

# Asia Business Council Annual Survey 2017

## EXECUTIVE SUMMARY

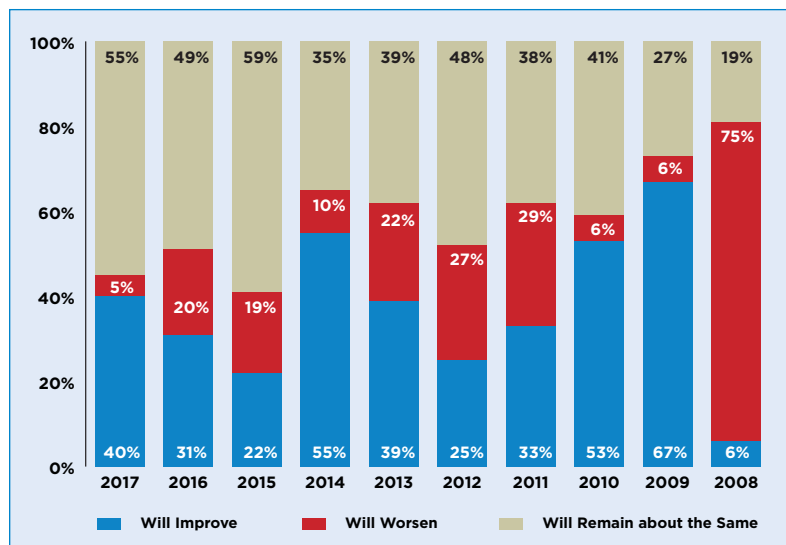
September 2017

### SURVEY OVERVIEW

- Survey was conducted in July 2017
- Response rate of 85% (61 out of 72 members)
- Members were asked about their economic outlook and investment plans
- Members were also asked to consider the following issue areas:
  - ◆ Energy and the environment
  - ◆ Finance and business
  - ◆ Geopolitical
  - ◆ Social

### GROWTH IS SLOW, BUT OPTIMISM IS AT ITS HIGHEST LEVEL IN THREE YEARS

More of the same: That sums up Asia Business Council members' outlook for the year ahead. There's more optimism—and a lot less pessimism—compared to the past two years. Growth remains steady, if slow. Geopolitical risks are way up in a region that has enjoyed a 70-year peace dividend.



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

The majority (55%) of Asia Business Council members expected business conditions to remain the same over the next year, a slight increase from surveys conducted in 2016. Although there remained a large proportion who believed that conditions will remain the same, their reasons for believing so were varied; some members cited overall stable economic conditions behind their views, while others focused on ongoing geopolitical concerns and slow growth. 40% of members believed that business conditions will improve in the coming 12 months, while only 5% believed that business conditions will worsen (see Figure 1). Compared to last year, members had a more positive outlook, as shown by the nine percent-

age-point increase from 31% to 40% in responses for improving conditions and a decrease of 15 percentage points from 20% to 5% for members who projected worse conditions over the next 12 months.

Those members who expressed positive views cited an increase in global trade growth and overall economic stability in the region. Increased efforts at reform in India and signs of increasing economic growth in Japan were also noted as significant positive forces. Of those members who expressed a negative outlook over the economy, the most cited concerns were geopolitical tensions, especially over North Korea, the risk of slow growth, and the uncertainty over interest rates. One member pointed out that “Even though we are seeing synchronized recovery, interest rate normalization and geopolitical uncertainties will dampen confidence and stifle investment.”

## **GREATEST ECONOMIC PROBLEMS FOR ASIA: GEOPOLITICS AND PROTECTIONISM**

In response to the question about the biggest economic problems facing Asia, 11% of members chose inflation, 18% recession, and 71% chose “other.” Since last year’s annual survey, member concerns over recession have gone down, as shown by the 16 percentage-point decrease in those citing recession as Asia’s main economic challenge, while geopolitical tensions in East Asia, protectionism and economic nationalism, and U.S. trade policy in the region were raised as major concerns.

A particular worry was how to deal with regional and international politics surrounding the Korean Peninsula, especially between the U.S. and China.

