>93%</u>	<u>87%</u>	75%	64%
Thailand	71%	<u>32%</u>	34%	67%	66%	48%	53%	63%

Green text indicates higher than regional average  
 Red text indicates lower than regional average  
 Underline indicates the country with the highest and lowest scores

## Key concerns and needs

Does your company have credit or financing needs on an on-going basis?

How would you rate your main provider of credit or financing on the following attributes?

- Majority of SMEs have financing needs on an on-going basis
- Few are satisfied with their main financial services provider, especially in Korea

	On-going credit or financing needs	Is a strong partner in my business growth	Values customer service for small businesses	Understands our company's needs	Has the products and services we need	Is responsive to our requests	Has competitive rates for small businesses
All Countries	48%	58%	57%	56%	55%	54%	54%
Australia	53%	45%	47%	49%	49%	58%	60%
China	28%	60%	53%	56%	53%	44%	58%
Hong Kong	45%	53%	56%	58%	58%	58%	56%
India	70%	56%	59%	56%	52%	59%	52%
Indonesia	61%	<u>74%</u>	61%	<u>71%</u>	<u>81%</u>	<u>71%</u>	58%
Japan	22%	55%	41%	45%	32%	55%	36%
Korea	34%	<u>32%</u>	<u>29%</u>	<u>35%</u>	<u>15%</u>	<u>32%</u>	<u>24%</u>
Malaysia	69%	71%	65%	61%	61%	57%	61%
Philippines	63%	71%	62%	63%	75%	59%	<u>62%</u>
Singapore	56%	61%	<u>71%</u>	63%	63%	52%	52%
Taiwan	47%	53%	57%	49%	49%	49%	49%
Thailand	43%	56%	56%	58%	47%	49%	58%

Green text indicates higher than regional average

Red text indicates lower than regional average

Underline indicates the country with the highest and lowest scores



## The China factor

### **China remains a key attraction for businesses in Asia**

Business relationships between China and other Asian countries continue to strengthen and grow with an increasing number of SMEs setting up businesses in China, except Japan, which saw a 35% drop in business presence from a year ago.

Hong Kong and Taiwan SMEs continue to dominate the business arena in China while Korea leads in growth, with its business presence in China growing by 27% since a year ago.

Across the region, however, only 28% of respondents currently without business presence in China intend to set up businesses there in the near future, compared to 35% in 2004.

### **An opportunity or a threat?**

Respondents continue to have fairly diverse opinions on whether China represents a threat or a boost to local economies. In line with its growing business presence in China, Korean SME leaders' perception of China as a threat has fallen from 65% in 2004 to 35% in 2005. On the contrary, with a declining business presence, fewer Japanese respondents believe it is a boost, and more perceive it as a threat.

### **Room for improvement**

SME leaders from Hong Kong and Taiwan demonstrate the greatest concerns when doing business with China compared with respondents from other countries, despite their close political, social and economic ties. However, SME leaders across the region agree that major issues arise when doing business in China, particularly in the areas of intellectual property protection, and transparency. These findings are consistent with those in 2004.

