

Asia Business Council Annual Survey 2015

EXECUTIVE SUMMARY

September 2015

SURVEY OVERVIEW

- Survey was conducted in July 2015
- Response rate of 84% (58 of 69 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

MAJORITY BELIEVED BUSINESS CONDITIONS WILL REMAIN THE SAME

Among Asia Business Council members who responded to the annual survey, only 22% believed that business conditions will improve over the next 12 months, a significant decrease from surveys in 2014 (55%) and 2013 (39%).

This year, the majority of respondents (59%) believed that conditions will remain about the same (see Figure 1). Members were also more pessimistic when reflecting on the past year's business conditions, with 43% believing that market conditions had worsened.

Those with a positive outlook cited solid economic fundamentals in Asia and pro-growth governments in their countries

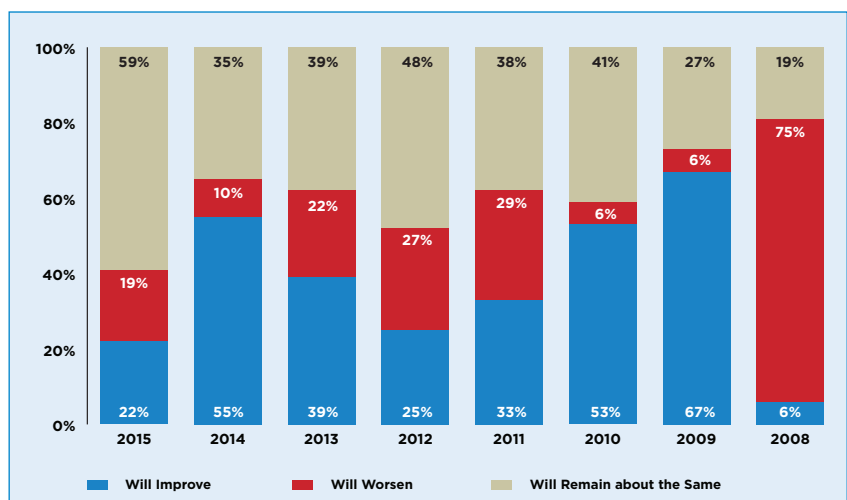


FIGURE 1
HOW DO YOU FEEL ABOUT OVERALL BUSINESS CONDITIONS IN THE NEXT 12 MONTHS?

as reasons for optimism. In particular, the Indian economy was mentioned as a bright spot. In the Gulf, Iran’s opening could present new opportunities. Others believed that lower commodity prices and stability in United States markets would contribute to growth in Asia.

Many respondents who expected conditions to remain the same or worsen in the next year cited risks of a Chinese economic slowdown and the uncertainties in China’s ongoing reform, as well as financial market volatility, as key reasons contributing to their outlook. Europe and Malaysia were mentioned by a few respondents as other economies of concern.

Response to the survey expressed continued optimism in the growth potential of India and many countries in Southeast Asia, although some cautioned that new government leadership, especially in India and Indonesia, need to overcome internal political obstacles before they can boost economic growth through structural reform, improvements in infrastructure, and openness to trade and investment. More broadly, infrastructure investment in a number of Asian countries remains inadequate to support growth, with patient capital being a limiting factor.

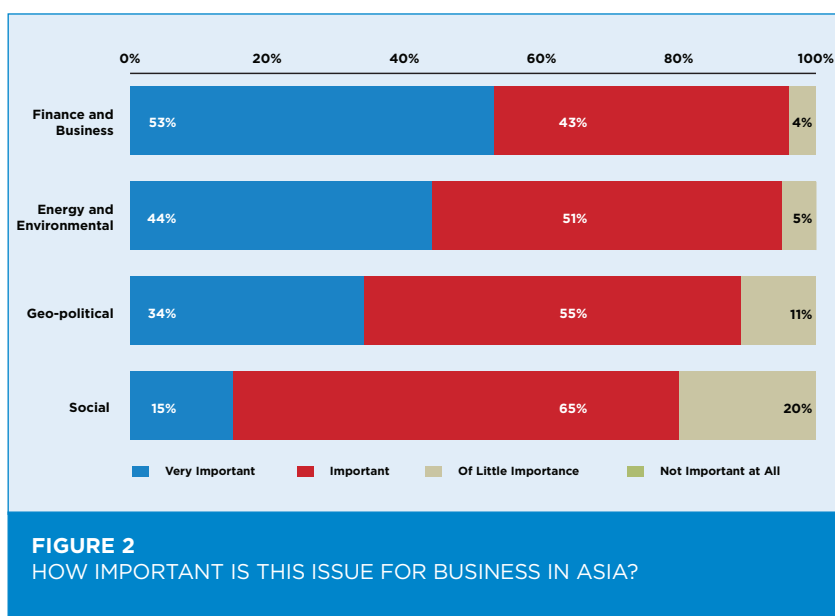
KEY CHALLENGES FOR ASIAN BUSINESS: CHINESE VOLATILITY, TECHNOLOGICAL CHANGE, AND REGULATORY UNCERTAINTY

When asked about the greatest economic challenge facing Asia, 36% of respondents cited recession, a substantial increase from the 7% of respondents who held this view last year. Among members who were most concerned with the possibility of a recession, the primary worry was the market correction in China. Another common concern was a United States Federal Reserve rate hike. Only 5% of respondents believed that inflation would be the biggest economic challenge for Asia.

