



UPS ASIA BUSINESS MONITOR

EXECUTIVE SUMMARY I

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Foreword

This inaugural edition of the UPS Asia Business Monitor provides the latest insight 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). It offers a barometer of opinion founded on our respondents' extensive experience in the world of industry and commerce.

The UPS Asia Business Monitor aims to provide UPS and its customers with a better understanding of the issues driving business decisions in the Asia Pacific, specifically those made by SMEs.

The UPS Asia Business Monitor follows in the tradition of the UPS Europe Business Monitor, which has been published annually since 1992. Like the European edition, the UPS Asia Business Monitor considers key issues facing business leaders: the business climate, economic and employment forecasts and business prospects. It also examines topics specific to the Asia Pacific, such as the

growing importance of China to the region. In particular, this edition takes the pulse of the Asia Pacific's SMEs – which sectors are performing the best? Which markets are strongest? What factors are most important to success?

A note on the research

The first edition of the UPS Asia Business Monitor surveyed 1,200 decision makers from SMEs between August 16th and September 28th 2004. The survey will be conducted annually.

Interviews were conducted in the following markets: Australia (100), China (135), Hong Kong (100), India (135), Indonesia (80), Japan (50), 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 nearly 22 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 per cent where only partial data are shown and over 100 per cent where more than one response was allowed.

Main findings

The first edition of the UPS Asia Business Monitor finds most SMEs somewhat positive about the region's economic prospects, with far more hopeful about the current and future prospects of their businesses. Workforce forecasts follow suit, with more jobs likely to be added than to be cut in 2005. Although divided on a country level, most SME leaders see the information technology & telecommunications and financial services sectors as the most important to their country's economy.

Unsurprisingly, China also proved to be important to the region's economy. However, SME leaders are very much divided on whether China's emergence will have a positive impact. Nearly all believed Chinese SMEs to be the most competitive in Asia, joined by SMEs in Asia's most developed economies, which also rank highly.

Among other uncertainties, a lack of innovation and a lack of cash flow and capital are the biggest obstacles to SME competitiveness in the region, while government policy and support and staffing difficulties keep many SME leaders up at night.

Pollution and the environment rank the highest among broader political and social concerns, with health and infectious diseases a less surprising worry in markets hit by outbreaks of SARS and avian flu.

The outcome of the U.S. elections, while a concern to many countries, did not trouble SME leaders much.

The survey further reveals which working practices are prevalent in the Asia Pacific's SMEs; over two-thirds of SME leaders favour internal communications and a smokeless environment as methods of making work more pleasant.

Many work long hours and are concerned about difficulties in hiring and retaining employees, which they believe are most likely to be solved by offering better training and health insurance.



Growth prospects

Cautious optimism about economic growth

Following years of relatively slow macroeconomic growth in many of the region's key economies, SME business leaders in the Asia Pacific are cautiously optimistic about the prospects for overall growth in 2005. In most economies, close to half of all respondents expect some growth and relatively few expect a decline.

In every market surveyed, China is singled out for its exceptionally strong prospects. At the opposite end of the spectrum, Indonesia and the Philippines lag the rest of the region by a large margin. By and large, predictions for economic growth in specific markets are relatively consistent across the region, with the notable exception of Korea, where domestic business leaders are much less upbeat about their home country than the rest of the region.

More optimism about SMEs' current prospects

The relative pessimism among Korean SME leaders may be a direct result of poor current prospects for their businesses. Korea is the only country in the region that reports a decline in the fortunes of its SMEs over the past year. Across the Asia Pacific, good results far outweigh the bad, with Australia, China and India especially strong and Indonesia, despite its poor economic outlook, not far behind. Many of the region's most mature markets harbour middling assessments.

High optimism about prospects in 2005

Expectations for SME performance in 2005 reflect the optimism about current prospects, despite weaker enthusiasm about overall economic growth. In every economy, more SME leaders expect to be better off than to be worse off 12 months from now. Australia, China, India and Indonesia remain the most confident, Korea the least, and the relatively mature economies of Japan, Singapore and Taiwan maintain their place in the bottom half.

More hiring expected than firing in 2005

Following these strong expectations, more SMEs in each economy expect to hire than to downsize. India and China lead the way, and even in Hong Kong, with the lowest proportion expecting to add headcount, nearly one-third of SMEs expect to hire.

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?

- Cautious optimism about macroeconomic prospects
- High expectations for China's economy
- Economic outlook in the Philippines and Indonesia lags the region

% Grow	Australia	China	Hong Kong	India	Indonesia	Japan	Korea	Malaysia	Philippines	Singapore	Taiwan	Thailand
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%	24%	31%
Hong Kong	29%	94%	54%	<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%	54%	21%	43%	36%	58%
Philippines	55%	94%	60%	63%	20%	48%	62%	66%	27%	66%	54%	<u>76%</u>
Singapore	30%	85%	47%	75%	30%	31%	44%	63%	17%	45%	<u>24%</u>	67%
Taiwan	38%	82%	41%	50%	<u>13%</u>	36%	53%	<u>23%</u>	<u>10%</u>	35%	32%	34%
Thailand	<u>59%</u>	93%	57%	56%	23%	<u>55%</u>	61%	59%	17%	65%	53%	55%
All Countries	43%	88%	56%	58%	24%	44%	52%	46%	19%	53%	43%	49%

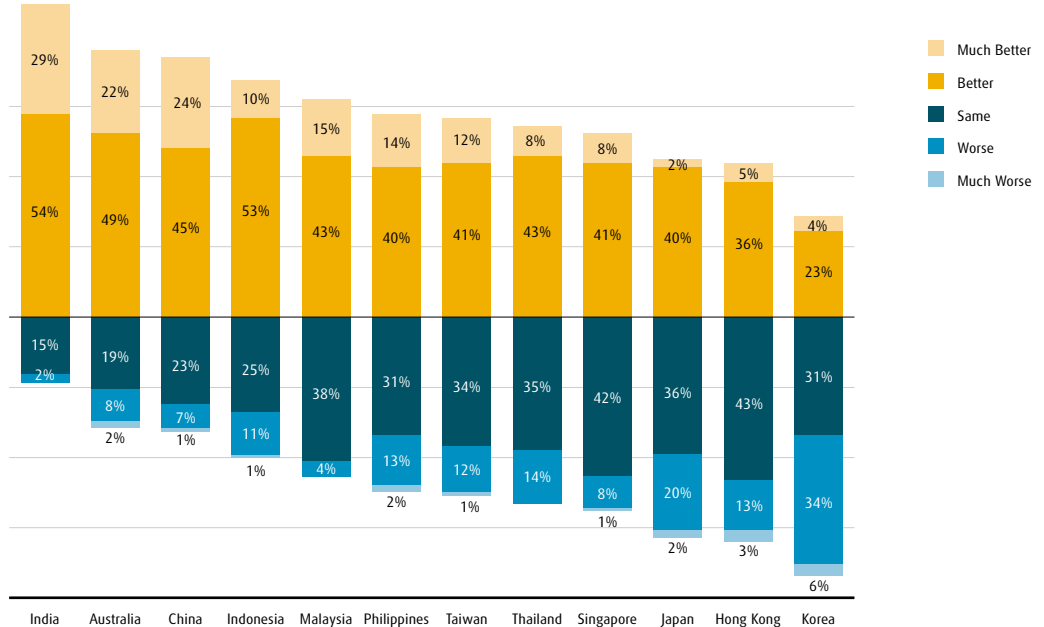
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 Red text indicates lower than regional average
 Underline indicates the countries with the highest and lowest scores



Growth prospects

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

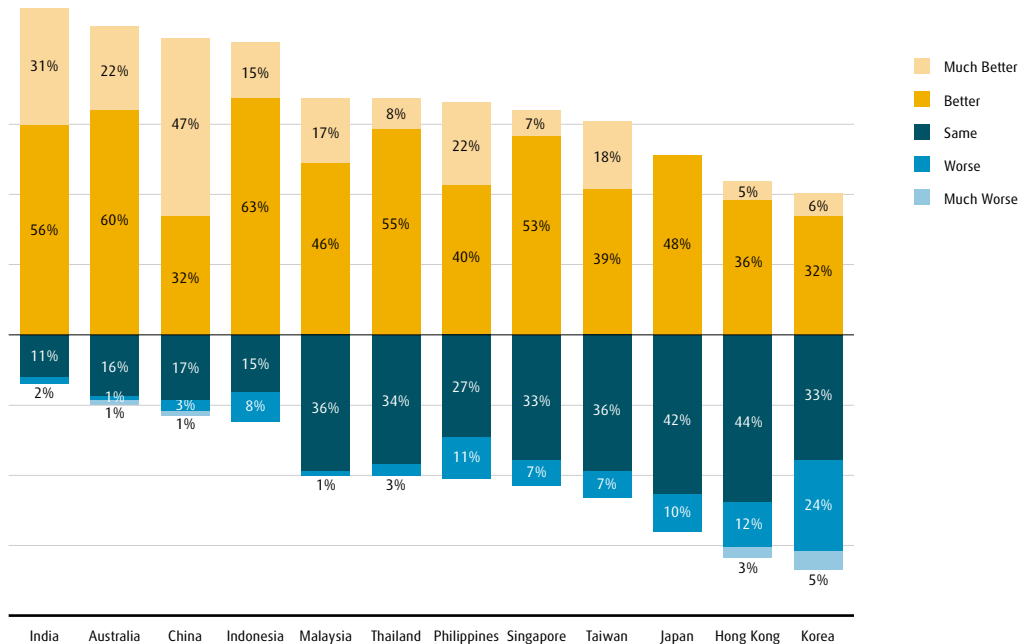
- Prospects improve across the board for the region's SMEs
- Korean SMEs report the only fall in fortunes
- Indian SMEs fare particularly well



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?