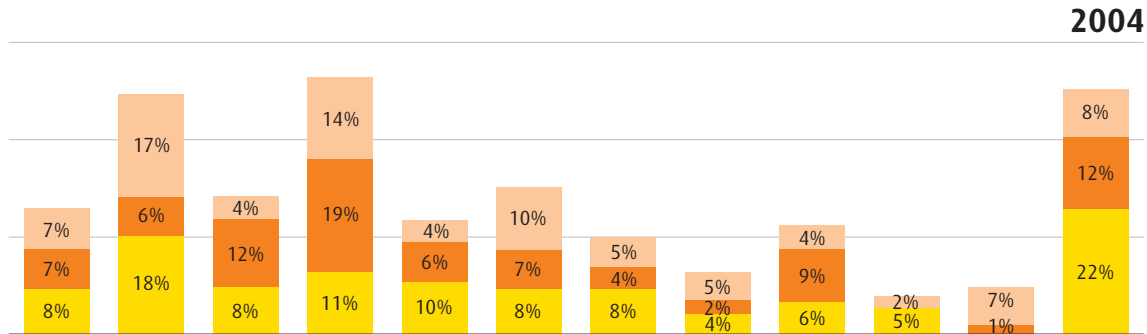
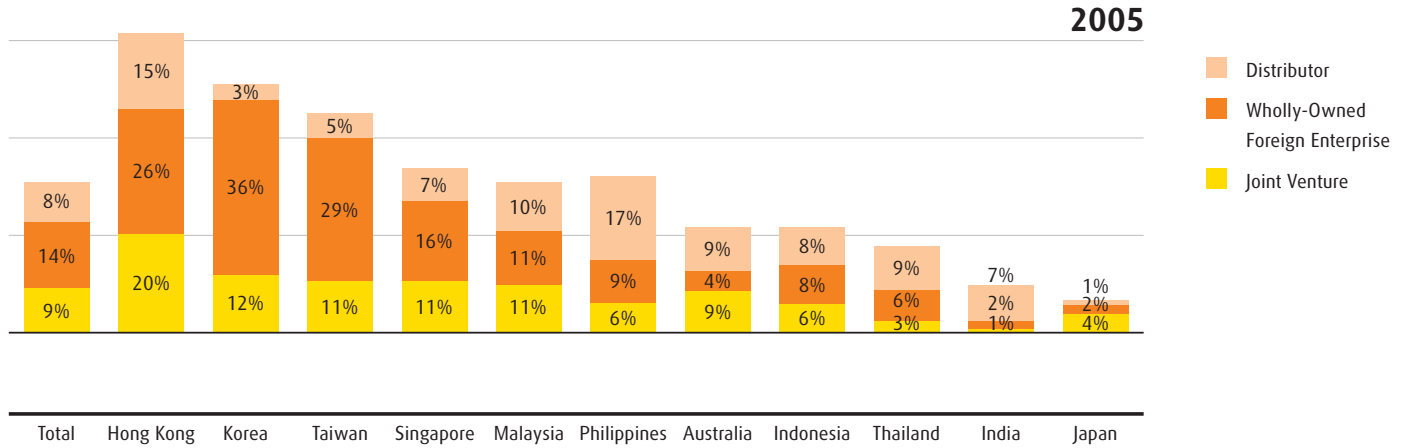
Australia and Indonesia have the least concerns about doing business with China, while Malaysians see government intervention in the economy as a problem, and Indians are concerned with generating profits from their businesses. Despite close economic and cultural ties, Hong Kong and Taiwan respondents have the most trouble trusting their business partners in China with 90% in Taiwan and 85% in Hong Kong citing this as a concern.

Only half the respondents are concerned by whether the RMB is fully convertible.

# The China factor

## Do you currently have a business presence in China?

- Hong Kong has the biggest presence in China
- Japanese business presence has fallen drastically from a year ago





## The China factor

Do you intend to establish a business presence in China in the near future?

(For companies that do not currently have a business presence in China)

- Compared to 2004, significantly fewer respondents currently without businesses in China intend to set up operations in the near future



## The China factor

### How concerned are you about the following issues when doing business with China?

- Intellectual property protection and transparency are SMEs' greatest concerns when doing business with China
- India is particularly concerned about generating profits
- Taiwan and Hong Kong generally have the greatest concerns
- Findings largely remain unchanged from 2004

% Concerned	Intellectual property protection	Transparency	Government intervention in the economy	Trust in business partners	Control over trading rights and distribution	Generating profits	Need for 'guan xi'	Environment and health	Corporate governance	RMB not fully convertible
All Countries	68%	67%	64%	63%	62%	62%	61%	59%	59%	50%
Australia	68%	57%	61%	60%	56%	46%	54%	56%	54%	41%
Hong Kong	72%	75%	<u>80%</u>	85%	73%	75%	77%	63%	67%	57%
India	60%	60%	50%	56%	49%	67%	52%	57%	59%	41%
Indonesia	<u>37%</u>	<u>25%</u>	<u>29%</u>	<u>16%</u>	<u>39%</u>	<u>25%</u>	<u>20%</u>	<u>27%</u>	<u>27%</u>	<u>27%</u>
Japan	69%	69%	61%	57%	57%	46%	49%	63%	45%	58%
Korea	78%	77%	65%	54%	63%	57%	72%	69%	56%	54%
Malaysia	54%	60%	67%	61%	59%	66%	65%	50%	59%	47%
Philippines	72%	66%	62%	65%	64%	70%	58%	57%	63%	54%
Singapore	63%	67%	65%	70%	69%	76%	79%	66%	62%	43%
Taiwan	<u>83%</u>	77%	79%	<u>90%</u>	<u>80%</u>	<u>80%</u>	<u>82%</u>	<u>76%</u>	<u>82%</u>	<u>71%</u>
Thailand	80%	<u>79%</u>	68%	54%	67%	52%	39%	51%	59%	46%

