



Australian Government

Export Finance and Insurance Corporation

2009

# EFIC Global Readiness index

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## National Summary Report



# Welcome to the 2009 EFIC Global Readiness index

The world economic environment has changed dramatically in the 12 months since the launch of EFIC's Global Readiness index. Yet our 2009 survey reveals that despite the headwinds of the global economic downturn, offshore expansion remains a strategic imperative for Australian businesses.

Access to larger markets around the world and the opportunity to participate in global supply chains are the major drivers reported by the 726 globally active Australian businesses that participated in the survey.

A lower Australian dollar and the revaluation of assets in recession-impacted economies has seen the book value of Australia's offshore investments decline over the last 12 months. However, the GRi survey demonstrates that the underlying volume of offshore investment activity by Australian businesses continues to grow. Eighty-four per cent of Australian businesses with an offshore presence are planning an expansion and some 44% of those operating a more traditional export model plan to follow suit.

Perhaps unsurprisingly given the turmoil in global credit markets, access to finance is recognised as the most significant barrier to the global expansion plans of Australian businesses.

As Australia's export credit agency, EFIC is committed to working with Australian companies to help them overcome these challenges to global success.

Angus Armour, Managing Director & CEO  
**Export Finance and Insurance Corporation**

## Our partners' perspectives

*Credit availability remains a concern, and the decision by G20 leaders to inject US\$250 billion into supporting trade finance will hopefully facilitate export growth in Australia and globally. Companies are working hard to retain footholds in international markets. A major test of the 2009 London agreement will be how quickly the credit starts flowing to companies looking to enter new markets, grow faster in current markets and build offshore operations.*

Heather Ridout, Chief Executive Officer  
**Australian Industry Group**

*The SME sector is often described as the engine room of the economy - and is certainly critical to Australia's export performance. Ensuring that Australia's SME exporters are competitive and well-supported financially as they expand offshore is crucial to creating Australia's global champions of tomorrow.*

Ian Murray AM, Executive Director  
**Australian Institute of Export**

*The Global Readiness index findings confirm CEDA's long-held view, articulated in our 2007 report 'Competing from Australia', that Australia's engagement with the rest of the world is crucial to our long-term economic growth. Given the small size of local markets, and our physical distance from the major international markets, Australian companies need to take advantage of industry and technological trends that minimise the challenges of distance and scale. The global financial crisis provides greater momentum for providing the right policy settings for globally-oriented Australian businesses to succeed.*

David Byers, Chief Executive Officer  
**Committee for Economic Development of Australia**



# Credit crunch raises the finance barrier for Australian companies going global

In spite of the dispiriting world economy, Australian companies with export and offshore operations have ambitious plans for growth, according to the 2009 EFIC Global Readiness index (GRI™).

In February 2009, 726 Australian businesses responded to EFIC's GRI survey, providing insight into their experience of key aspects of going global - the drivers, destinations and obstacles, and the sources and availability of funding. The survey took place against the backdrop of a worldwide credit crunch and severe downturn in world trade and production, with eight of Australia's top 10 trading partners in recession (see Chart 1).

## Companies seemingly undaunted by setbacks

Despite the downturn, respondents are optimistic about the overseas prospects for their operations:

- Eighty-four per cent of companies with offshore operations are planning to expand them, 52% within the next year.
- Of respondents without offshore operations, 44% are planning to expand offshore, 32% within the next two years.

It seems that companies aren't just battenning down the hatches until the storm blows over. They are setting out now, in choppy waters, for new markets to compensate for storm damage in existing markets and be better positioned for when the waters are calm again.

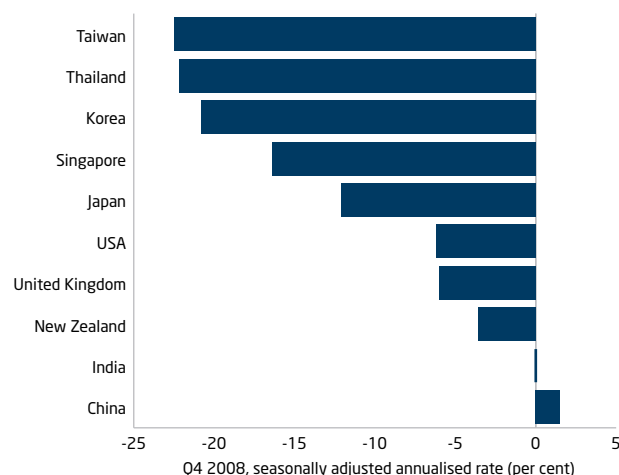
## Four destinations likely to remain focus of offshore operations

As the world map on the next page shows, the top four destinations for offshore expansion by Australian companies are currently North America, South East Asia, Europe and China, with each attracting investment from around one third of respondents. While Europe and China are expected to remain top locations in five years' time, they are expected to move slightly ahead of South East Asia as favoured destinations and North America is expected to fall back by a substantial six percentage points.