- Even higher optimism about SME prospects in the coming year
- Relatively mature economies more cautious in their forecasts
- Korea lags again

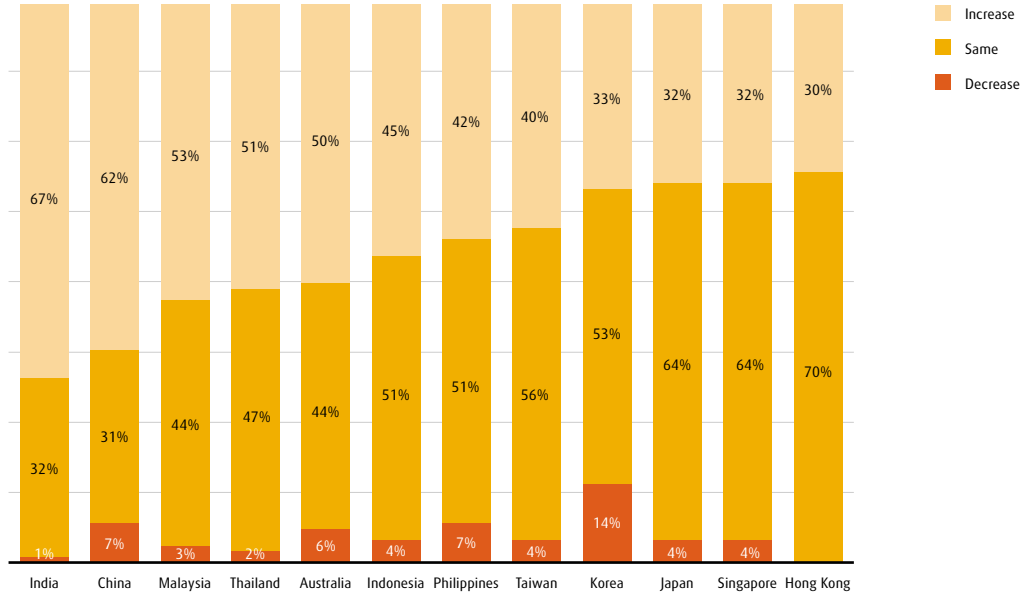




Growth prospects

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

- More hiring expected
- Relatively mature economies expect to hire less
- Very little firing expected



Importance of industry sectors

Technology and healthcare seen as important to markets across the board

The region's SME leaders widely consider information technology & telecommunications ("IT&T") to be the most important business sector to their local economies, ranking it highly in each market and giving it by far the highest aggregate ranking.

Japan and Korea both give the IT&T sector their only truly high ranking. Healthcare & pharmaceuticals, while not at the top of the table, receives the only other consistently high ranking in all economies. The building & construction industry is seen as being of universally low importance, with the exception of an abnormally high ranking in India.

Meaningful differences on the country level

The relative importance of different sectors varies dramatically between economies. The financial services sector, believed to be the second most important across the region, tops out in Singapore but receives a very low ranking in Korea and a relatively low one in Japan. Transport & logistics also ranks highly, with lower than average results in Australia, Japan and Korea. The utilities & energy sector is considered very important in China, the Philippines and Thailand, but less so in Japan, Korea, Singapore and Taiwan.

Leisure and tourism places in the middle of the table, with the exception of Hong Kong, where it is considered the single most important sector, and Japan, where it rates it very low. At the bottom of the spectrum, only a quarter of Hong Kongers and Taiwanese consider the automotive industry important, while four out of five respondents in neighbouring mainland China believe the P.R.C.'s nascent auto sector to be significant. Consumer goods receive exceptionally low ratings in Japan and Korea, and media ranks exceptionally high in Thailand.



Importance of industry sectors

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

- IT&T considered the most important sector
- Financial, transport & logistics and utilities & energy sectors also very important
- Large differences on the market level

% Important	IT&T	Financial	Transport & Logistics	Utilities & Energy	Healthcare & Pharmaceuticals	Leisure & Tourism	Media	Consumer Goods	Automotive	Building & Construction
Australia	<u>77%</u>	78%	64%	84%	74%	81%	51%	62%	49%	55%
China	86%	87%	86%	94%	76%	81%	80%	74%	<u>79%</u>	64%
Hong Kong	86%	85%	86%	80%	74%	<u>92%</u>	68%	64%	<u>23%</u>	48%
India	93%	84%	87%	78%	81%	61%	67%	<u>77%</u>	78%	<u>86%</u>
Indonesia	84%	74%	84%	86%	73%	66%	75%	73%	65%	64%
Japan	92%	64%	64%	<u>50%</u>	74%	<u>42%</u>	<u>46%</u>	<u>20%</u>	56%	<u>22%</u>
Korea	84%	<u>45%</u>	<u>63%</u>	59%	<u>66%</u>	52%	74%	26%	61%	36%
Malaysia	88%	84%	73%	70%	69%	79%	62%	68%	65%	53%
Philippines	92%	86%	81%	<u>94%</u>	73%	83%	63%	73%	35%	49%
Singapore	81%	<u>91%</u>	73%	64%	79%	73%	60%	41%	32%	28%
Taiwan	92%	77%	79%	63%	76%	65%	51%	54%	26%	39%
Thailand	<u>97%</u>	81%	<u>88%</u>	92%	<u>85%</u>	83%	<u>90%</u>	76%	63%	53%
All Countries	88%	79%	78%	78%	75%	73%	67%	61%	54%	52%

Blue text indicates higher than regional average
 Red text indicates lower than regional average
 Underline indicates the countries with the highest and lowest scores

SME competitiveness

Chinese SMEs voted most competitive by their peers across the region

When asked how they would compare SMEs in other countries relative to those in their own country, respondents overwhelmingly said they found Chinese SMEs more competitive. Chinese SMEs scored highest in competitiveness in every economy except Korea, where they took second place behind Japanese SMEs. ASEAN countries found China particularly competitive, with Indonesia, Malaysia, the Philippines and Thailand topping the table.

Interestingly, within China, a majority of SMEs consider foreign SMEs to be more competitive than local firms, with the developed economies of Hong Kong, Japan, Korea and Singapore leading the way. Unsurprisingly, Chinese SMEs felt themselves to be more competitive than their admiring counterparts in the ASEAN nations.

Developed economies also considered competitive

Regionally, SME competitiveness, with the exception of China, broke down into three tiers. More respondents considered SMEs in the developed economies of Hong Kong, Japan, Korea, Singapore and Taiwan more competitive than SMEs in their country than did not, while opinions were roughly evenly divided about Australia, India, Malaysia and Thailand, and decidedly unfavourable for Indonesia and the Philippines.

Some irregularities on the country level

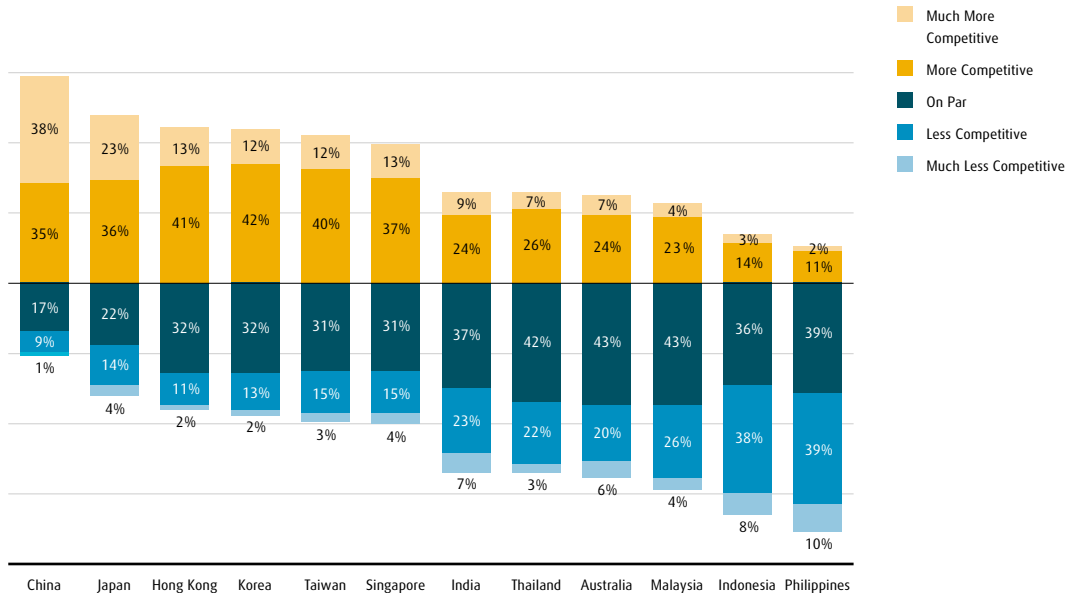
By and large, the SME competitiveness rankings follow this three-tiered breakdown on a country level, with a few exceptions. India breaks into the top tier in Australia and Japan, while Singapore drops a tier in Japan and neighbouring Malaysia. Japanese SME leaders also rank Australian SMEs unusually low, while Philippine SME leaders rank Malaysian and Thai SMEs relatively high. SMEs in Japan and Taiwan have the lowest opinion of their counterparts and SMEs in the Philippines and Indonesia harbour the highest esteem for foreign competitors.



