

Asia Business Council Annual Survey 2009

Executive Summary

September 2009

Survey overview

- Survey was conducted from June to August 2009
- Response rate of 74% (52 of 70 members)
- Members asked about their economic outlook and investment plans
- Members also asked to consider specific problem(s) in the following issues:
 - Energy and environmental
 - Finance and business
 - Geo-political
 - Social

Optimistic outlook tempered with caution: members fear prolonged recession

Is the financial crisis bottoming out? Is the worst over? From the 2009 Asia Business Council members' survey, our fourth annual survey, the majority of members believe the worst is over. 67% of respondents believed that business conditions in Asia would improve, compared with only 6% in 2008 (see Figure 1). However, from this group of respondents, a third of them also feared recession being the biggest economic problem in Asia.

Some factors have contributed to this positive outlook: reported GDP rates of China, Indonesia, South Korea, and Singapore in the second quarter grew by an average annualized rate of more than 10%. U.S. manufacturing data has also improved and the equities market has crossed key milestones: the Dow surpassed 9000, the S&P 500 broke through 1000, and the Nasdaq passed 2000.

The recovery of Asian economies can be attributed largely to the swift implementation of Asian governments' economic stimulus packages, which catalyzed both public and private consumption, in the form of public investment and consumer spending respectively. Asian governments' loose monetary policy (low interest rates) has boosted short-term domestic consumption, in economies like China and South Korea for example, where private consumption rose by an annualized 9% and 14% respectively.

Asia's ability to emerge from the recession faster than the United States also indicates the stronger fundamentals in Asian economies: high savings rate and hence liquid economies which can support domestic spending, healthier banks, and manufacturing-driven economies. Globally though, because the green shoots of recovery were largely driven by government stimulus, unsustainable in the long run, there is the risk of bubble economies. Export-reliant Asian economies have to shift towards the private consumer-driven model, given the increase in the U.S. savings rate and decline in export demand. Growth in domestic consumption is crucial in driving Asian economies and preventing inventory surpluses. Across Asia however, rising unemployment rates and falling wages may deter consumer spending.

Overall current investment levels down but more members have invested in Indonesia since 2007

Chindonesia, a term coined by the brokerage firm CLSA Asia-Pacific Markets, proposed that China, India, and Indonesia will generate \$10 trillion of wealth for investors by 2015. In the last four years, the largest proportion of members invested in China and India, but more interestingly, an increasing proportion of members invested in Indonesia, ranking it as the third top investment location (surpassing Vietnam for the first time). The largest foreign investments were in the telecommunications sector, followed by pharmacy, construction, metal, and electronic industries. Indonesia is Southeast Asia's largest economy (US\$433 billion) and its economy has shown resilience against the global recession: low inflation, high growth in GDP per capita (the second-fastest rate in the region, behind only China), significant economic advances under President Yudhoyono (such as his monetary policy to ease liquidity and introduction of significant reforms in the financial sector including tax and customs reforms), and improved capital market supervision.

Finance and business issues top members' concern, followed by oil and gas prices

Members rated finance and business issues as crucial to business in Asia and also perceived impact on their businesses (see Figure 2). The marked increase in the significance of these issues relative to last year is an indicator of members' emphasis on ensuring the stability of their balance sheets and liquidity positions. Their emphasis on the availability of credit indicates their emphasis on being ready for business opportunities. The second area of concern was energy and environmental issues; specifically the prospect of higher oil and gas prices, which members felt would increase their operating costs.

Nuclear ambitions of North Korea and Iran, unemployment, and widening wealth gap pose potential stability risks

The global effects of regional conflicts, namely Iran and North Korea's nuclear ambitions, caused members to perceive this issue as the most important geo-political risk. The rise in importance of both Asia and the Middle East contribute to members' heightened awareness of these conflicts' potential negative impact on world stability. Unemployment and the widening wealth gap were also key issues, which members felt were "one (of) too many challenges and there's a lack of passion, will, and wisdom to deal with these issues."

Figure 1

How Do You Feel About Overall Business Conditions In the Next 12 Months?