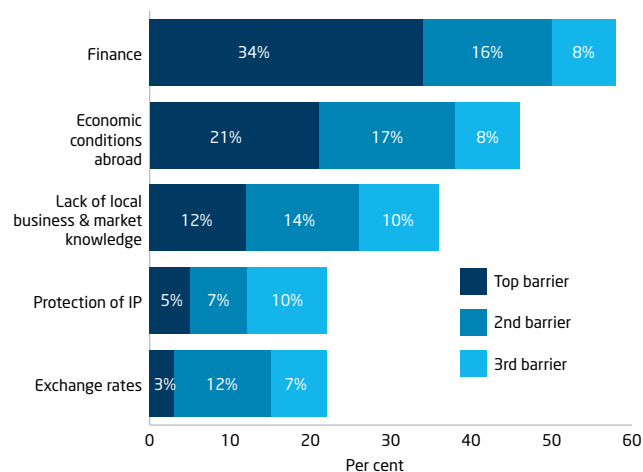
Investment in South Asia is expected to show the greatest increase, from 15% to 20%, thanks to increasing opportunities in India.

**CHART 1 Real GDP growth of Australia's major export markets**

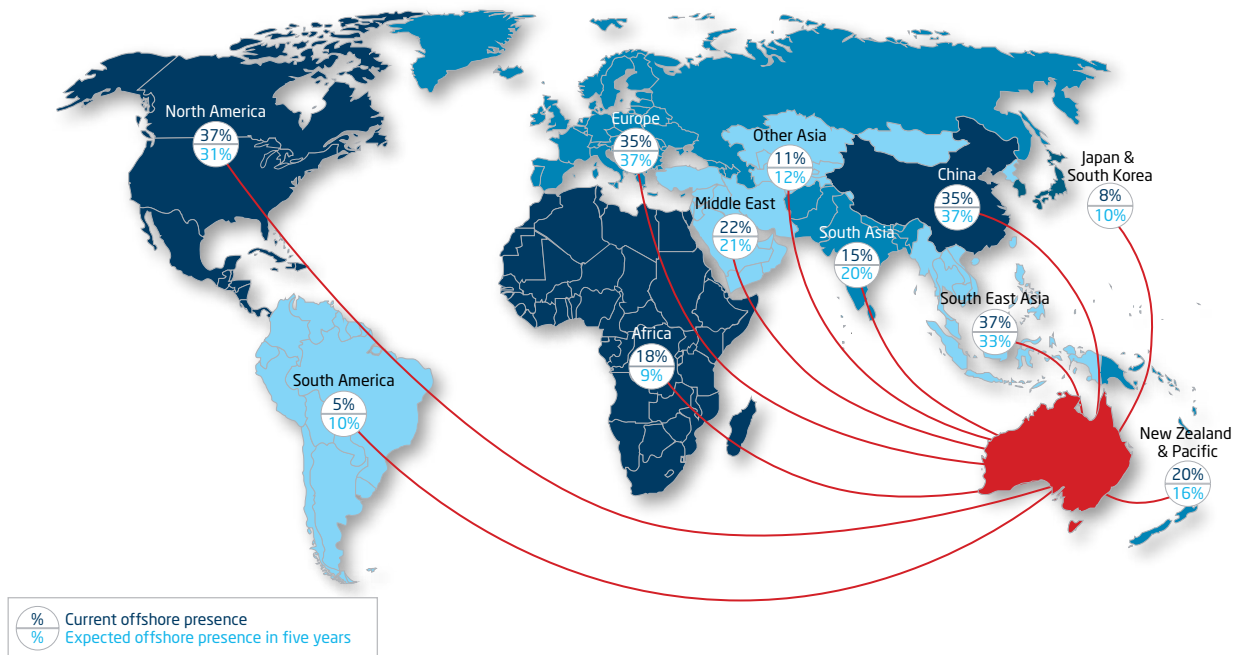
Sources: CEIC; JPMorgan



**CHART 2 Top barriers to international expansion**



## Destinations for offshore expansion by Australian businesses



### Going offshore is about revenue expansion

What is driving Australian business to establish offshore operations despite stiff international headwinds?

A clear message from the GRi survey is that growing revenues is the key motivation. Ninety-five per cent of companies with overseas operations ranked 'increase revenues and/or market share' as a reason for going offshore, with 71% rating it their primary driver. The next most important factors in establishing overseas operations were 'proximity to end market', cited by 51% of respondents, and 'domestic market too small to be sustainable', cited by 47%.

This suggests that, given a relatively small domestic market, Australian businesses are increasingly responding to the strategic imperative of serving a global market. Establishing operations closer to the end customer is seen as the most effective way to increase market share.

Pursuit of economies of scale and/or decreasing costs was stated as a reason for overseas growth by only 38% of businesses, with 3% identifying this as their primary driver. Even in China and other Asian countries, where this factor was relatively more important, proximity to a larger market was rated a more significant driver.

