

Asia Business Council Annual Survey 2012

Executive Summary

October 2012

Survey Overview

- Survey was conducted in August 2012
- Response rate of 84% (52 of 62 members)
- Members were asked about their economic outlook and investment plans
- Members were also asked to consider specific problems in the following areas:
 - Energy and the environment
 - Finance and business
 - Geo-political
 - Social

Asian businesses in a holding pattern

Optimism is at its lowest point since the 2008 financial crisis among leading Asian business executives. The percentage of Asia Business Council members expecting improved business conditions over the next year has declined three consecutive years from a high of 67% in 2009 to just 25% this year (2011: 33%). The percentage of members anticipating a worsening market is little changed from last year's, at 27% and 29% respectively (See Figure 1). That optimism has diminished without a corresponding increase in bearish sentiment speaks to a strong current of uncertainty within members' responses; in fact almost half of members (48%) expect that over the coming 12 months conditions will remain the same: volatile and unpredictable.

Hopes for a stable recovery have been dampened by the Eurozone malaise and anemic growth in the United States, two factors which have led to a contraction of demand and global financing capacity. Members are also concerned about slowdowns in China and India, challenges in the Japanese economy, as well as significant political questions, all of which are making for what one respondent terms "complexity...in all market places." While strong growth potential exists, it is being undermined by uncertainty surrounding a gamut of interrelated factors; as one member notes "Plenty of opportunity now – long-term sustainability is the issue." Another concludes, "buckle down and wait – maybe for a long time".

Challenges are systemic and multifaceted; local and global

When asked to identify the biggest economic problem facing Asia, almost one third of members (30%) select recession – up from 7% in 2011. Falling demand in the West has severely undercut Asian exporters, and though local markets have picked up some of the slack, members are concerned that a

domestic or regional consumption model may not prove sufficient to compensate for the downturn in Europe and the US. The slowing of India and China is only deepening the lack of demand.

Only 24% cite inflation as the most crucial challenge, a significant drop from 73% last year, with some members crediting governments for “well-managed” monetary policies. Still, complications stemming from “abnormal climate conditions” – drought and flooding – have some concerned about rising food prices, particularly in India, which one member describes as being “so bad that (it) can only get better from here.”

Testifying to the complexity of today’s economic environment a full 46% of members list “other” issues beyond recession and inflation as principal concerns. Some members are particularly anxious about the upcoming leadership transition in China, which may complicate the country’s transition to a more sustainable growth model. Meanwhile, on the opposite side of the Pacific, the U.S. is in the midst of a polarizing presidential election campaign; at stake are issues crucial to business, such as regulation and taxes. These and other significant political variables will likely compound what one member terms “the unpredictability of government policy.”

Weaknesses in the global economy may also exacerbate pre-existing social and geopolitical pressures. At a time when economies need to strengthen intra-Asian trade, as one member noted, territorial conflicts in the East China Sea and the South China Sea are showcasing nationalistic sensitivities, rather than the nurturing of closer trade ties. Furthermore, several Asian countries are witnessing an increase in income inequality that could contribute to unrest; as another member warns, amid economic stagnation and disparity, “hidden social issues will also surface.”

Among several bright spots, members anticipate strong growth opportunities in ASEAN, as well as significant innovative potential in the application of technology to traditional business, especially in the realm of social infrastructure. Members also highlight improved conditions in Japan and Thailand, two economies devastated by natural disasters in 2011. Though it remains unclear to what extent robust local demand can compensate for lower consumption in the West, it is mentioned by many as a positive development, along with advances in regional free trade agreements (FTAs).

Back to basics; financing and talent

While protectionism, the environment, and energy loomed large in 2011, this year’s open-ended comments reflect growing anxiety over business fundamentals, including access to credit, increased regulations, and the health of the banking sector. Underscoring this point, members rank finance and business as the top issues confronting Asian businesses (See Figures 2 and 3).

Members blame high sovereign debt levels and overregulation for weighing down credit markets and creating an inhospitable business environment. Contraction of the credit market, especially in global hubs like London and New York, has made local Asian markets more skittish, blocking access to much-needed liquidity. Also worrisome is an overhang of bad debts from the 2008-09 stimulus, which could raise fears of a Chinese bank debt crisis, notes one respondent.