SME competitiveness

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

- Chinese SMEs considered the most competitive by far
- Relatively mature economies also considered competitive
- SMEs in the Philippines and Indonesia lag the region



SME competitiveness

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

- Chinese SMEs considered the most competitive in every market but Korea
- Chinese SMEs more admiring of SMEs in developed economies than in their own
- SMEs in Japan and Taiwan harbour the lowest opinions of foreign competitors

% Competitive	Australia	China	Hong Kong	India	Indonesia	Japan	Korea	Malaysia	Philippines	Singapore	Taiwan	Thailand
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%	
All Countries	31%	73%	55%	32%	17%	59%	54%	28%	12%	49%	52%	32%

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Contributions and obstacles to SME competitiveness

Lack of innovation, access to funding and working capital are the biggest obstacles to SME competitiveness

Ranked both highly important to SME competitiveness and highly lacking in the business environment, innovation and access to funding and working capital are the biggest obstacles to SME competitiveness regionally, closely followed by access to market intelligence and other business information.

Availability of qualified staff most important contributor to SME competitiveness

Across all markets, respondents felt that the availability of qualified staff was the single most important factor in contributing to SME competitiveness in their countries. Staffing was closely followed in importance by access to overseas markets, innovation, access to market intelligence and other business information, entrepreneurial spirit and supply-chain efficiency.

Government support was by far the most lacking factor in contributing to SME competitiveness. At the other end of the spectrum, property leasing and management costs were considered both the least important of the factors polled by a large margin and, along with IT adoption, free-market economy and transportation infrastructure, the least lacking.

Similarities between the most developed markets

In the developed and higher-cost markets of Australia, Hong Kong, Japan, Korea, Singapore and Taiwan, the biggest obstacles to SME competitiveness are labour-related: either the cost of labour, the availability of qualified staff or both. However, in the region's less developed markets, large discrepancies arise in what factors are considered the biggest obstacles to native SMEs. In China, a lack of innovation and of access to market intelligence and other business information ranks highest, while in India it is a lack of transportation infrastructure and supply-chain efficiency that is most worrisome.

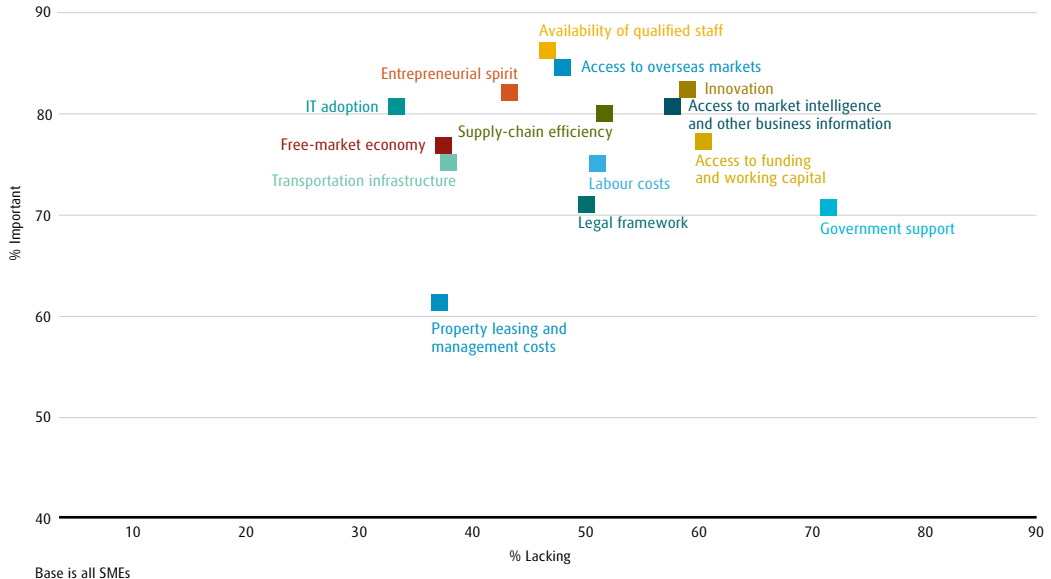
In ASEAN, Indonesia is most affected by a lack of a strong legal framework and of government support, Malaysia by a lack of innovation, the Philippines by a lack of access to funding and working capital and Thailand by a lack of access to market intelligence and other business information and of access to overseas markets.

Contributions and obstacles to SME competitiveness

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

Which of the following factors do you consider to be lacking in your country?

- Lack of innovation, access to funding and working capital are big obstacles to SME competitiveness
- Government support lacking across the board
- Region's most developed markets see labour-related factors as the biggest obstacles



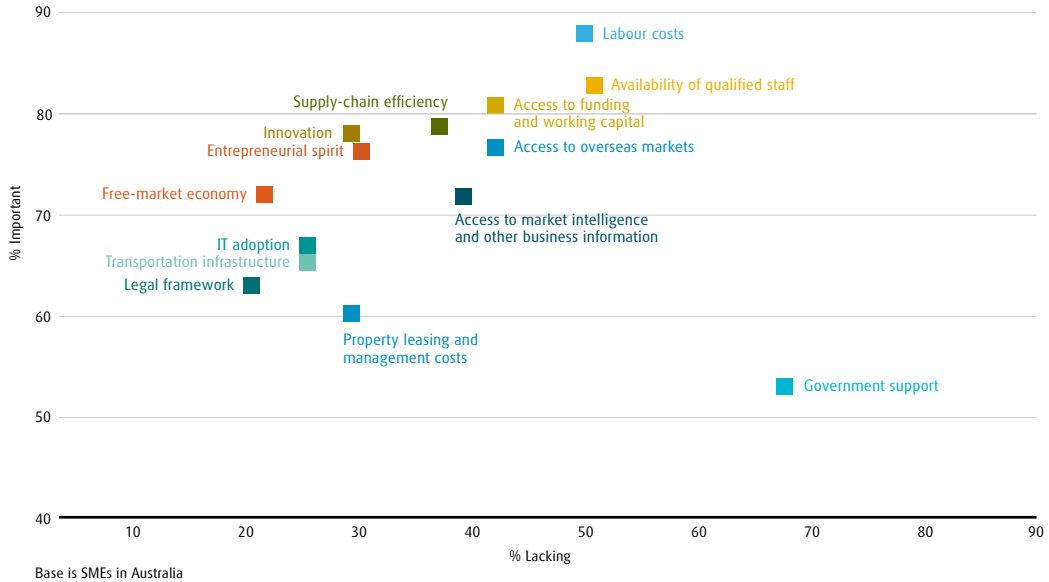


Contributions and obstacles to SME competitiveness - Australia

How important are each of the following factors in contributing to SME competitiveness in Australia?

Which of the following factors do you consider to be lacking in Australia?

- Labour costs and availability the most important factors and biggest obstacles to competitiveness
- Access to funding and capital, supply-chain efficiency and access to overseas markets big hurdles as well
- Legal framework largely present

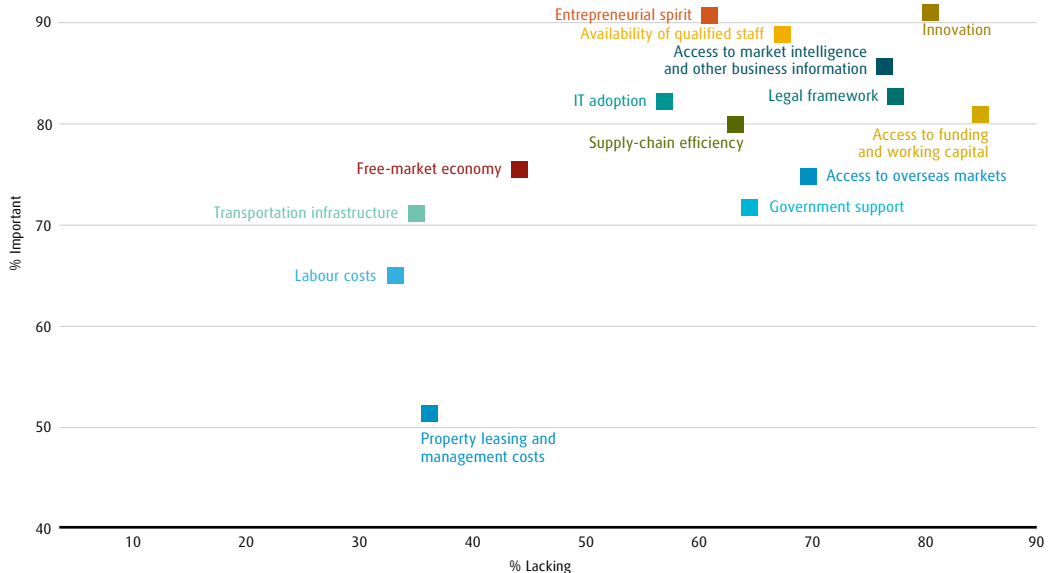


Contributions and obstacles to SME competitiveness - China

How important are each of the following factors in contributing to SME competitiveness in China?

Which of the following factors do you consider to be lacking in China?

