

Asia Business Council Annual Survey 2018

EXECUTIVE SUMMARY

September 2018

SURVEY OVERVIEW

- Survey was conducted in July 2018
- Response rate of 81% (59 out of 73 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
 - ◆ Technological

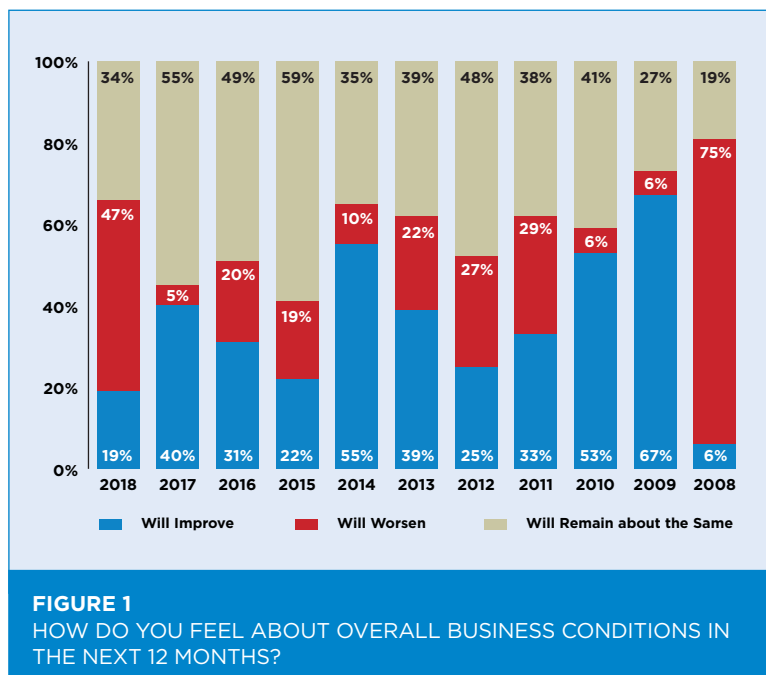


FIGURE 1
HOW DO YOU FEEL ABOUT OVERALL BUSINESS CONDITIONS IN THE NEXT 12 MONTHS?

LOWEST OPTIMISM AND HIGHEST PESSIMISM SINCE 2008

Collectively, Asia Business Council members' outlook for the year ahead is at its least optimistic and most pessimistic since 2008.

Almost half (47%) of respondents expect things to worsen over the next 12 months (see Figure 1). Heightened threats of an escalating U.S.-China trade war is by far the most common concern cited by respondents, as well as currency pressures, weak U.S. leadership, and growth

slowdown or uncertain growth prospects of major economies in Asia including China, Korea, Japan, and Taiwan, as the trade conflict disrupts global supply chains.

A minority (19%) of respondents expected business conditions to improve in the next 12 months, the lowest since 2008. Those who are more optimistic cited the lessening of geopolitical tensions, and the presence of growth drivers in Asia including the Belt and Road Initiative, urbanization, and the expansion of domestic demand in many countries. Among the one-third of respondents who believed that conditions will remain the same, several cited Asia's strong economic fundamentals and continued strength of the U.S. and global economy.

GREATEST ECONOMIC PROBLEM FOR ASIA: U.S.-CHINA TRADE WAR

In response to the question about the biggest economic problems facing Asia, 15% of respondents chose inflation, 15% recession, and the rest chose "other." Most respondents believed that the U.S.-China trade war is the biggest economic problem for Asia. Other commonly cited problems include an increase in U.S. interest rates, a potential currency war, higher fuel prices, ongoing geopolitical uncertainty, and frothy valuations. "Instability, volatility, unpredictability" were common words used to describe Asia's economic problems.

Inconsistent government policies and regulations in some economies, both in developed markets globally and in emerging markets in Asia, were mentioned as problems causing unpredictability for businesses, as were the risks of protectionism and authoritarianism. The unpredictability of U.S. foreign and trade policy toward Asian economies were of high concern.