### Access to finance is key barrier

Access to finance is the single most daunting barrier faced by Australian businesses going global, with those stating it as an obstacle increasing steeply from 29% last year to 58% this year and 34% nominating it as the most significant barrier they face (see Chart 2 on the previous page).

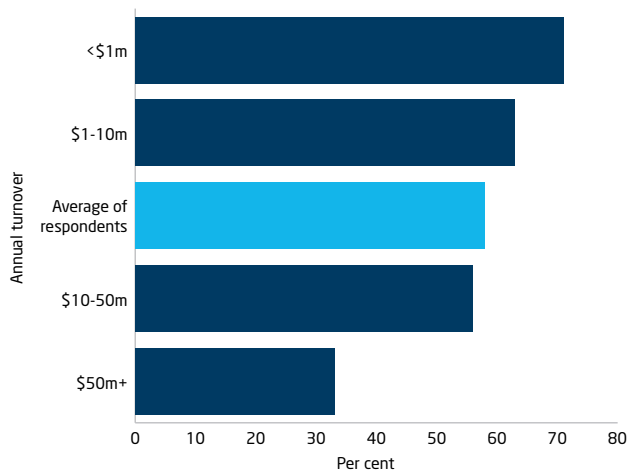
Given the deterioration in the world economy since the first GRi survey was conducted in February 2008, it is not surprising that 'economic conditions abroad' is now the number two obstacle for exporters, up from only number four last year. Forty-eight per cent of exporters regard it as a barrier, with 21% saying it is the main barrier.

In last year's survey 'lack of local knowledge' outranked both finance and 'economic conditions abroad' as a barrier to going global. The shift in rankings this year indicates that the problems in world financial markets - the credit crunch - and the world economy are placing the globalisation plans of Australian companies under considerable pressure. Improving access to finance is critical to increasing offshore investment by Australian companies and helping them prepare for resumption of global growth.

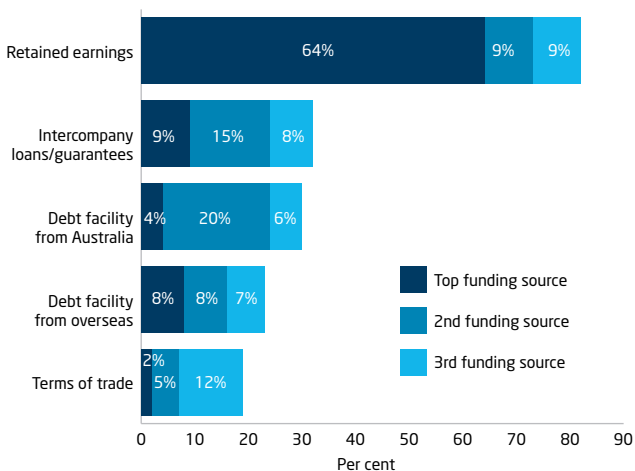
### SMEs face especially high finance barriers

The survey has interesting things to say about the big versus small end of town. The key insight? The smaller a business's revenue, the more likely that finance will be a barrier to international expansion. Seventy-one per cent of businesses with an annual turnover of less than \$1 million saw finance as a barrier; this declined to 33% for businesses with a turnover of \$50 million and above (see Chart 3). Smaller businesses appear to be suffering the most from the decline in banks' lending appetite.

**CHART 3 Finance as a barrier to international expansion**



**CHART 4 Financing offshore operations**



### Tapping external funds for offshore expansion has become even harder

A striking result from last year's survey was the high percentage of respondents - 73% - who relied on retained earnings to finance their offshore expansion. This year that reliance is even greater - 82% (and 64% say it is their top method). External funding sources come a long way behind (see Chart 4). Only 30% of respondents used a debt facility from an Australian financial institution, compared to 35% last year, and only 4% said this was a primary source of funding.

It has never been easy for businesses to secure external funding for offshore investment, given the reluctance of Australian banks to finance facilities in unfamiliar foreign destinations and of foreign financiers to back unknown Australian companies. But it looks as if the credit crunch has made it even harder for businesses to tap external sources of funding for offshore expansion, increasingly throwing companies onto their own resources. Australian banks are not fully meeting Australian companies' need for funding to facilitate global expansion.

### Commitment to globalisation is being tested but remains strong

Australian companies appear to be focused as much on positioning for the eventual recovery in the world economy as on coping with the current downturn. They remain committed to globalisation and see offshore expansion as a strategic necessity, even though they are coping with some severe international setbacks.

However, the credit crunch and economic downturn have heightened the obstacles on their path. At the best of times, the finance barrier is a high one, but it has now become even more daunting, particularly for smaller companies looking to expand offshore.

Even more than last year, the 2009 EFIC GRi survey results challenge financial institutions and government to find innovative solutions to ensure that 'bankable' exports and offshore investments receive the financing they deserve.

**To access the full 2009 EFIC Global Readiness index report, visit [www.efic.gov.au/gri/report](http://www.efic.gov.au/gri/report)**

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