- Access to funding and working capital highly lacking
- Lack of innovation, legal framework and market intelligence also obstacles
- Labour costs not a problem, but availability of qualified staff an issue



Base is SMEs in China

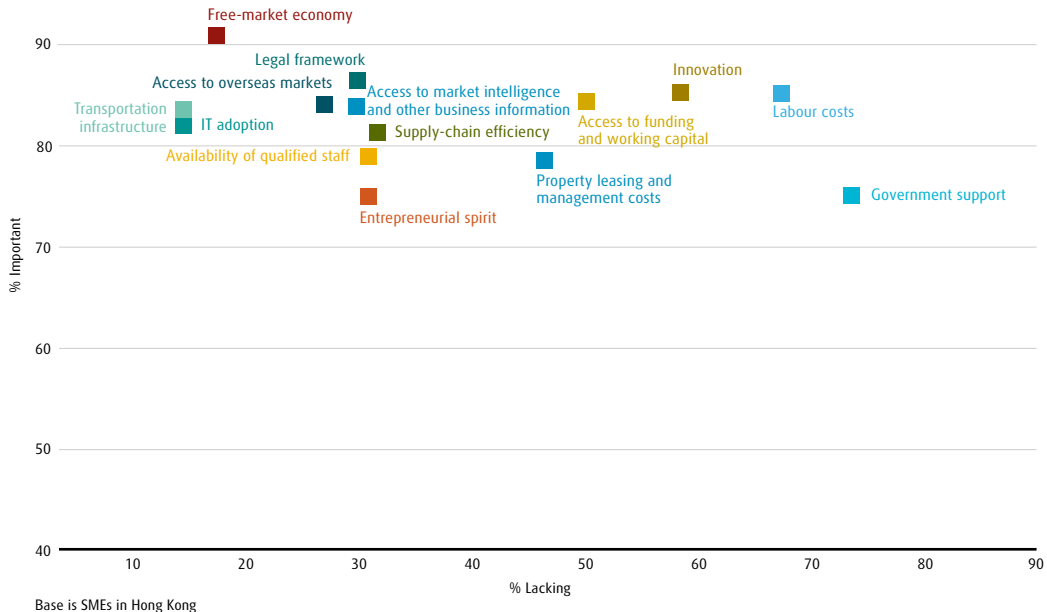


Contributions and obstacles to SME competitiveness - Hong Kong

How important are each of the following factors in contributing to SME competitiveness in Hong Kong?

Which of the following factors do you consider to be lacking in Hong Kong?

- Labour costs the biggest obstacle, government support most lacking
- Lack of innovation and access to capital also big problems
- Property leasing and management costs much more important than in other markets

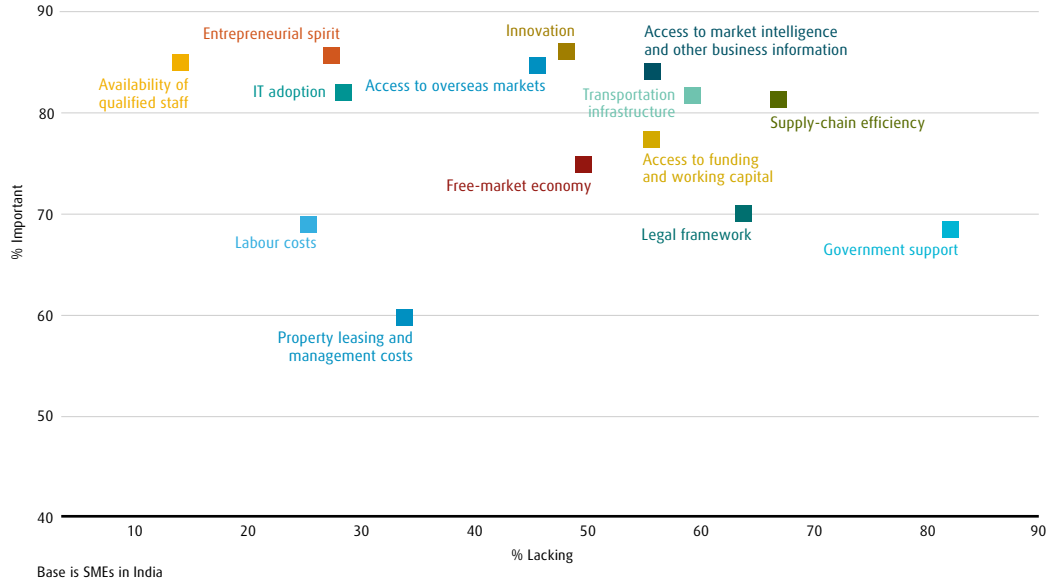


Contributions and obstacles to SME competitiveness - India

How important are each of the following factors in contributing to SME competitiveness in India?

Which of the following factors do you consider to be lacking in India?

- Infrastructure and supply chains the biggest problems
- Access to capital and information also big hurdles
- Government support and legal framework lacking



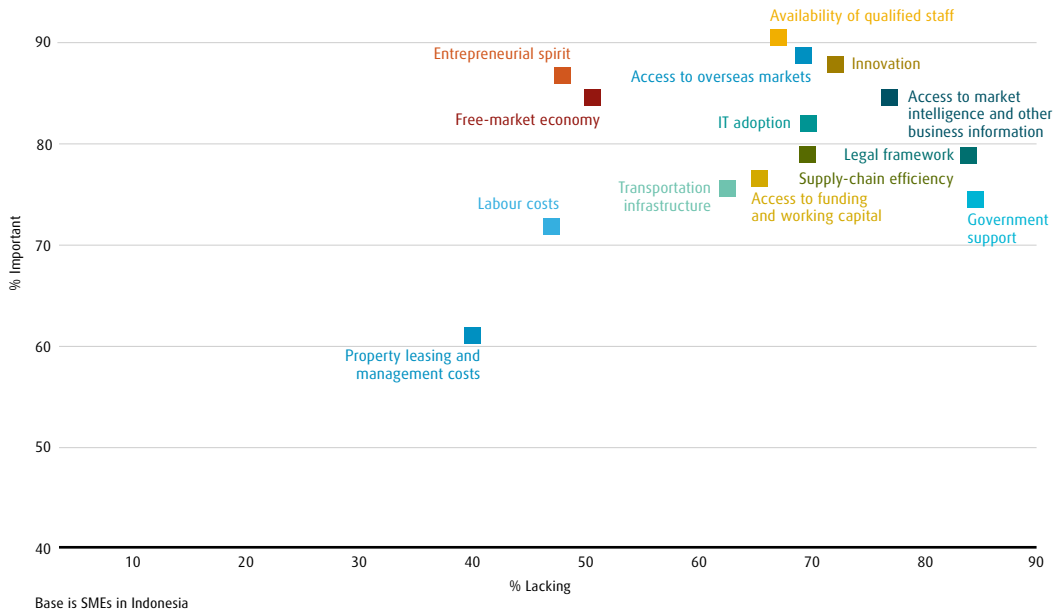


Contributions and obstacles to SME competitiveness - Indonesia

How important are each of the following factors in contributing to SME competitiveness in Indonesia?

Which of the following factors do you consider to be lacking in Indonesia?

- Access to overseas market and innovation the biggest obstacles
- Government support and legal framework highly lacking
- Property and labour costs the only non-factors



Contributions and obstacles to SME competitiveness - Japan

How important are each of the following factors in contributing to SME competitiveness in Japan?

Which of the following factors do you consider to be lacking in Japan?

- Availability of qualified staff a big obstacle, followed by labour costs
- Innovation highly important
- Government support both lacking and unimportant



Base is SMEs in Japan

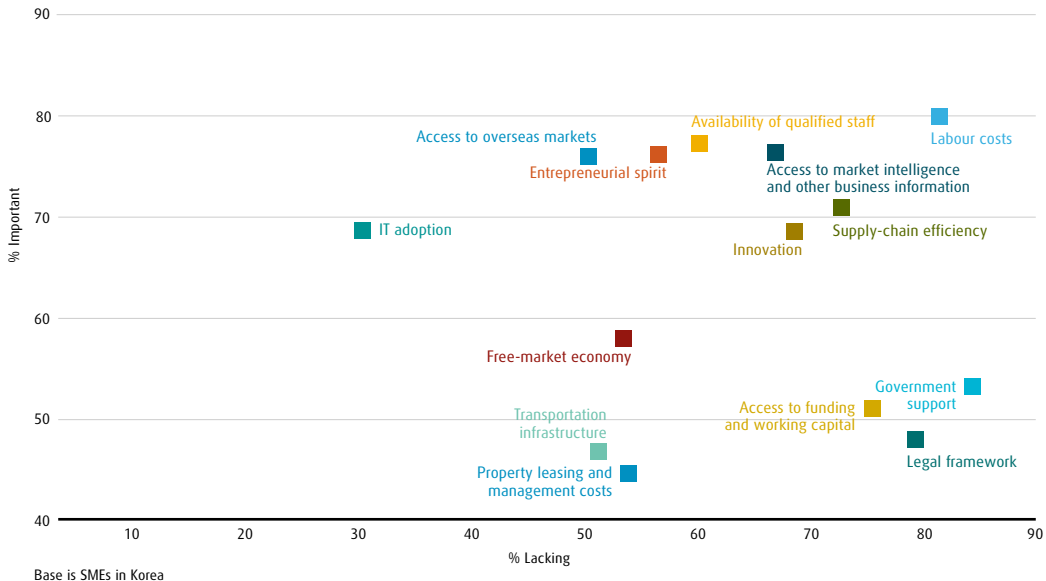


Contributions and obstacles to SME competitiveness - Korea

How important are each of the following factors in contributing to SME competitiveness in Korea?