Digital transformation was seen both as a significant challenge and opportunity for businesses in Asia. Respondents observed that technological change is not just an isolated issue or initiative, but rather a trend that disrupts old business models and therefore requires coordinated leadership and "transformation at the core" of businesses, as well as overall "cyber readiness," in order to adapt to the changing nature of competition. Business opportunities associated with this technology-driven transformation mentioned by respondents include the Internet of Things for consumers, opportunities presented by 5G, and artificial intelligence's potential to transform industry verticals.

REGIONAL VARIATIONS: SERIOUS CONCERNS ABOUT TRADE WAR EFFECTS ON ASIA BUT SOME OPTIMISM ABOUT CHINA MARKET; UNCERTAINTIES IN INDIA AHEAD OF ELECTIONS; GLOBAL OPPORTUNITIES FOR JAPAN OVERSEAS

China remained top of mind for respondents who run businesses in Asia, the U.S., and Europe. Respondents are concerned about trade war between China and the U.S., with knock-on effects to the rest of Asia and the world. On the positive side, several respondents cited opportunities that the trade conflict may present non-China-based companies, if China turns its attention to boosting domestic consumption in sectors such as automobiles and information and communication technologies.

In India, uncertain political and economic conditions are causes for concern. On the political front, as general elections in 2019 are approaching, the increasingly weak ability of opposition parties to challenge the government is concerning. On the economic front, access to funding, especially from long-term debt and patient capital, present challenges. India also faces a potential digital transformation enabled by 5G technology, but financing, infrastructure, and standards remain barriers.

Japanese companies are looking globally for investment opportunities, including in China and the U.S. AI is an area where respondents see opportunities, as is social innovation for new markets that are facilitated by digitalization.

CHINA TOPS CURRENT AND FUTURE INVESTMENT DESTINATIONS BY A WIDENING GAP

China overtook the U.S., which had been the top investment destination for the past two years (excluding members' home countries), with 49% of respondents having invested or increased investment in the country (see Figure 2). The U.S. came second (39%), followed by Europe (31%) and Vietnam (29%). When it comes to planned investments over the next 1-3 years, China also tops the list, with an even higher share of respondents (54%), far exceeding intended investments in the U.S., which stood at 39%. Investments in a number of markets across ASEAN and other markets have stagnated or waned. Vietnam and Thailand were notable exceptions, as these markets saw investments by a greater share of respondents. Both markets also anticipate planned investments from a greater share of respondents over the next 1-3 years, as do the Philippines and Malaysia, revealing stronger investment confidence in the ASEAN region in the near future (see Figure 3). This investment optimism is driven in part by opportunities presented by digital transformation, and reflects a desire to diversify away from markets most directly affected by a U.S.-China trade conflict. There is also a move away from previously favored markets that now have inflated asset prices and are showing signs of nearing the peak of a cycle. The