Additional concerns focused on the uncertainty and unpredictability of U.S. trade and military policy in Asia, especially following the U.S.’s abandonment of the Trans-Pacific Partnership (TPP), given the unpredictable nature of the U.S. administration. Several respondents shared the worry about the lack of direction and new sources of growth, particularly if export and consumption growth stagnate.

## **REGIONAL VARIATIONS: MIXED VIEWS ON CHINA, AND OPTIMISM IN JAPAN AND INDIA**

Although a large portion of respondents plan to increase and invest in China in the coming years, worries over excess credit, overcapacity, a potential banking crisis, the ability to maintain a balance of market openness with capital and risk control, and continued slow growth remain common concerns about the country. Despite these concerns, though, members expressed confidence in Beijing’s ability to overcome these obstacles, echoed by one member who commented that “the Chinese government is very sophisticated and alert, so the risk is manageable.” Others noted optimism at the “gradual shift from export orientation to domestic consumption” and confidence in the Chinese market because of its economic clout in the region.

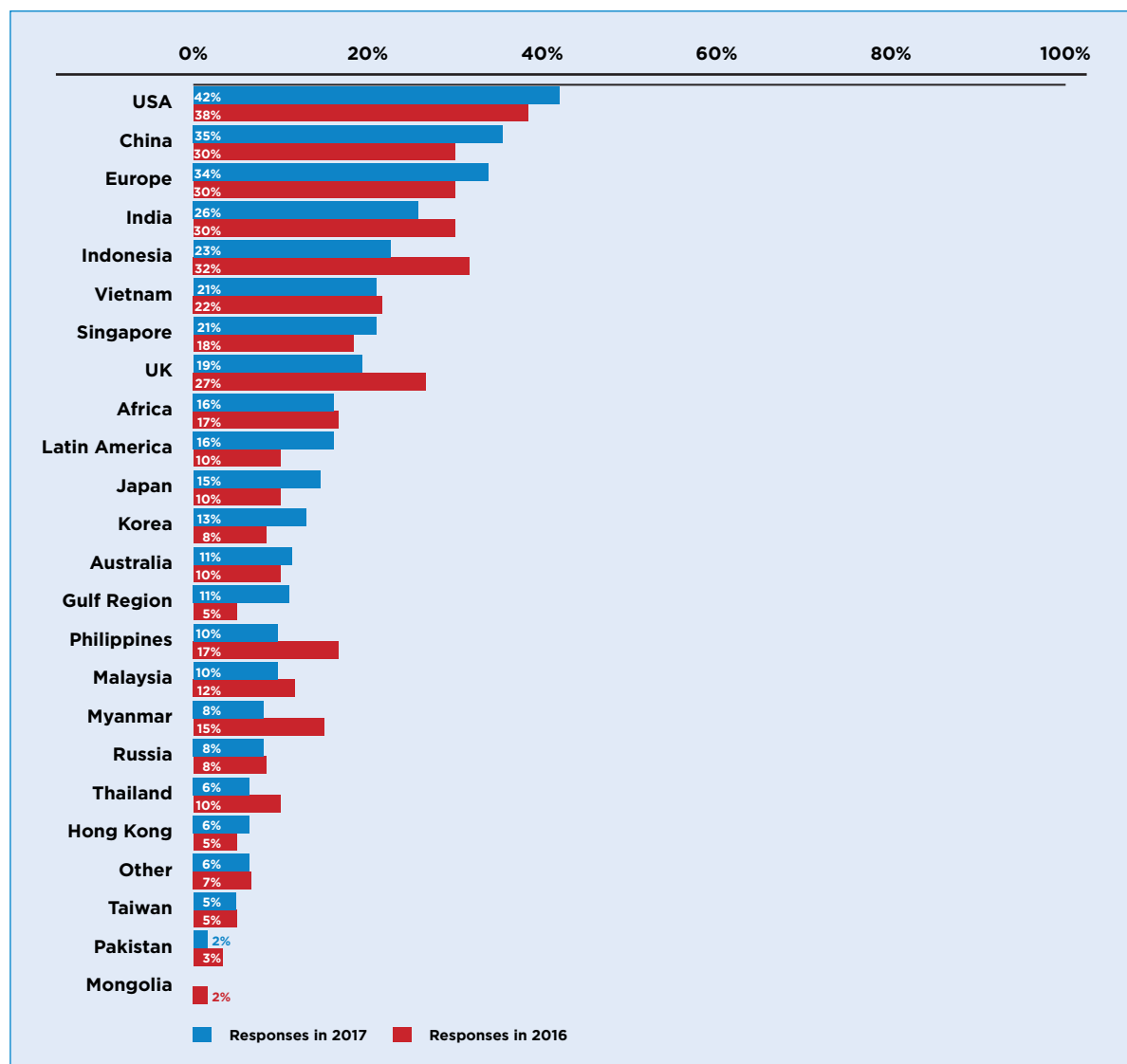
Several members also viewed Japanese Prime Minister Shinzo Abe’s continued efforts at economic reforms with optimism, with one member writing that, “We believe Japan’s expansionary fiscal policy and its decision to postpone the consumption tax increase will have a positive effect on the country’s growth.” This optimism is also reflected in Japan’s strong growth rates so far this year, which have signaled a significant change in momentum for the economy.