Which of the following factors do you consider to be lacking in Korea?

- Labour costs the biggest challenge
- Government support, legal framework and access to capital lacking
- Property leasing and management costs and transportation infrastructure unimportant

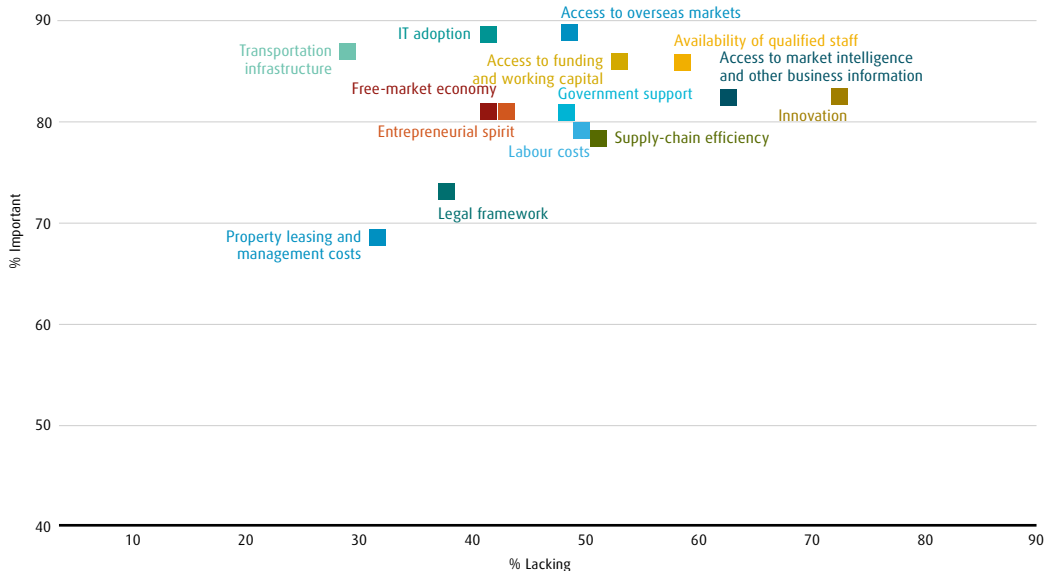


Contributions and obstacles to SME competitiveness - Malaysia

How important are each of the following factors in contributing to SME competitiveness in Malaysia?

Which of the following factors do you consider to be lacking in Malaysia?

- Innovation a major hurdle
- Access to funding, availability of qualified staff and access to information also big issues
- Property leasing and management costs not a problem



Base is SMEs in Malaysia

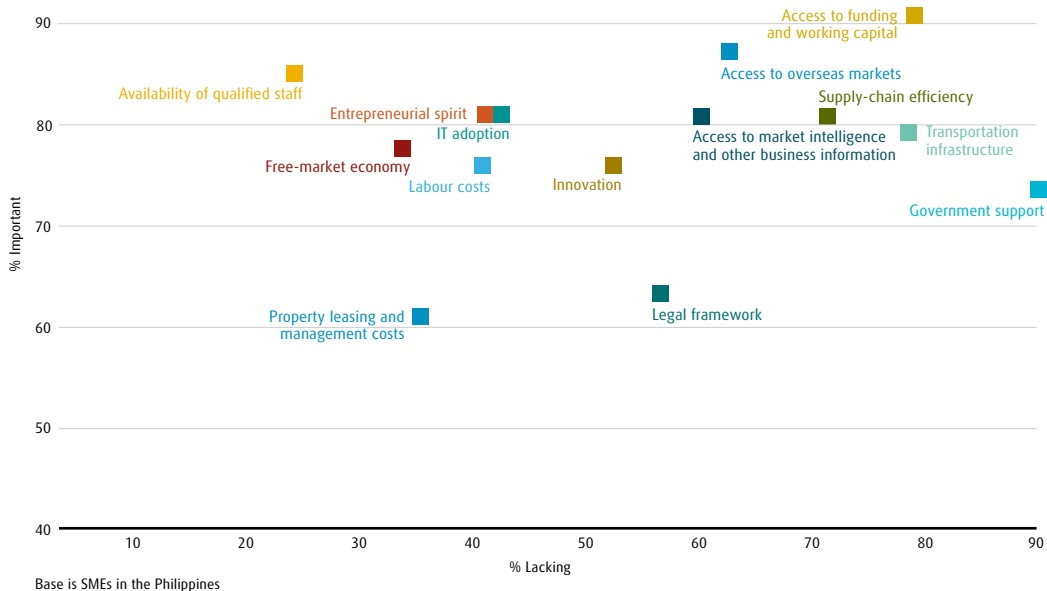


Contributions and obstacles to SME competitiveness - Philippines

How important are each of the following factors in contributing to SME competitiveness in the Philippines?

Which of the following factors do you consider to be lacking in the Philippines?

- Government support highly lacking
- Lack of access to funds and working capital a big obstacle
- Transportation infrastructure and supply-chain efficiency both challenges

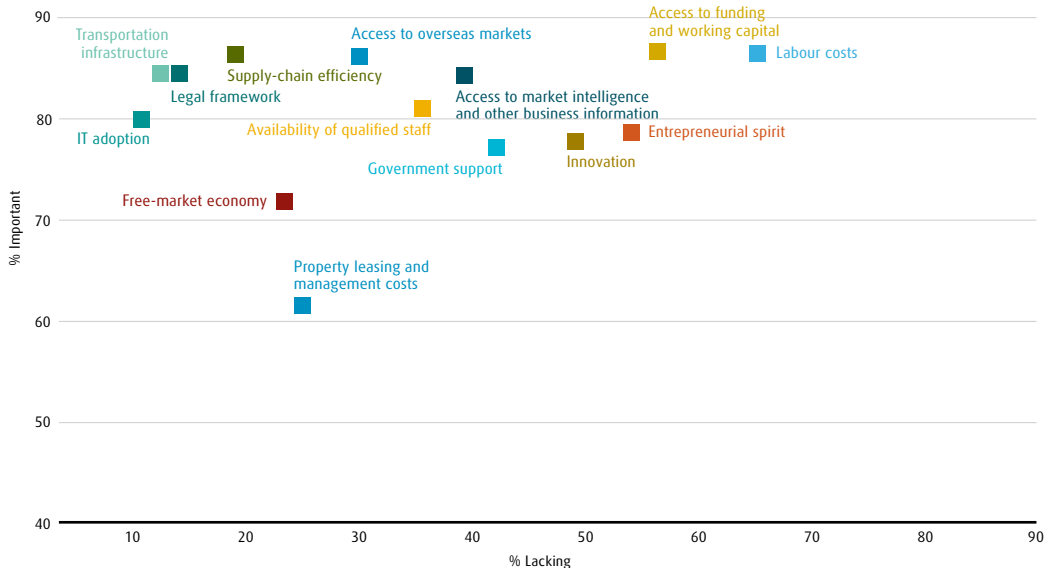


Contributions and obstacles to SME competitiveness - Singapore

How important are each of the following factors in contributing to SME competitiveness in Singapore?

Which of the following factors do you consider to be lacking in Singapore?

- Labour costs a problem
- Access to capital and entrepreneurial spirit also lacking
- IT widely adopted



Base is SMEs in Singapore

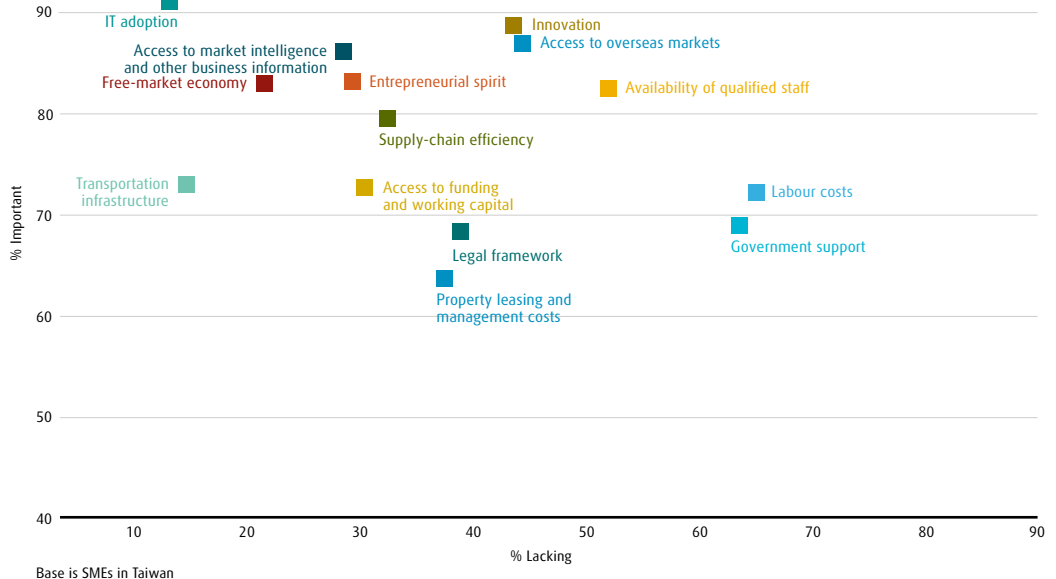


Contributions and obstacles to SME competitiveness - Taiwan

How important are each of the following factors in contributing to SME competitiveness in Taiwan?