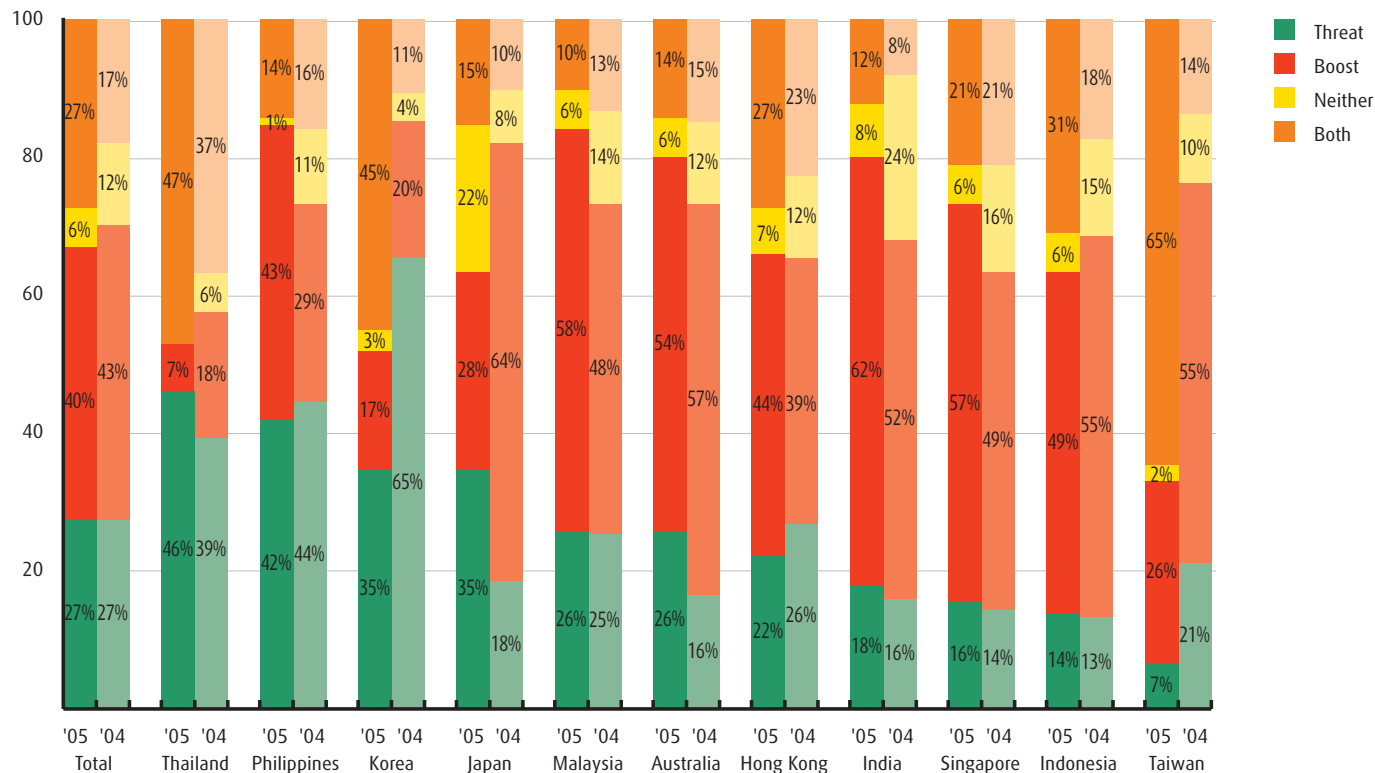
Green text indicates higher than regional average  
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## The China factor

**Do you consider the growing predominance of China to be a threat and/or a boost to business in your own country?**

- Mixed sentiments among countries
- On average, respondents across the region believe China represents an opportunity more than a threat
- Compared to 2004, fewer Korean respondents and more Japanese respondents perceive China as a threat



## Macroeconomic issues

### **SMEs banking on Beijing Olympics 2008**

Respondents in China believe that the Beijing Olympics 2008 will have a largely positive effect on China's business prospects and development. Most SME leaders believe Beijing's hosting of the Olympics will create investment opportunities, help modernise and internationalise the economy and raise investor confidence. This also goes hand in hand with an expected increase in employment opportunities and improved housing and other urban infrastructure.

At the same time, few dispute that the Olympics may also give rise to high consumption, and therefore inflation.

### **Impact of political tension on trade relationship to be seen**

Japanese SME leaders are divided on whether the political tension between China and Japan will have a negative impact on the volume of trade growth between the two countries over the next 12 months.

While 36% of respondents believe it will have a negative impact, 38% believe it will not, and 26% believe trade will remain the same.

