

Asia Business Council Annual Survey 2010

Executive Summary

September 2010

Survey Overview

- Survey was conducted in July-August 2010
- Response rate of 70% (49 of 70 members)
- Members were asked about their economic outlook and investment plans
- Members were also asked to consider specific problem(s) in the following issues:
 - Energy and environmental
 - Finance and business
 - Geo-political
 - Social

Cautious optimism: Strong growth in Asia but weak recovery in the U.S. and Europe

In the 2010 Asia Business Council members' survey, respondents expressed cautious optimism toward economic prospects for the coming 12 months. About four of 10 members (41%) believed that the Asia's business conditions will continue on their current course over the next 12 months, while 53% believed that the region's economy will improve at an even stronger rate. Only 6% thought the economy would worsen (See Figure 1).

Asian economies have proved resilient in the months following the global crisis. Their economies have improved steadily over the past year, quelling fears of a double-dip recession. Growth in China and India, which had an annualized GDP growth of 9.1% and 7.4% in 2009 respectively, increasing domestic demand and a relatively high consumer confidence level contributed to a buoyant economic environment. The International Monetary Fund has forecast an average growth rate of 7% for Asia in 2010, nearly triple the forecast growth for advanced economies (2.5%). However, members expressed concerns about the fragile state of the recovery of the United States and Europe, noting that weak demand will continue to present uncertainties to export-driven economies in Asia.

Inflation was mentioned as a chief concern facing Asia in the coming year by 41% of respondents, with many citing the rising costs of resources and labor as the main vehicles of price increases. Similarly, the vast majority of respondents (88%) expect to see the overall wages of their Asian employees increase in the coming year, with 66% of respondents expecting a wage increase of 5-10% and 21% expecting an increase of 11-15%. Additionally, respondents worried that large budget deficits resulting from governmental stimulus packages could eventually dampen growth. Other problems mentioned include the slow pace of structural reforms in China, high unemployment, and the building up of asset bubbles in the region.

China holds twice the investment interest of India

In 2009, China was the second largest recipient of foreign direct investment after the United States, attracting a total of \$95 billion. Member interest in China reflects this global trend, with 58% of members investing in China in the past year, more than double the members who invested in India, the second most popular investment destination. The large gap between China as the top investment destination and India as the second has remained stable for the past five years, representing a continuing interest in China's investment opportunities. Although FDI in

China was hard hit by the recent recession, it has rebounded strongly in the past year, climbing for 12 consecutive months in July. Foreign-invested companies accounted for 28% of the nation's industrial output and 56% of exports in 2009 and employed 45 million people.

Energy and environmental issues take the spotlight as market concerns ease slightly

Members rated issues of energy and the environment as the most important issues facing Asia, marking a change from 2009 when business and finance concerns topped the list. In the survey, 51% of members identified environmental and energy issues as very important to Asia, a 9% increase from 2009 (See Figure 2). Specifically, members expressed concern that an increase in oil and energy prices in the coming months would greatly impact the business environment in Asia. Many see the heightened awareness of environmental issues as an opportunity and the development of less energy-intensive and more environmentally-friendly practices as a business imperative. The decreased concern over issues of business and finance reflect members' belief that recovery is on the way; however, there are still common concerns surrounding regulatory uncertainty and market volatility.

Sino-U.S. relations, instability in North Korea and the Middle East, as well as issues of social inequality, prompt concern among members

Tense international relations were seen as the largest threat to global stability, with members noting particular concern over tensions in Sino-U.S. relations. The uncertainty in future leadership of North Korea and regional disputes in the Middle East are also sources of instability. Social inequality, labor unrest, and the widening income gap were overwhelmingly seen as the largest social challenges facing Asia, with members paying special attention to the Chinese labor situation. The recent wage increases won by factory workers in China reflect the general member opinion that employee wages will increase by an average of 8.8%. One member noted, "Stable social conditions are a prerequisite for stable long-term growth."

Figure 1

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

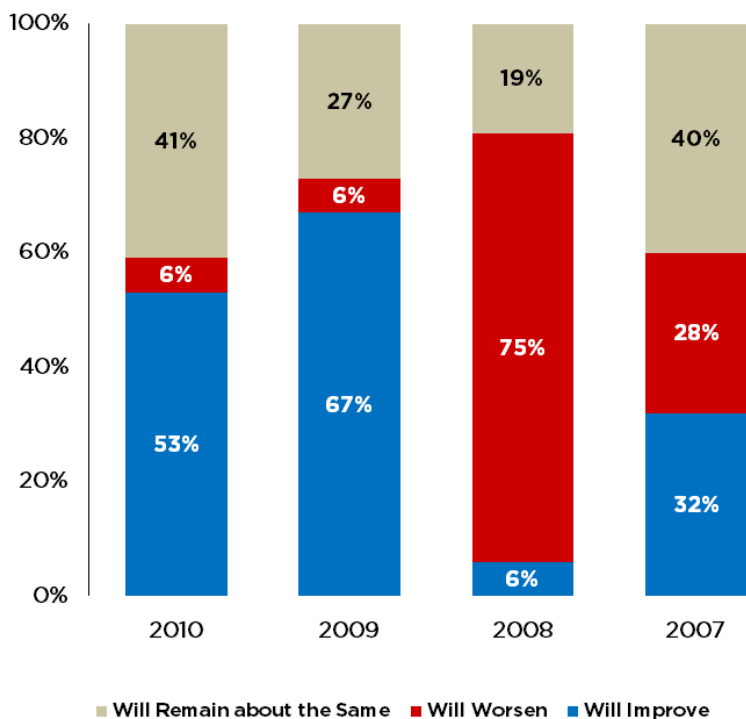


Figure 2

How Important Is This Issue for Business In Asia?