Finance and business issues were mentioned as the top concern for firms across Asia, with 53% of members rating it as “very important” for business in Asia (see Figure 2). Finance and business issues were also ranked as the area with the most impact on members’ own business by far, with 64% of members marking it as “very important” (see Figure 3).

Specific issues include the volatile Chinese economy and capital markets, technological disruption that could transform the competitive landscape, and the ever-changing regulatory landscape.

Chinese market volatility that began this summer and its effects on global markets make stable returns challenging, particularly for the financial services sector. Specific worries about the Chinese economy include the weak retail market and uncertainty of the timing of a recovery, as well as excess capacity and debt problems that are structural in nature.



Technological innovation was seen as an area that could create new opportunities for larger, more established companies in Asia. But some are also worried about technological disruption due to the rise of the digital economy and sharing economy business. One member warned of a “potential dramatic change in [the] business environment and [the] competitive scene caused by disruptive technology.” Technological innovation was also mentioned

as a force for good, to help companies fulfill a more holistic, socially inclusive role and ensure a more sustainable future for Asian countries. In particular, large Asian economies like China and Japan hold promise in terms of internet and business model innovation. By contrast, a few members were concerned about the possible emergence of a tech bubble.

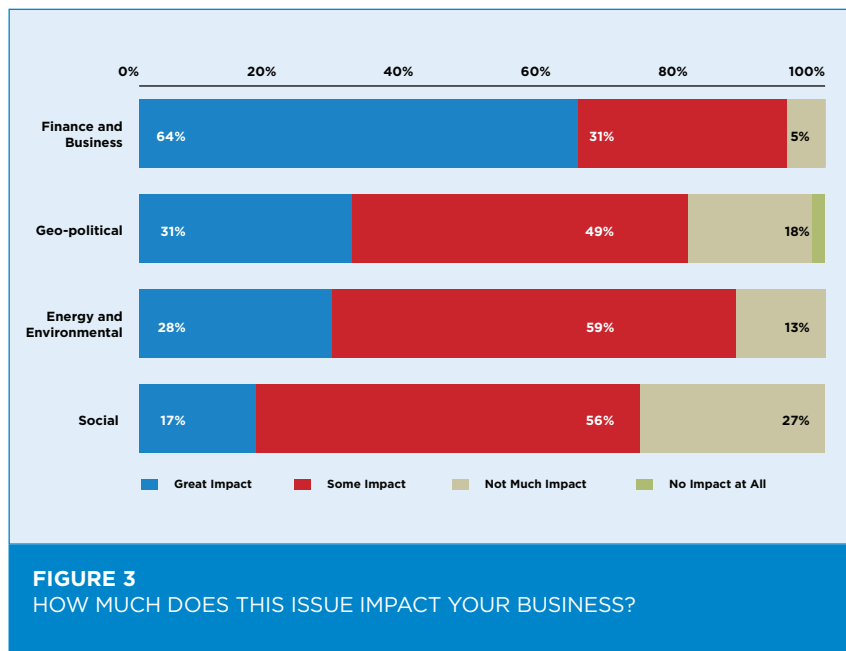
Regulation was also a chief area of concern, especially among those in banking and finance, who cited increasing and unpredictable regulation, as well as slow adoption of global best practices as problems limiting growth. In Japan, one respondent commented on the need for steady progress of structural reform to foster Japanese growth. Another member stated that a “heightened focus on corporate governance in Japan will prompt many corporations to restructure their business portfolio.” Several respondents were also concerned with the difficulty of hiring and retaining talented professionals throughout Asia.

CHALLENGES IN THE EXTERNAL ENVIRONMENT: GEOPOLITICAL UNCERTAINTIES AND INTERNATIONAL SECURITY CONCERNS

In terms of external challenges to growth in the region, many members had concerns about security issues and geopolitical turmoil. Almost a third of respondents thought geopolitical concerns impacted their business (see Figure 3). Specific issues cited include the Islamic State and tensions in the South China Sea. One member wrote that he “remain[s] concerned with the escalation of tensions around the South China Sea and island issues in Japan.” Another member highlighted the “development and spreading of Islamic State issues to some Muslim countries in Southeast Asia.” Strategic implications of the Asian Infrastructure Investment Bank, China’s relations with neighbors such as India and Russia, as well as the risk of political instability in China were also mentioned as concerns. A few others mentioned the trend of increasing nationalism around Asia and the challenge posed by more assertive NGOs and, as one member put it, “organizations which we have little control over.”