In India, Prime Minister Narendra Modi’s reform agenda has bolstered confidence among foreign investors, with 28% of respondents planning on investing or increasing investments in India. With a similar portion of investors planning on investing or increasing investments last year (30%), India has

retained its allure for investment. One member asserted that it is the beginning of a new phase for India, thanks to business-friendly policies and continued measures against corruption in the wake of last year's demonetization. Large-scale infrastructural plans, which will dramatically increase capacity and efficiency of the transportation of goods within the country, also underpin increased investment.

## U.S. AND CHINA REMAIN TOP INVESTMENT DESTINATIONS; ENTHUSIASM FOR ASEAN WANES

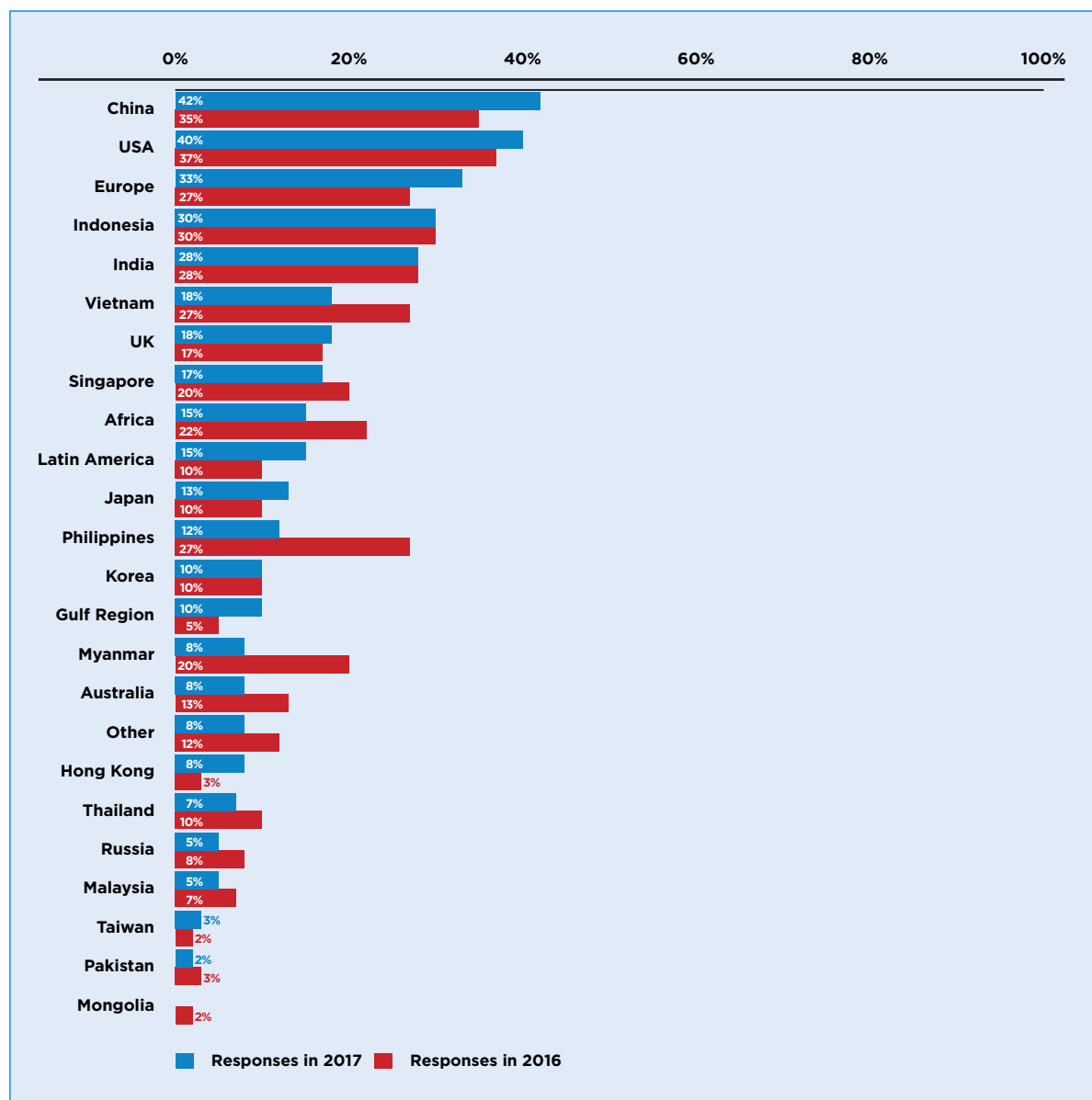
The U.S. maintained its position as the top investment destination for members (excluding their home countries) over the past year, with 42% of respondents having invested or increased investment in the country (see Figure 2). Not far behind the U.S. came China (35%), followed by Europe (34%) and India (26%). However, when it comes to planned investments over the next 1-3 years, China again tops the list of responses. During this time frame, 42% of respondents plan on investing or increasing investments in China, edging out the U.S. Although investment plans in China increased this year, similar numbers were seen in 2015 with 45% of respondents planning on investing in China at that time.