Which of the following factors do you consider to be lacking in Taiwan?

- Labour costs high, government support highly lacking
- Innovation and access to overseas markets very important
- IT adoption important, but common

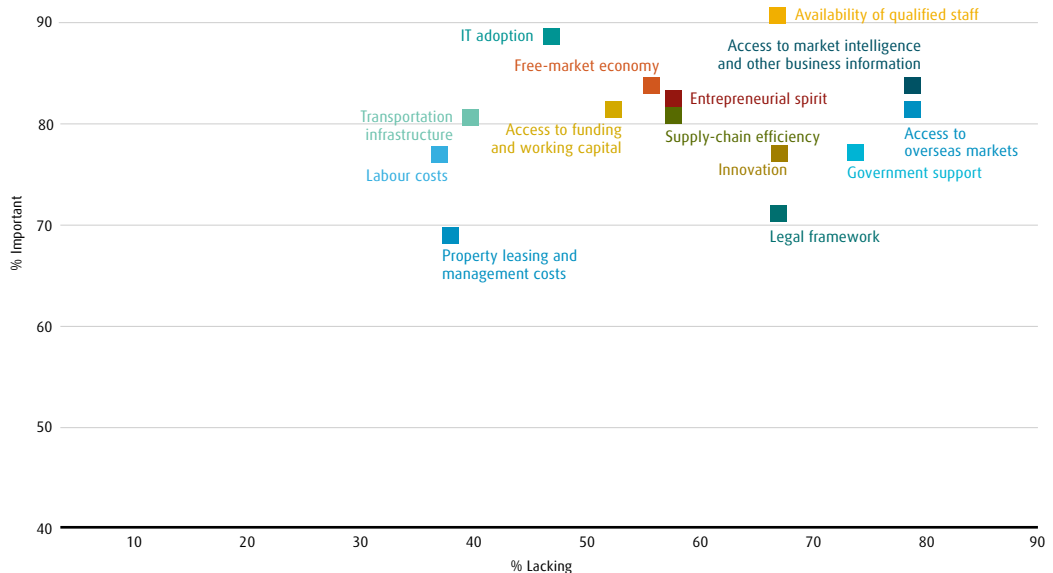


Contributions and obstacles to SME competitiveness - Thailand

How important are each of the following factors in contributing to SME competitiveness in Thailand?

Which of the following factors do you consider to be lacking in Thailand?

- Availability of qualified staff and access to information and overseas markets big obstacles
- Government support, innovation and legal framework all lacking
- Property leasing and management costs not a concern



Base is SMEs in Thailand



Key business concerns

Cash flow keeps SME leaders up at night

In response to open-ended questioning on what business issues keep them up at night, SME leaders most often mentioned problems with cash flow and capital spontaneously, with particularly high rankings in Australia, China, Singapore and Thailand, followed by government policies and regulation, with extremely high rankings in India, Indonesia and the Philippines, and difficulties in hiring and retaining qualified staff, topped out by Taiwan.

Differing worries on the market level

In China, SMEs were particularly worried about the competition, while SMEs in the Philippines were particularly concerned about inflation in prices of raw materials and oil, in Indonesia with the exchange rate, in Taiwan with political stability and in Hong Kong and Singapore with sales and turnover. Singapore also rated related issues highly: market size, operating costs, labour costs and profitability. Japan gave an unusually high ranking to finding new and international markets and Korea to product quality and development and price wars.

Pollution and the environment a surprising concern

The survey also sheds light on broader social and political issues. Surprisingly, given conventional views of Asia, pollution and the environment ranked the highest among a number of potential concerns prompted during questioning, led by Hong Kong and the Philippines. Health also ranked highly in these two markets and among all markets in general. Predictably, SARS, avian flu and other infectious diseases were the top concern in Hong Kong. Crime fears factored strongly in Indonesia, Japan and the Philippines, while domestic political instability is a particular worry in Greater China, Indonesia, Malaysia and the Philippines, and conflict abroad is a concern in Japan, Singapore and Taiwan.

The outcome of the U.S. elections was the least concerning issue, especially in Thailand, where SME leaders were generally not as concerned as their peers about broader issues.

Key business concerns

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

- Cash flow the biggest business concern, especially in China
- Governmental issues and the availability of qualified staff also worrisome
- Steep fall-off regionally after the top three issues

	Cash flow/ funding/ capital	Government policies/ regulations/ support/ intervention	Qualified/ right/ proper staff	Competition (unspecified)	Inflation of raw materials/ raising of oil prices	Sales/ turnover	High labour costs	Product innovation/ development	Searching/ developing new markets/ international markets	Product quality/ stability
Australia	28%	11%	16%	12%	<u>1%</u>	10%	7%	4%	3%	4%
China	<u>36%</u>	13%	19%	<u>21%</u>	4%	4%	3%	10%	4%	7%
Hong Kong	18%	18%	8%	<u>3%</u>	<u>1%</u>	<u>20%</u>	8%	4%	<u>0%</u>	7%
India	19%	<u>36%</u>	<u>4%</u>	5%	6%	4%	1%	5%	8%	6%
Indonesia	18%	35%	15%	6%	14%	<u>0%</u>	1%	3%	3%	5%
Japan	<u>14%</u>	<u>4%</u>	12%	4%	2%	6%	<u>0%</u>	8%	<u>14%</u>	4%
Korea	20%	21%	18%	5%	5%	9%	8%	<u>15%</u>	10%	<u>14%</u>
Malaysia	19%	13%	16%	13%	14%	5%	9%	1%	5%	4%
Philippines	18%	33%	5%	4%	<u>20%</u>	4%	11%	<u>0%</u>	7%	3%
Singapore	28%	<u>4%</u>	16%	8%	5%	13%	<u>15%</u>	5%	8%	3%
Taiwan	20%	17%	<u>23%</u>	16%	<u>1%</u>	2%	13%	9%	<u>0%</u>	<u>2%</u>
Thailand	26%	20%	14%	16%	10%	6%	2%	2%	7%	3%
All Countries	23%	19%	14%	10%	7%	7%	7%	6%	5%	5%

Blue text indicates higher than regional average
 Red text indicates lower than regional average
 Underline indicates the countries with the highest and lowest scores

Key business concerns

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

- Many differences on a market level
- Singaporean SMEs concerned with market and business cost-related issues
- Korean SMEs worried by product-related issues

	Competition outside own country	High operating/running cost	Price war/pricing competition	High cost (unspecified)	Lack of manpower/labour supply	Low public demand/ loss of customers	Saturated/limited market size	Profitability	Unable to finish the order/on-time delivery/production efficiency	Political issues/unstable political environment (unspecified)
Australia	1%	7%	3%	3%	<u>0%</u>	5%	1%	6%	8%	1%
China	1%	2%	5%	4%	3%	4%	6%	4%	3%	1%
Hong Kong	3%	8%	3%	3%	7%	4%	2%	2%	<u>9%</u>	0%
India	10%	2%	1%	2%	2%	2%	1%	1%	8%	3%
Indonesia	1%	<u>0%</u>	<u>0%</u>	<u>1%</u>	4%	<u>0%</u>	<u>0%</u>	4%	1%	11%
Japan	<u>0%</u>	4%	6%	<u>14%</u>	2%	<u>0%</u>	<u>0%</u>	4%	0%	<u>0%</u>
Korea	2%	<u>0%</u>	<u>13%</u>	3%	6%	2%	2%	4%	1%	1%
Malaysia	9%	3%	4%	3%	5%	8%	5%	5%	3%	6%
Philippines	9%	4%	2%	6%	<u>0%</u>	<u>9%</u>	6%	2%	1%	5%
Singapore	8%	<u>14%</u>	5%	7%	7%	4%	<u>17%</u>	<u>12%</u>	1%	2%
Taiwan	<u>12%</u>	12%	7%	7%	<u>8%</u>	4%	3%	5%	<u>0%</u>	<u>16%</u>
Thailand	4%	3%	5%	2%	6%	5%	2%	<u>0%</u>	7%	0%
All Countries	5%	5%	4%	4%	4%	4%	4%	4%	4%	4%

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Key business concerns

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

- Health and the environment the biggest social concerns
- US Presidential elections not a concern
- Thai SMEs the least worried about broader issues

% Important	Your health	Pollution & the environment	Growing crime rates	SARS, avian flu and other infectious diseases	Political instability & conflict at home	Political instability & conflict overseas	The outcome of the US Presidential elections
Australia	70%	73%	58%	56%	43%	76%	43%
China	85%	87%	81%	77%	81%	71%	52%
Hong Kong	<u>93%</u>	92%	77%	<u>95%</u>	79%	75%	48%
India	82%	87%	80%	69%	70%	64%	43%
Indonesia	64%	88%	90%	83%	<u>90%</u>	<u>51%</u>	35%
Japan	54%	<u>54%</u>	90%	62%	<u>38%</u>	<u>84%</u>	42%
Korea	83%	66%	<u>42%</u>	<u>54%</u>	64%	57%	40%
Malaysia	89%	83%	85%	73%	80%	64%	47%
Philippines	91%	<u>94%</u>	<u>93%</u>	66%	83%	67%	52%
Singapore	88%	81%	68%	81%	73%	80%	49%
Taiwan	88%	79%	75%	76%	82%	<u>84%</u>	<u>55%</u>
Thailand	<u>42%</u>	70%	61%	<u>54%</u>	52%	59%	<u>27%</u>
All Countries	79%	81%	74%	71%	71%	69%	45%

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The China factor

China a major business factor

The rapid emergence of mainland China as a dominant economic force and a manufacturing base has come to shape the Asia Pacific's economy. However, relatively few SMEs have a business presence in China, with only one out of five respondents setting up joint ventures, wholly owned operations or distributorships in the country. Of those with no presence in the country, two-thirds have no intention of establishing a presence and slightly over half do not do business with companies in China.