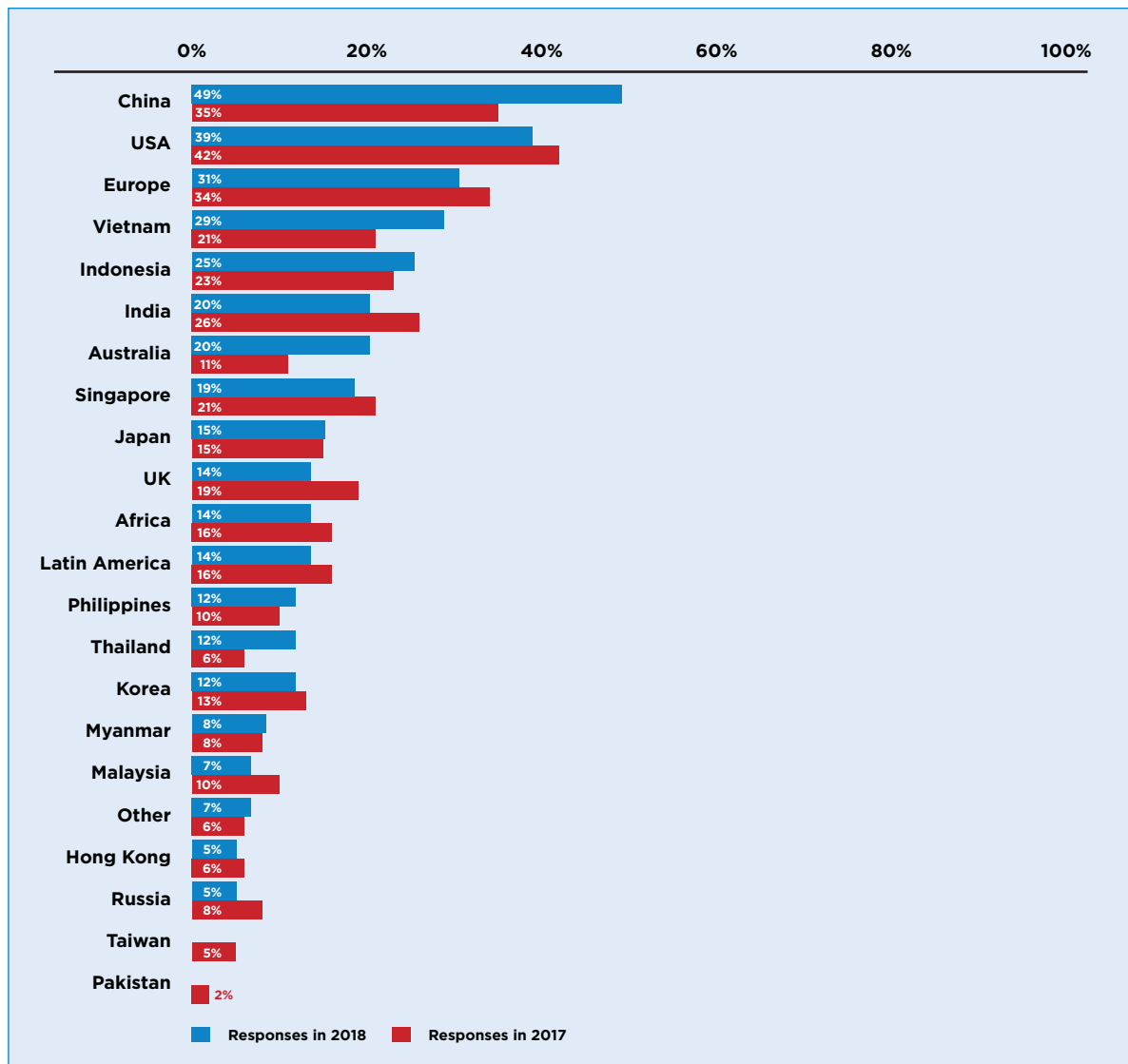


FIGURE 2
IN WHAT COUNTRIES HAVE YOU INVESTED OR INCREASED YOUR INVESTMENT?

interest in these ASEAN markets by external investors is to a degree at odds with worries of domestic political uncertainties by respondents in the home markets.

Eastern Europe and Cambodia are other markets mentioned by respondents as current or future investment destinations of interest.