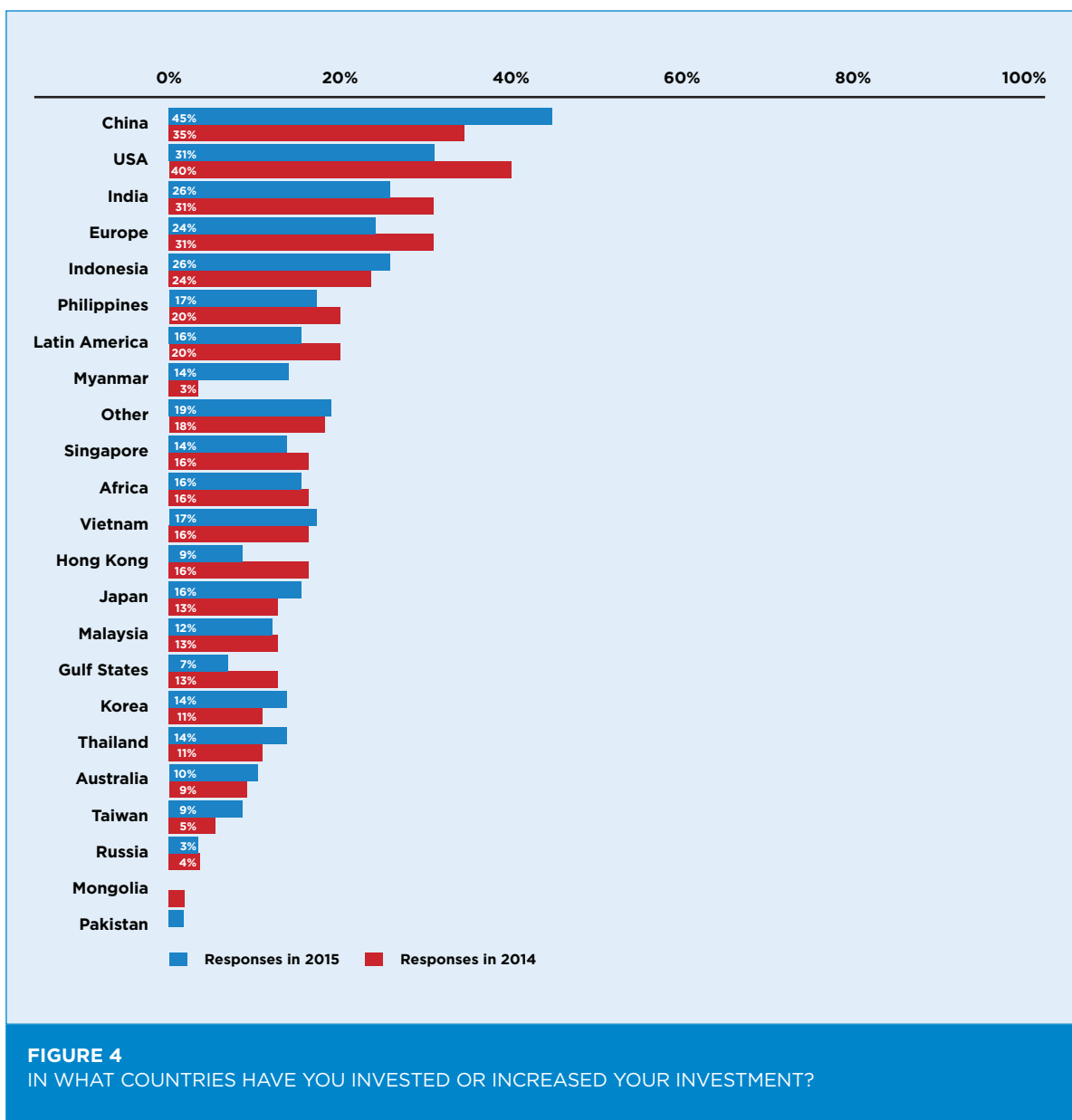
CHINA IS TOP INVESTMENT DESTINATION

China has overtaken the United States as the most favored destination for investment in the past 12 months. Survey respondents were asked where they had invested in the past year and the results were compared with their responses given in the 2014 survey. 45% of respondents have invested in China



(all of these figure exclude members' home countries), up from 35% the previous year (see Figure 4), and the majority of these respondents are from Northeast Asian economies. The strong resurgence in Chinese investment despite the waning Chinese economy indicates respondents' faith in the long-term growth of the country. The United States came second, with 31% of respondents investing there in the past 12 months. Indonesia matched India with 26% of respondents followed by Japan with 16%. Among newly emerging economies of interest, Myanmar led this year, with 14% of respondents investing in the past year.