SMEs from neighbouring Hong Kong, Japan and Taiwan were the most likely to have a presence in China, although the Japanese SMEs with no presence in the country are, by a large margin, the least likely to plan to set up there.

Concerns about doing business with China abound

Across the Asia Pacific, respondents agree that working with China is fraught with potential pitfalls. Topping the list of perceived dangers is the protection of intellectual property, led by the Philippines, followed by transparency, led by Korea, government intervention, led by Hong Kong, and a lack of trust in business partners, led by Malaysia. Indonesian SMEs are least concerned by these threats, falling at the bottom of every category, while Hong Kong SMEs are at the top of nearly every category.

Opinions divided on impact of China's emergence

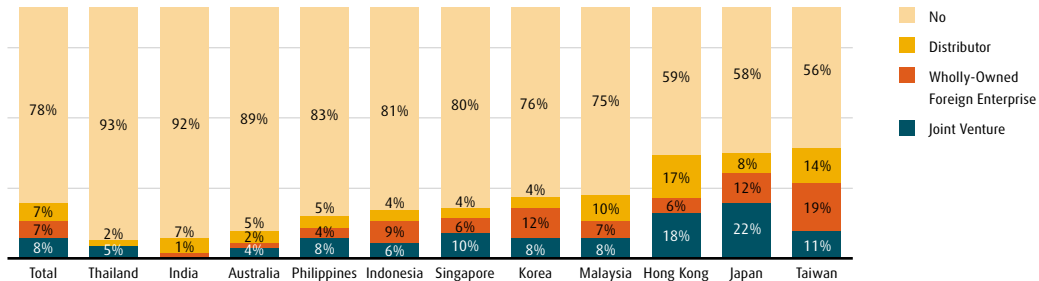
Regionally, opinions were sharply divided on whether China's emergence was a boon or a threat. Koreans are the most wary of their neighbour, with two out of three rating China a threat. Significant proportions of respondents in the Philippines and Thailand, countries that traditionally have provided low-cost manufacturing, also believe that China poses a threat. Australia, Indonesia, Japan and Taiwan are most favourably inclined towards China's development.



The China factor

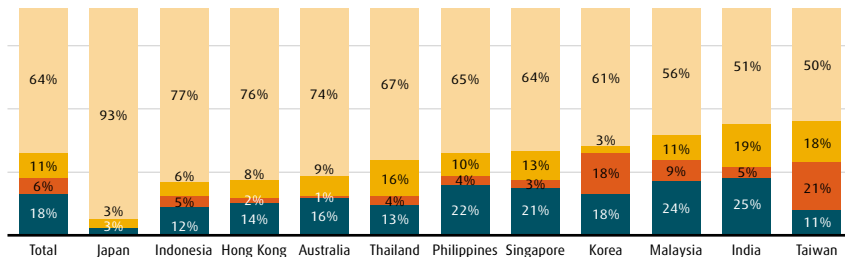
Do you currently have a business presence in China?

- Only one out of five SMEs has a business presence in China



If not, do you intend to establish a business presence in China in the near future?

- Of those with no presence, only one-third plan on setting one up





The China factor

Do you currently do business with companies in China?

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

- Of those with no presence, less than half do business with China

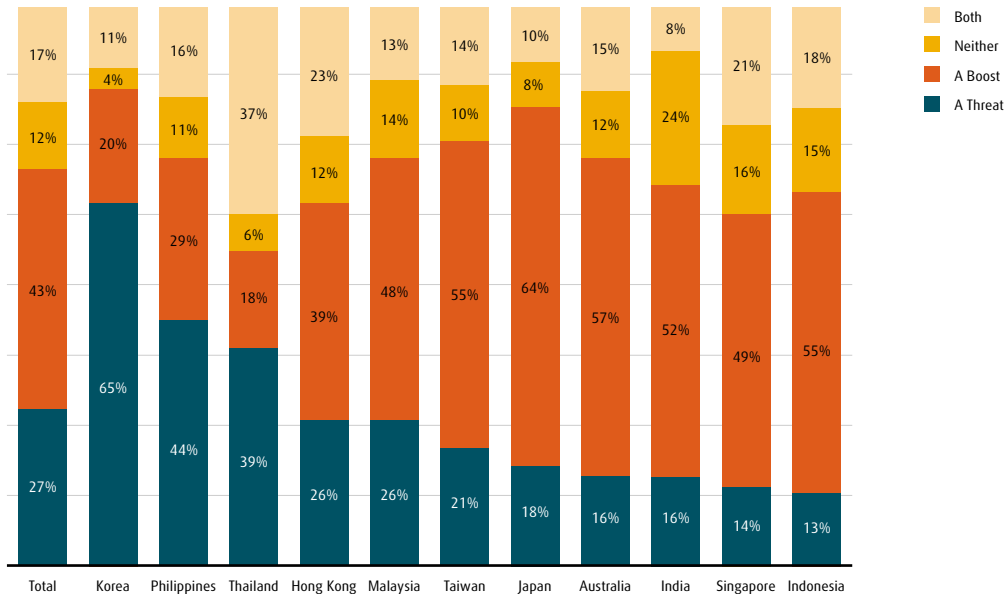
	Yes - Customers	Yes - Suppliers	Yes - Others	No
Australia	11%	31%	1%	58%
Hong Kong	22%	22%	<u>0%</u>	59%
India	19%	22%	2%	60%
Indonesia	<u>32%</u>	26%	<u>0%</u>	43%
Japan	<u>7%</u>	<u>48%</u>	<u>3%</u>	45%
Korea	8%	33%	1%	59%
Malaysia	<u>7%</u>	24%	<u>0%</u>	69%
Philippines	22%	37%	2%	<u>42%</u>
Singapore	16%	31%	1%	58%
Taiwan	18%	27%	<u>0%</u>	57%
Thailand	22%	<u>9%</u>	<u>0%</u>	<u>70%</u>
All Countries	17%	27%	1%	58%

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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?

- Opinions divided on China
- Korean SMEs the most threatened
- Japanese SMEs the most favourably inclined





The China factor

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

- Many concerns about doing business with China
- Intellectual property and transparency the biggest worries
- Hong Kong SMEs the most concerned, Indonesian the least

% 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"	Corporate governance	Environment and health	RMB not fully convertible
Australia	67%	60%	59%	67%	71%	57%	52%	50%	57%	47%
Hong Kong	76%	77%	<u>80%</u>	79%	79%	<u>83%</u>	<u>85%</u>	<u>81%</u>	<u>81%</u>	65%
India	68%	76%	63%	70%	61%	69%	61%	59%	63%	47%
Indonesia	<u>41%</u>	<u>41%</u>	<u>50%</u>	<u>35%</u>	<u>35%</u>	<u>33%</u>	<u>25%</u>	<u>28%</u>	<u>33%</u>	<u>21%</u>
Japan	<u>82%</u>	72%	58%	54%	58%	44%	50%	44%	52%	<u>68%</u>
Korea	60%	52%	60%	48%	42%	62%	68%	45%	48%	32%
Malaysia	68%	<u>82%</u>	70%	<u>87%</u>	74%	75%	71%	76%	68%	56%
Philippines	82%	78%	75%	81%	74%	75%	69%	75%	67%	64%
Singapore	75%	71%	68%	78%	<u>84%</u>	78%	81%	72%	61%	52%
Taiwan	72%	65%	72%	67%	69%	71%	68%	76%	71%	<u>68%</u>
Thailand	70%	63%	59%	37%	51%	36%	53%	43%	40%	55%
All Countries	69%	68%	65%	65%	64%	64%	63%	60%	59%	52%

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Business practices and executive insights

Over half of all SMEs employ progressive workplace practices

Over half of the region's SMEs employ at least one business practice intended to make the working environment more pleasant. At the top of the list is the deployment of internal communications initiatives, practiced by nearly three-quarters of SMEs around the region, led by India, and followed by a smokeless environment, utilised by over two-thirds of SMEs, led by Australia and the Philippines. After-hours socialising between colleagues is especially popular in China, while casual dress days are widely used in Hong Kong and Taiwan and flexible hours are most provided in Australia, India and Taiwan. Japanese SMEs trail the pack in implementing nearly every initiative.

Training and health insurance most important to employee retention

Nearly two-thirds of the region's SMEs believe that providing training and health insurance are useful in retaining employees, led by Indonesia in both

categories. In Taiwan, off-site team building is considered very important, while SMEs in Australia, Singapore and Thailand agree that flexible hours help keep staff happy. Japanese SME leaders place little stock in flexible hours or off-site team building.

Difficulties in hiring the least pleasant part of leading an Asian SME

Difficulties in hiring and retaining staff were cited spontaneously by half of all respondents in response to questioning on the least pleasant aspects of their jobs. Other commonly mentioned problems include too many meetings and long working hours. Unsurprisingly, many respondents found themselves working longer hours since they took on their current roles, a situation particularly common in Australia, China, India and Singapore, where more than half of all respondents currently work harder than in the past.