### **Cross-straits trade volume expected to continue growing**

With on-going discussions on direct trade links between Taiwan and China, a majority of Taiwanese SME leaders are confident that trade volume will continue to grow in the next 12 months.

### **India to come head-to-head with China, but not surpass its growth**

India's SME leaders have great faith in their country, with 43% believing that India will move up the ladder, coming head-to-head with China in economic growth potential within the next three years. Despite its progress, however, nearly 50% of respondents believe that China will remain the region's economic leader in the next three years.

### **Hong Kong is losing its edge as the region's logistics hub**

As competition increases as a result of rapidly developing logistics infrastructure and management capabilities in China, nearly half the respondents in Hong Kong believe the city is losing its edge as the regional logistics and transportation hub. At the same time, however, this year's survey also shows that fewer respondents believe Transport & Logistics will be an important business sector to Hong Kong in the coming year.



## Macroeconomic issues

### Free trade agreement not fully capitalised

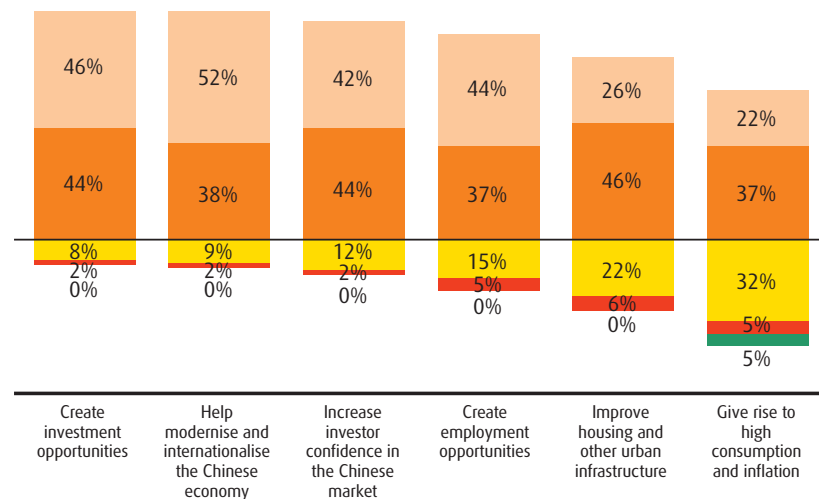
Despite close ties between Singapore and the U.S., less than half the respondents believe the free trade agreement between the two countries has benefited their businesses.

### Korea expected to become North Asia's transportation and logistics hub

The Korean government's investment in the Incheon port is expected to solidify Korea's position as North Asia's transport and logistics hub. Sixty percent of Korean respondents are confident that Korea is in a strong position as a hub for North Asia despite competition arising from emerging ports in China.

### Do you agree that the Beijing Olympics 2008 will have the following effects on China's business prospects and development?

- Beijing Olympics 2008 is expected to be transformational for China

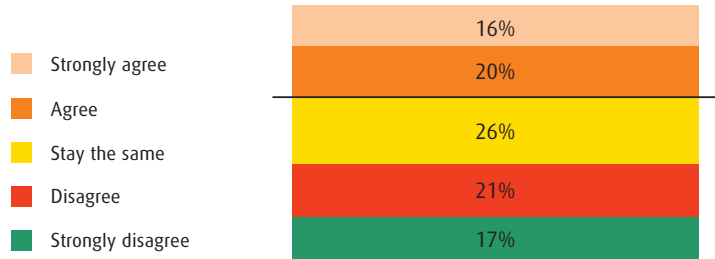


Base: SMEs in China

## Macroeconomic issues

**Do you agree that the political tension between China and Japan will have a negative impact on trade volume growth between the two countries over the next 12 months?**

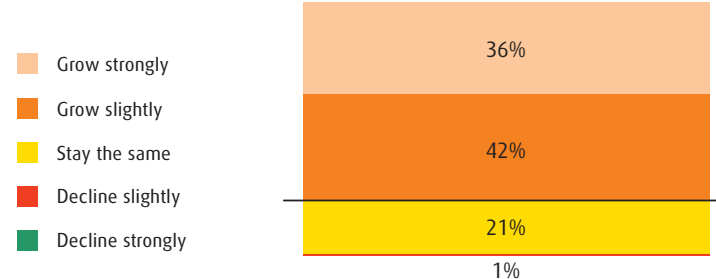
- Respondents in Japan are divided on the expected impact that political tension between the two countries may have on trade relations