In the next one to three years, 47% of members expressed interest in investing in China (see Figure 5). Over the same period, 29% indicated plans to invest in the United States, a sharp fall from last year's survey, while 24% of members were looking to invest in each of the following locations –India, Europe, and the Philippines. 17% of respondents plan to increase their investments in Myanmar, reaffirming the country's growth momentum.



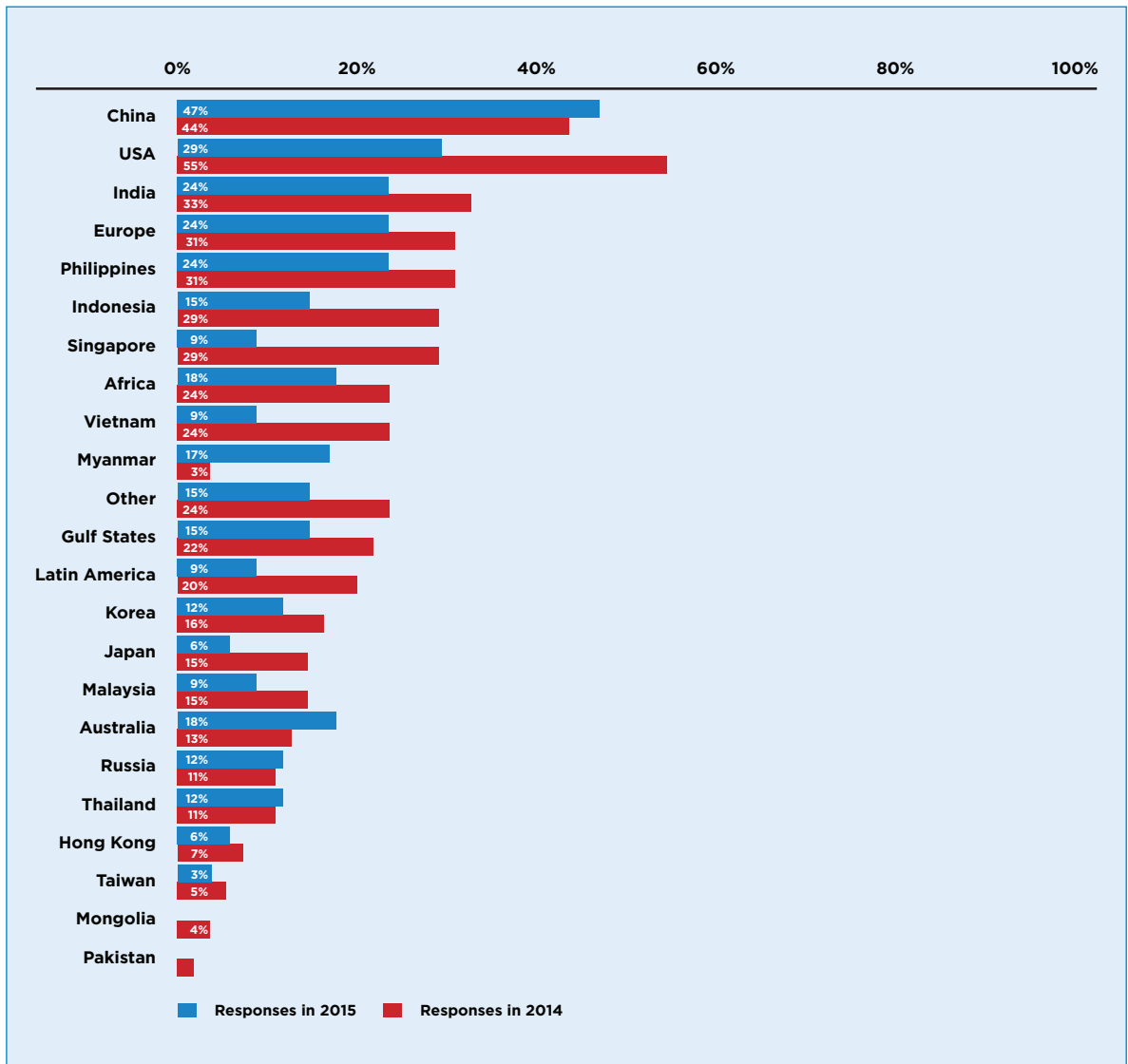


FIGURE 5
 IN THE NEXT 1-3 YEARS, WHERE DO YOU PLAN TO INVEST OR INCREASE YOUR INVESTMENT?