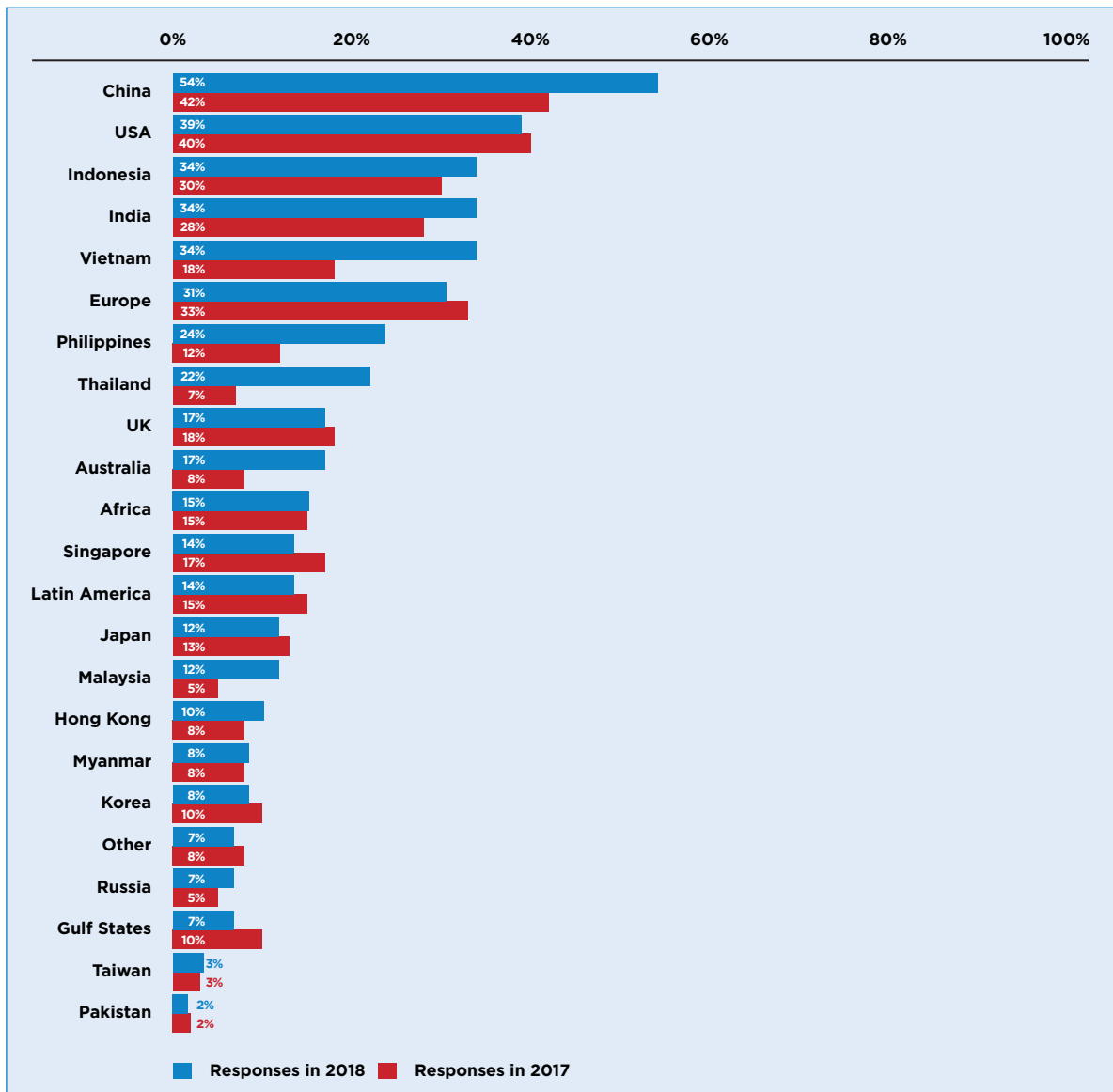


FIGURE 3
IN THE NEXT 1-3 YEARS, WHERE DO YOU PLAN TO INVEST OR INCREASE YOUR INVESTMENT?

TECHNOLOGICAL ISSUES ARE SEEN AS MOST IMPORTANT; EVEN GREATER BUSINESS CONCERNS OVER GEOPOLITICAL ISSUES; ENERGY AND ENVIRONMENTAL CONCERNS INCREASED IN IMPORTANCE

Technological issues, which the respondents were asked about for the first time in the annual survey, topped the list of concerns, with 71% of respondents saying they are very important for business in Asia (See Figure 4). The trends of automation, artificial intelligence, and robotics, and their effects on workforces, are seen by several respondents as key concerns, as is the growing power of technology giants, especially in the U.S. and China. Cybersecurity was also mentioned by several respondents as a top-of-mind issue.

More than two-thirds of respondents (69%) rated geopolitics as a very important issue, as compared to 56% last year (see Figure 4). Both geopolitical tensions and domestic politics are driving this perception. In terms of geopolitical tensions, trade disputes were again mentioned as a key risk that could lead to economic recession, and at worst, depression. One respondent saw trade as a symptom of a broader rivalry between the U.S. and China that can only be resolved when the two powers reach agreement and find common ground. In the meantime, businesses need to consider diversifying business, as well