**FIGURE 2**  
IN WHAT COUNTRIES HAVE YOU INVESTED OR INCREASED YOUR INVESTMENT?

Investment plans for several key ASEAN countries were noticeably lackluster this year. As seen in Figure 3, those with future investment plans in the Philippines dropped from 27% to 12%, Vietnam from 27% to 18%, and Myanmar from 20% to 8%. Other ASEAN members Malaysia, Singapore, and Thailand saw modest decreases in respondents who planned investment. The status of relations in the South China Sea, ongoing domestic political uncertainty in some ASEAN member economies, such as Thailand and the Philippines, and the U.S. abandonment of the TPP may have contributed to investor doubts in the region. Indonesia still gathered strong future investment interest, with 30% of respondents planning to invest or increase investments in the country, though actual investment appears to have fallen dramatically, from around 32% to less than 25%.

Increased investment in China, the U.S., and Europe since last year suggests a broader trend of investing in traditionally more attractive, larger markets and may explain decreased investment in some emerging economies, especially those within ASEAN.



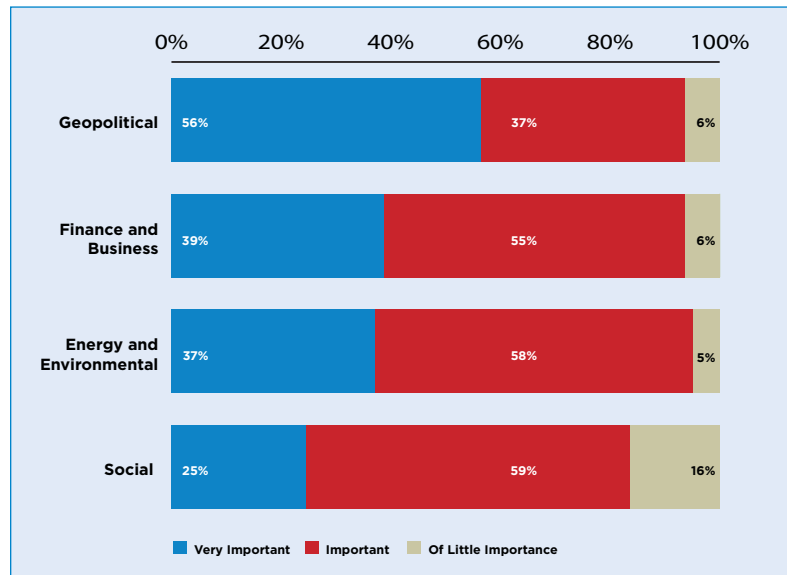
**FIGURE 3**  
IN THE NEXT 1-3 YEARS, WHERE DO YOU PLAN TO INVEST OR INCREASE YOUR INVESTMENT?