Notwithstanding this high degree of commitment and personal sacrifice, there are a number of tangible rewards. Chief among these are a sense of achievement and personal autonomy, followed by recognition from others, higher income, flexible working hours and freedom from the corporate rat race. Whether discussing the most or the least pleasant parts of their jobs, SME leaders in the Philippines are the most satisfied.

Low satisfaction with credit and finance providers

Overall, credit and finance providers received relatively low ratings in categories that ranged from being a strong partner to being responsive, understanding the respondent's company, valuing customer service and providing competitive rates. India and Malaysia are most happy with their banks, while Korea and Japan are the least.

Business practices and executive insights

Which of the following work practices are prevalent in your company?

- Internal communications the most common progressive business practice
- Japanese SMEs trail in implementing most practices
- After-hours socialising popular in China, outings common in Taiwan and the Philippines

% Consider Prevalent	Internal communication initiatives	Offering a smokeless environment	Casual days/casual dress	Self-improvement and/or leisure courses	After-hours socialising between colleagues	Company outings	Flexible hours
Australia	87%	83%	69%	56%	51%	45%	61%
China	88%	64%	69%	74%	<u>87%</u>	59%	39%
Hong Kong	63%	62%	81%	46%	41%	<u>25%</u>	37%
India	<u>90%</u>	78%	66%	71%	61%	55%	59%
Indonesia	81%	58%	58%	56%	61%	56%	39%
Japan	<u>32%</u>	<u>48%</u>	<u>26%</u>	40%	32%	32%	<u>26%</u>
Korea	51%	61%	59%	<u>29%</u>	55%	59%	46%
Malaysia	77%	69%	59%	71%	63%	56%	48%
Philippines	88%	<u>84%</u>	75%	70%	65%	77%	53%
Singapore	75%	73%	71%	60%	61%	54%	56%
Taiwan	85%	79%	<u>85%</u>	<u>75%</u>	66%	<u>78%</u>	<u>62%</u>
Thailand	41%	49%	33%	44%	<u>24%</u>	28%	46%
All Countries	74%	68%	64%	59%	58%	53%	49%

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Business practices and executive insights

How useful are the following employee benefits in terms of recruitment and retention?

- Training and health insurance most important to retaining employees
- Leave days and flexible hours less important
- Off-site team building useful as well as prevalent in Taiwan

% Useful	Training and sponsored education	Health insurance	Off-site team building exercises	Flexible hours	Sabbatical or other leave
Australia	72%	<u>41%</u>	37%	61%	<u>31%</u>
China	73%	79%	75%	45%	41%
Hong Kong	<u>60%</u>	64%	52%	41%	49%
India	84%	79%	66%	49%	49%
Indonesia	<u>90%</u>	83%	61%	45%	41%
Japan	64%	76%	<u>32%</u>	<u>20%</u>	50%
Korea	66%	77%	64%	53%	40%
Malaysia	83%	77%	58%	50%	51%
Philippines	83%	79%	62%	42%	45%
Singapore	72%	67%	59%	<u>66%</u>	54%
Taiwan	63%	67%	<u>82%</u>	50%	<u>61%</u>
Thailand	76%	<u>85%</u>	53%	61%	53%
All Countries	74%	73%	60%	50%	47%

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Business practices and executive insights

What are the least pleasant aspects of your job?

- Difficulties in hiring the least pleasant part of running an SME
- Too many meetings a problem in China
- Japanese and Korean SME leaders find less problems with their jobs

	Difficulty hiring staff	Long working hours	Too many meetings	Entertaining clients after office hours	Attending functions and corporate events
Australia	<u>66%</u>	<u>61%</u>	30%	30%	31%
China	51%	44%	<u>73%</u>	<u>53%</u>	31%
Hong Kong	50%	47%	54%	40%	24%
India	39%	48%	43%	37%	<u>45%</u>
Indonesia	40%	30%	53%	35%	20%
Japan	50%	18%	22%	<u>10%</u>	18%
Korea	51%	23%	<u>9%</u>	22%	<u>8%</u>
Malaysia	60%	41%	33%	37%	34%
Philippines	<u>34%</u>	34%	36%	37%	28%
Singapore	57%	48%	40%	32%	30%
Taiwan	44%	36%	33%	48%	16%
Thailand	52%	<u>17%</u>	23%	23%	10%
All Countries	49%	39%	39%	35%	26%

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Business practices and executive insights

What do you like most about running your own business?

- Sense of achievement the best part of leading an SME
- Freedom from the corporate rat race and flexible hours less rewarding
- Philippine SME leaders like running their own businesses the most

	Sense of achievement	Autonomy	Recognition from others	Higher income	Flexible working hours	Freedom from the corporate rat race
Australia	95%	89%	58%	68%	62%	67%
China	95%	79%	67%	77%	60%	50%
Hong Kong	82%	87%	83%	76%	62%	61%
India	93%	81%	79%	76%	61%	64%
Indonesia	85%	71%	64%	84%	65%	60%
Japan	72%	66%	56%	48%	<u>16%</u>	<u>16%</u>
Korea	72%	<u>50%</u>	<u>37%</u>	<u>14%</u>	19%	28%
Malaysia	83%	73%	67%	76%	75%	<u>81%</u>
Philippines	<u>98%</u>	<u>91%</u>	77%	<u>88%</u>	<u>84%</u>	74%
Singapore	96%	82%	74%	66%	75%	79%
Taiwan	91%	84%	<u>87%</u>	64%	61%	44%
Thailand	<u>49%</u>	66%	59%	44%	42%	37%
All Countries	85%	77%	68%	66%	59%	57%

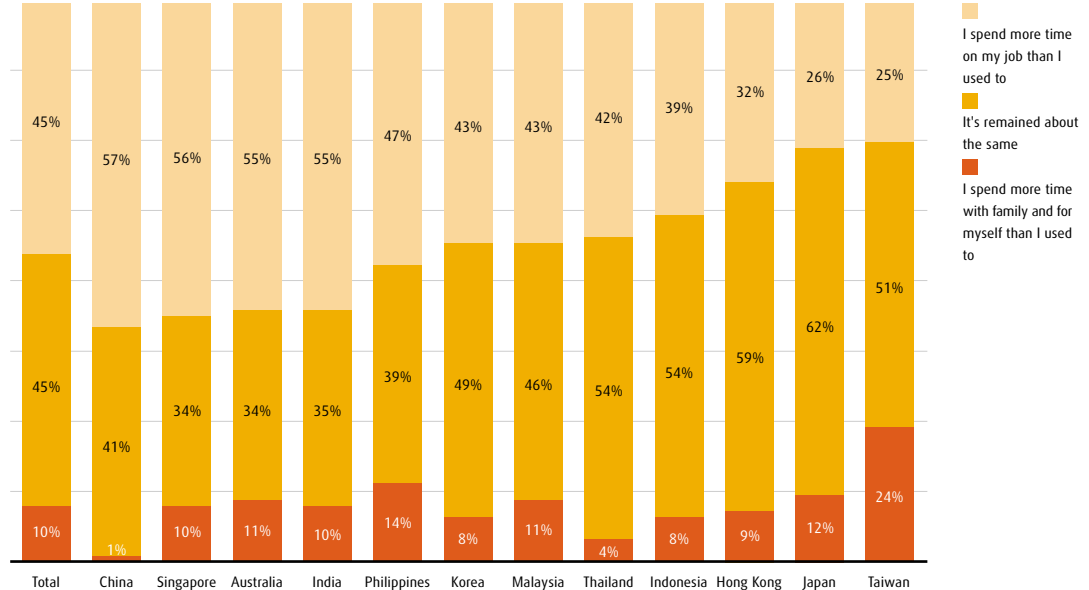
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Business practices and executive insights

Has the prioritisation of your work and private life changed since you took on your current role?

- Many SME leaders work more in their current positions
- China, Singapore, Australia and India see the biggest jump in working hours
- Taiwanese SME leaders work roughly the same hours as before taking on their current roles



Business practices and executive insights

How would you rate your main provider of credit/finance on the following attributes?

- SME leaders unsatisfied with their credit and finance providers
- Korea and Japan the least satisfied
- India and Malaysia the happiest

% Good	Is a strong partner in my business growth	Is responsive to our requests	Understands our company's needs	Values customer service for small businesses	Has competitive rates for small businesses
Australia	47%	61%	53%	45%	59%
China	61%	49%	47%	43%	37%
Hong Kong	61%	49%	56%	56%	41%
India	<u>70%</u>	<u>69%</u>	61%	64%	55%
Indonesia	65%	63%	67%	51%	49%
Japan	<u>44%</u>	33%	44%	<u>33%</u>	33%
Korea	45%	<u>22%</u>	<u>35%</u>	45%	<u>31%</u>
Malaysia	69%	<u>69%</u>	<u>69%</u>	<u>65%</u>	58%
Philippines	59%	56%	59%	56%	52%
Singapore	48%	55%	48%	52%	36%
Taiwan	58%	63%	56%	63%	<u>63%</u>
Thailand	59%	56%	54%	59%	61%
All Countries	59%	57%	56%	55%	50%

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UPS Asia Pacific PR Office

UPS House
22 Changi South Avenue 2
Fourth Floor
Singapore 486064
FAX (+65) 6883 7040

For service information and contact telephone
numbers in other countries please visit:

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