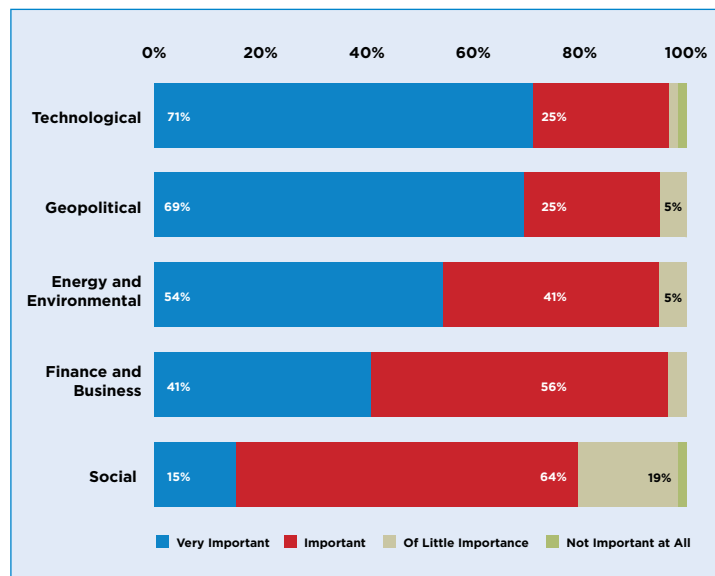


FIGURE 4
HOW IMPORTANT IS THIS ISSUE FOR BUSINESS IN ASIA?

as employ realistic scenario planning and reallocate resources to prevent disruption. Protectionism and the localization of trade and manufacturing, and the closing of markets around the world are big threats. Institutions need to be strengthened in order to resolve trade issues. North Korea is still seen as a potent risk.

In terms of domestic politics, a few respondents from different economies pointed out the risk of authoritarianism and polarization in political views as barriers, and also noted the need for leaders to look at common interest. Upcoming elections and sector-specific reform were also mentioned as domestic issues of top concern.

Energy and environmental issues have seen a marked increase in the share of respondents perceiving these as important—54% as compared to 37% last year, and an increasing share said these issues greatly impact their business (43% compared to 34% last year). In particular, respondents mentioned the issue of having long-term electricity supply, as well as having concrete energy policies in order for countries to remain competitive. Several respondents mentioned the energy revolution as a big opportunity.

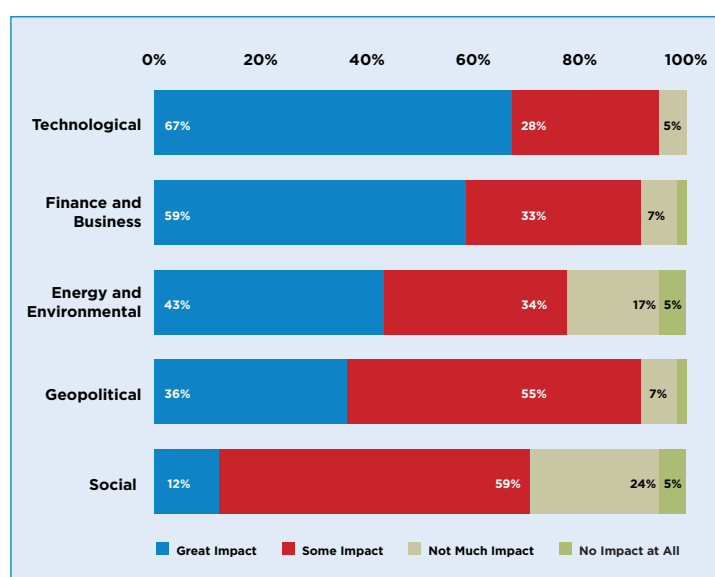


FIGURE 5
HOW MUCH DOES THIS ISSUE IMPACT YOUR BUSINESS?

Several respondents mentioned the energy revolution as a big opportunity.

The share of respondents saying finance and business issues are very important remains roughly the same as in the survey last year, and more than half (59%) said these are issues that have great impact on their business (see Figure 5). The availability of financing in emerging markets remains a persistent issue. Another recurring sentiment is that high-quality talent is hard to recruit, develop, and retain, especially at senior levels. A few respondents warned of the consequences of expansive monetary policies and unsustainable debt levels.