Another concern remains the recruitment and retention of suitable talent, especially when expanding into new markets. “Finding the right people,” a member observes, is central to a successful business strategy.

China still dominates investment interest

Despite the current slowdown, China remains the favored destination for investment from Council members, with 65% investing in the past year (excluding members from the country). The second-most significant country is the U.S. (33%), followed closely by Indonesia, India, and Vietnam. (See Figure 4). Looking ahead to the next 1-3 years, members continue to report keen interest in investing in China, the U.S., Indonesia, Latin America, and Vietnam. Regions and countries expected to see the

most dramatic percentage increase in numbers of members investing over the next 1-3 years are Latin America, Africa, and Vietnam, with the number of investing members expected to grow by 12-16%. Emerging markets like Papua New Guinea, Cambodia, Central Asia, and, particularly, Myanmar, are all mentioned as potential new investment destinations.

Figure 1

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

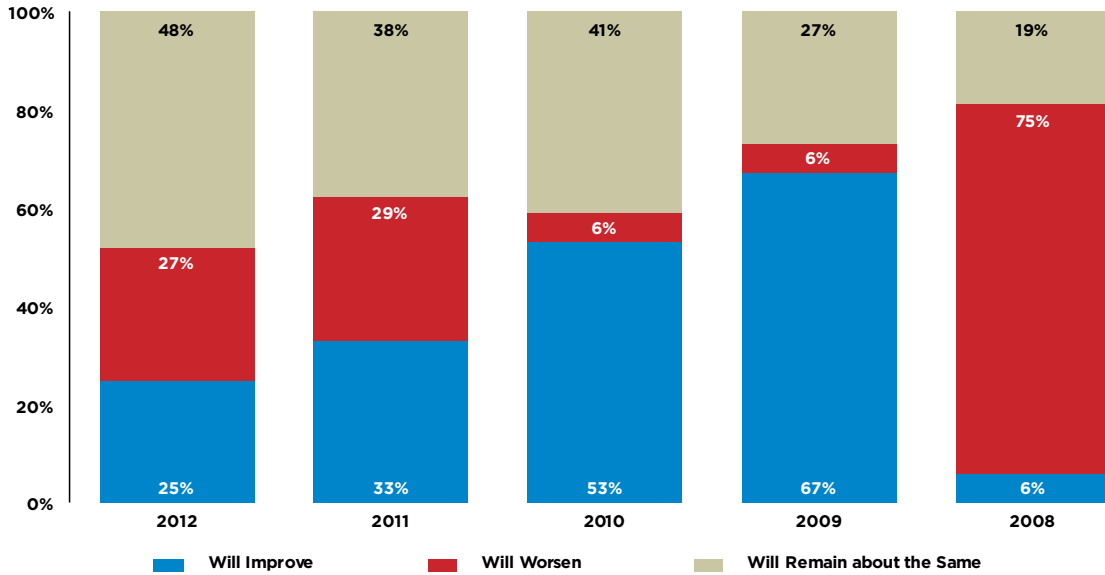


Figure 2

How Important Is This Issue For Business In Asia?