## SURGE IN BUSINESS CONCERNS OVER GEOPOLITICAL ISSUES; BUT FINANCIAL AND BUSINESS CONCERNS REMAINED SIGNIFICANT

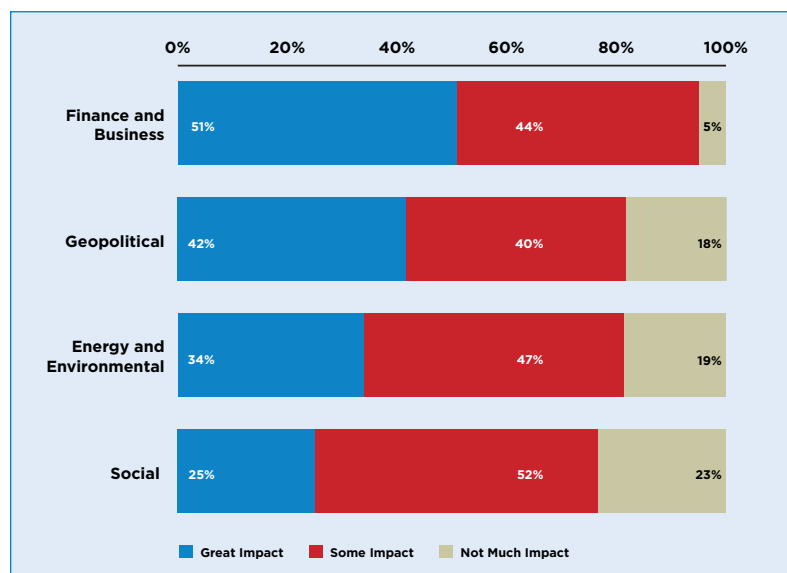
Geopolitics emerged as a key issue among respondents. This year, 56% of respondents considered geopolitical issues to be “very important” for business in Asia (see Figure 4), up from 43% last year. This number is even more striking when compared to member responses in the annual survey five years ago, which showed that just 35% of members categorized geopolitics as “very important” to business in Asia at that time. Within the category of “very important,” finance and business decreased by a sizeable 11%. Energy and environmental issues saw a modest decrease but remained consequential with 37% of members classifying these issues as “very important,” with price stability mentioned as a key issue.

When answering about the degree to which the selected issues impact members’ own businesses, financial and business issues came before geopolitical ones, illustrating ongoing concerns about slow growth. There were many respondents who pointed out challenges related to disruptive technologies and business models, and the need to adapt to and integrate new technologies such as AI, cloud computing, and Big Data into businesses. Other prominent themes included complex regulatory environments, the search for and retention of the right professional talent, and the ability to remain competitive in an increasingly competitive environment. Nonetheless, it should be highlighted that concerns about financial and business issues decreased nominally, while geopolitical ones increased by 13% when looking at issues of “great impact.”

Other key themes mentioned included slow growth in key Asian countries and instability of U.S. leadership in Asia. One member also cited preemptive concerns over the acceleration of innovative technologies, future demographic challenges and ever-changing social preferences in the long term, while another cautioned that, “How to catch up or go beyond the rapid growth of the Internet, mobile Internet, and smart technology is key to success in the future.”



**FIGURE 4**  
HOW IMPORTANT IS THIS ISSUE FOR BUSINESS IN ASIA?



**FIGURE 5**  
HOW MUCH DOES THIS ISSUE IMPACT YOUR BUSINESS?