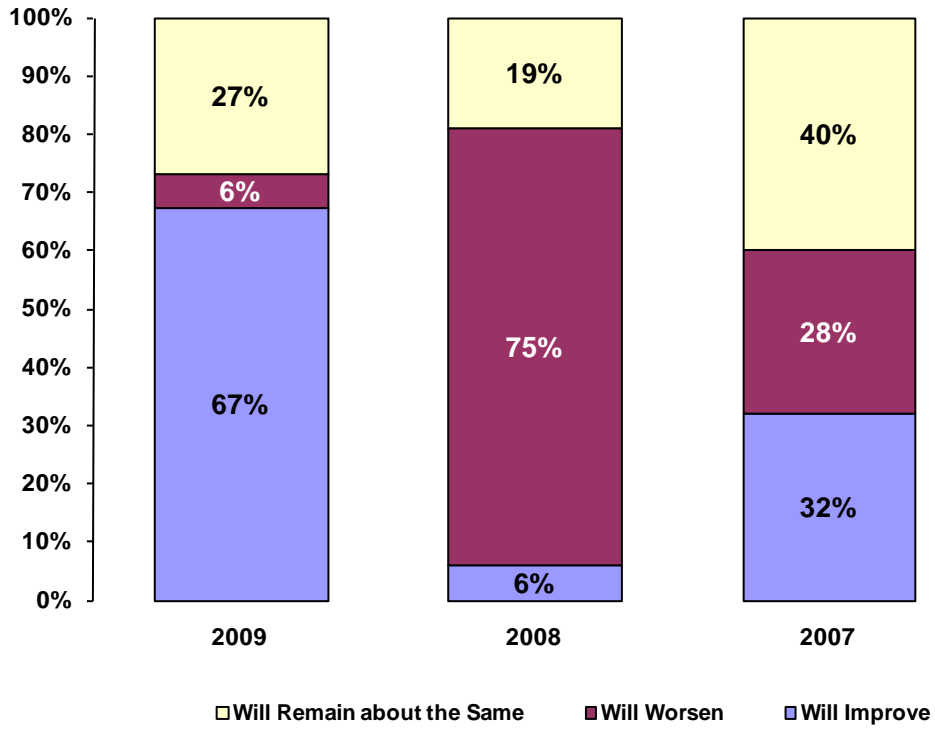
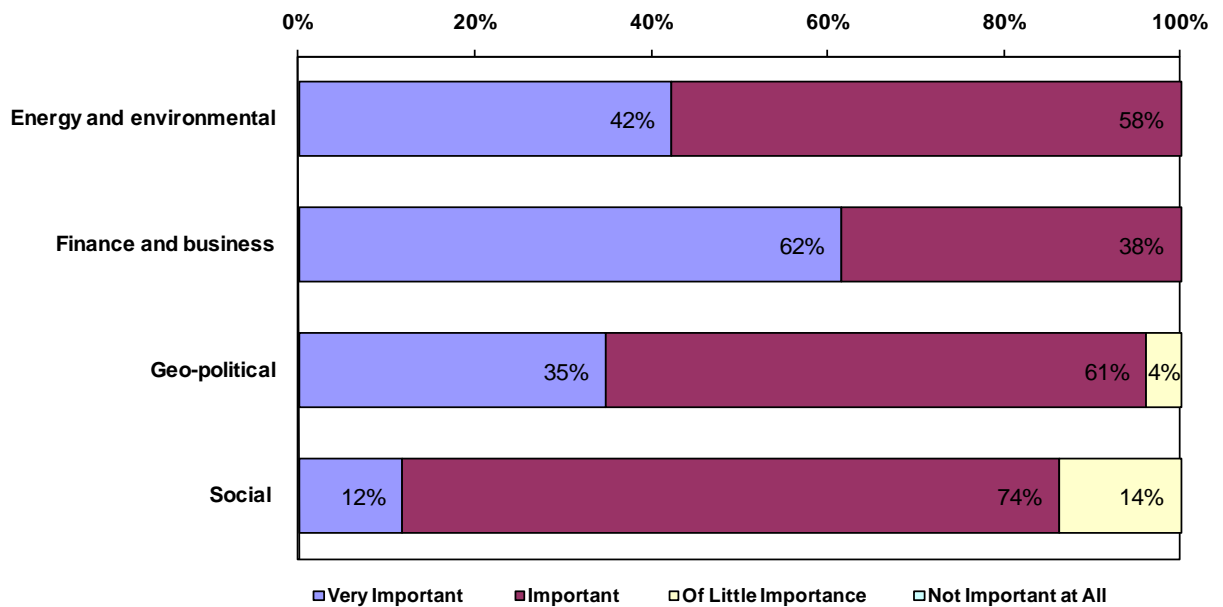


Figure 2

How Important Is This Issue for Business In Asia?



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