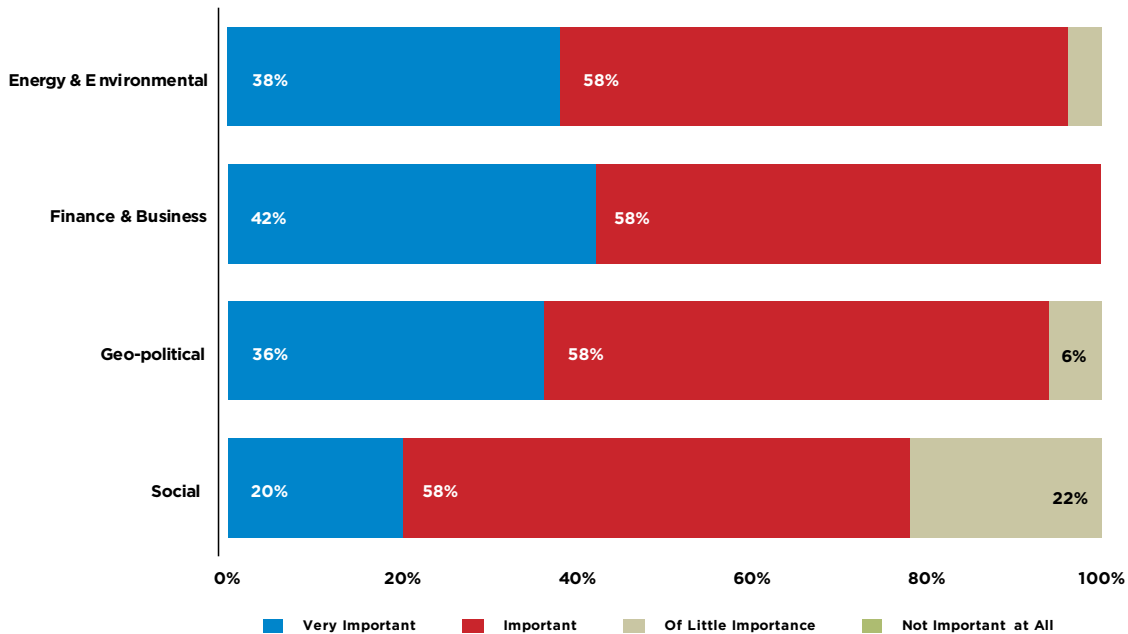


Figure 3

How Much Does This Issue Impact Your Business?

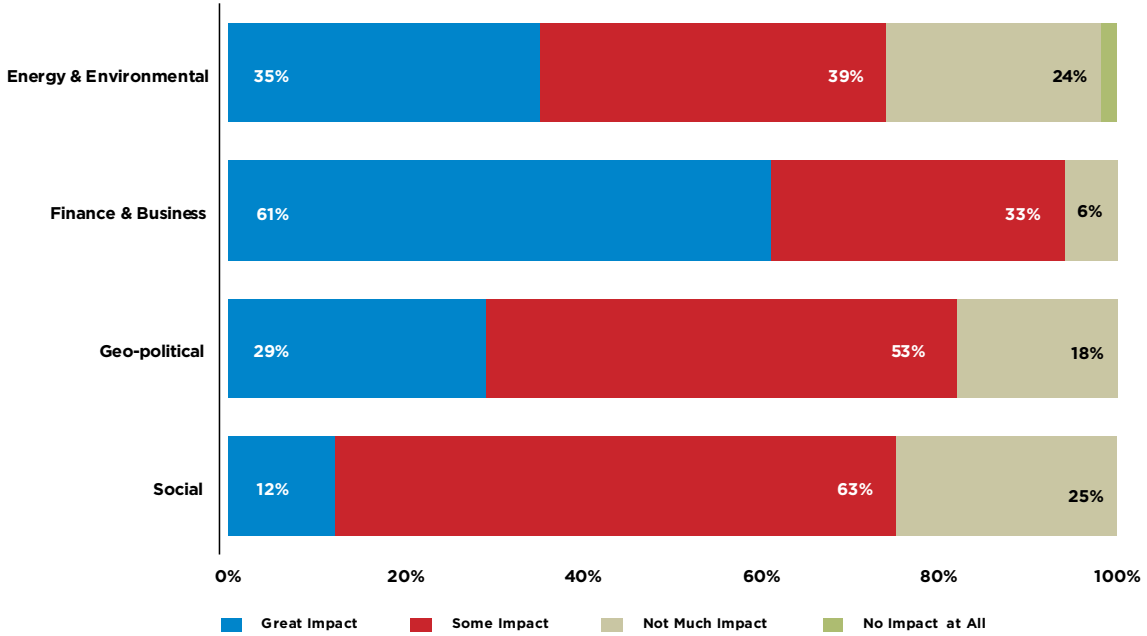


Figure 4

In What Countries Have You Invested or Increased Your Investment?