Base: SMEs in Japan

**Do you see the volume of trade between Taiwan and China changing over the next 12 months in light of the on-going discussions about direct trade links?**

- Respondents in Taiwan expect trade between Taiwan and China to continue growing



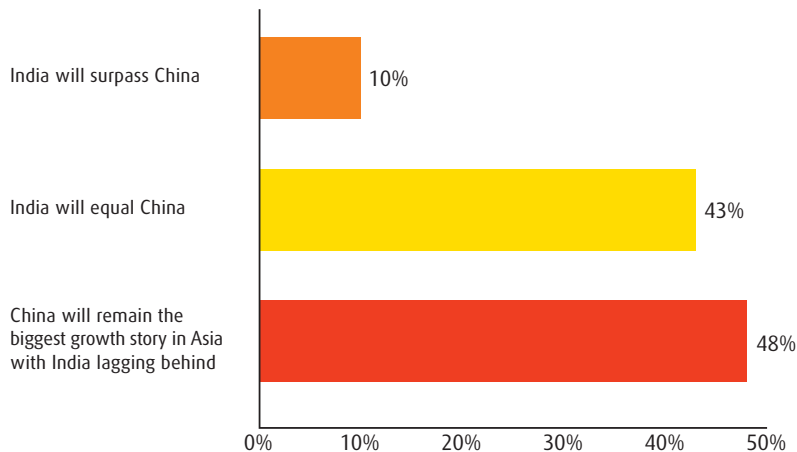
Base: SMEs in Taiwan



## Macroeconomic issues

### Will India surpass China to become the biggest growth story in Asia in the next three years?

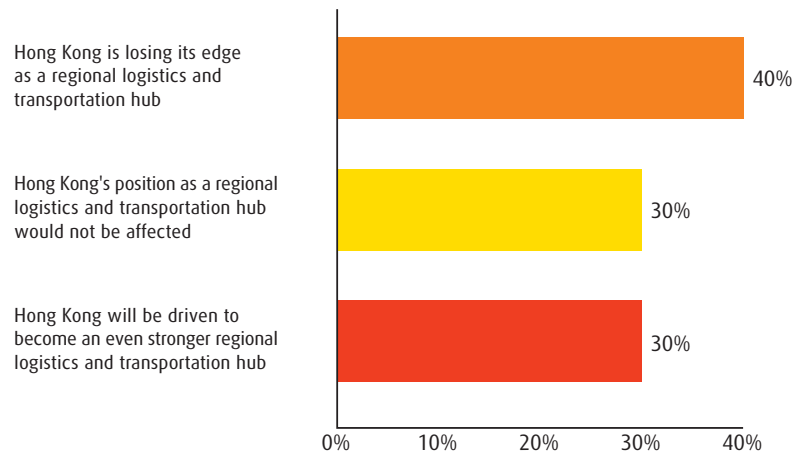
- Respondents in India believe it may equal, but not surpass, China as one of the two biggest growth stories in Asia



Base: SMEs in India

### Is Hong Kong losing its competitive edge as the regional logistics and transportation hub given the rapid development of logistics infrastructure and management capabilities in Mainland China?

- Respondents in Hong Kong believe the city's position as the regional logistics and transportation hub is weakening



Base: SMEs in Hong Kong

## Macroeconomic issues

### Do you agree that the free trade agreement between the U.S. and Singapore has benefited your business?

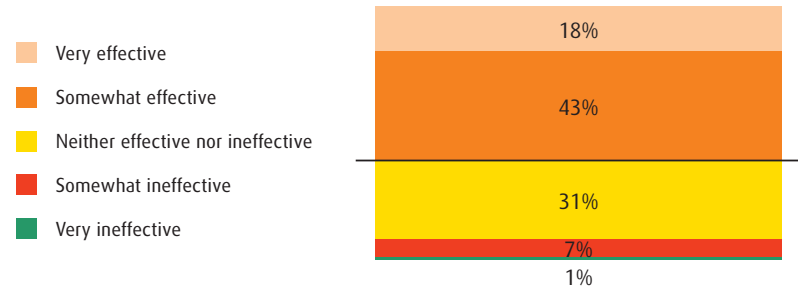
- Fewer than expected SMEs in Singapore are benefiting from the free trade agreement with the U.S.



Base: SMEs in Singapore

### Do you think the expansion of the Incheon port would be effective in positioning Korea as a hub for North Asia given competition arising from other new emerging ports in China?

- Respondents in Korea expect the Incheon port investment to strengthen Korea's position as North Asia's transportation and logistics hub



Base: SMEs in Korea



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Survey undertaken for UPS by TNS.