Asia Business Council

Asia Business Council Annual Survey 2021

September 2021

PHOTO BY STEPHEN KING

Asia Business Council Annual Survey 2021

By Colleen Howe

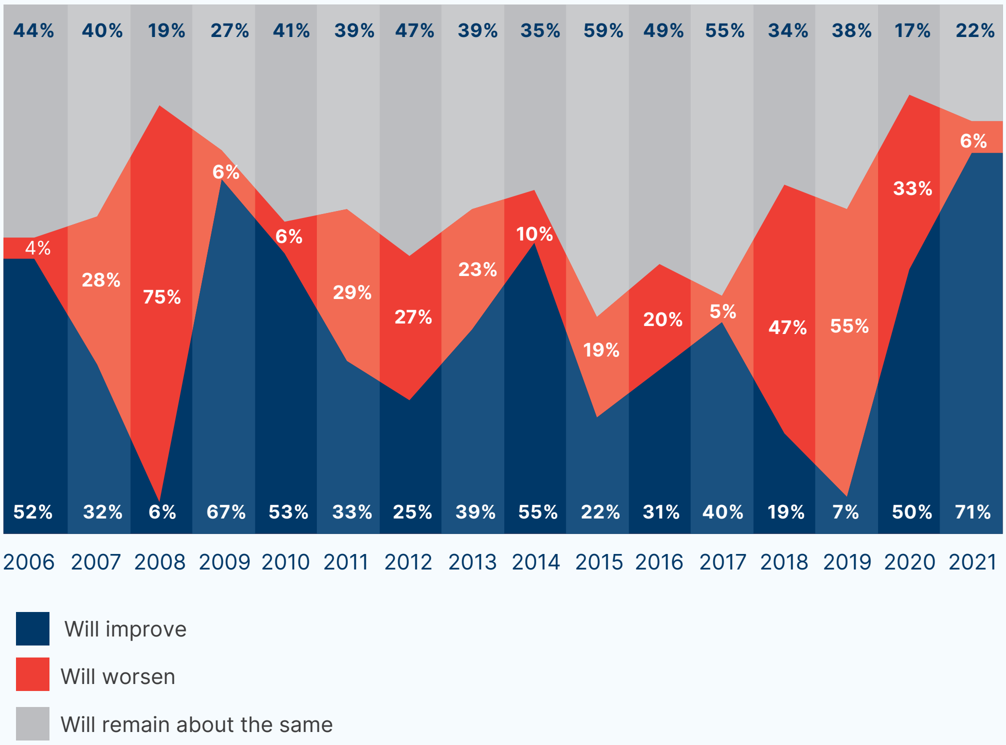
Survey Overview and Key Findings

- The Asia Business Council Annual Survey 2021 was conducted in July-August 2021 and had a response rate of 72% (49 out of 68 members)
- Business optimism rose to the highest level in at least 15 years as members expected an economic recovery on the back of improved vaccination rates and better pandemic management
- While optimistic about improved business conditions, most respondents said they do not expect growth to fully recover to pre-pandemic levels until 2022 or later
- Nearly 40% of respondents expected inflation, driven by supply side constraints and loose monetary policy, to be the biggest economic challenge over the next year
- Some 60% of respondents said demand in their industry or sector had already surpassed pre-pandemic levels
- Most respondents (63%) viewed U.S.-China tensions as a risk to their business or sector, while 20% felt the tensions posed greater opportunity than risk
- Despite geopolitical tensions, mainland China and the U.S. remained the most attractive foreign investment destinations for members, with almost half of respondents planning new or increased investments in the world's two largest economies
- A majority (55%) of respondents expected their companies to maintain some degree of remote work after the pandemic

With Pandemic Recovery on the Horizon, Business Optimism Rises to Highest Level in Over a Decade

FIGURE 1

How do you feel about overall business conditions in the next 12 months?

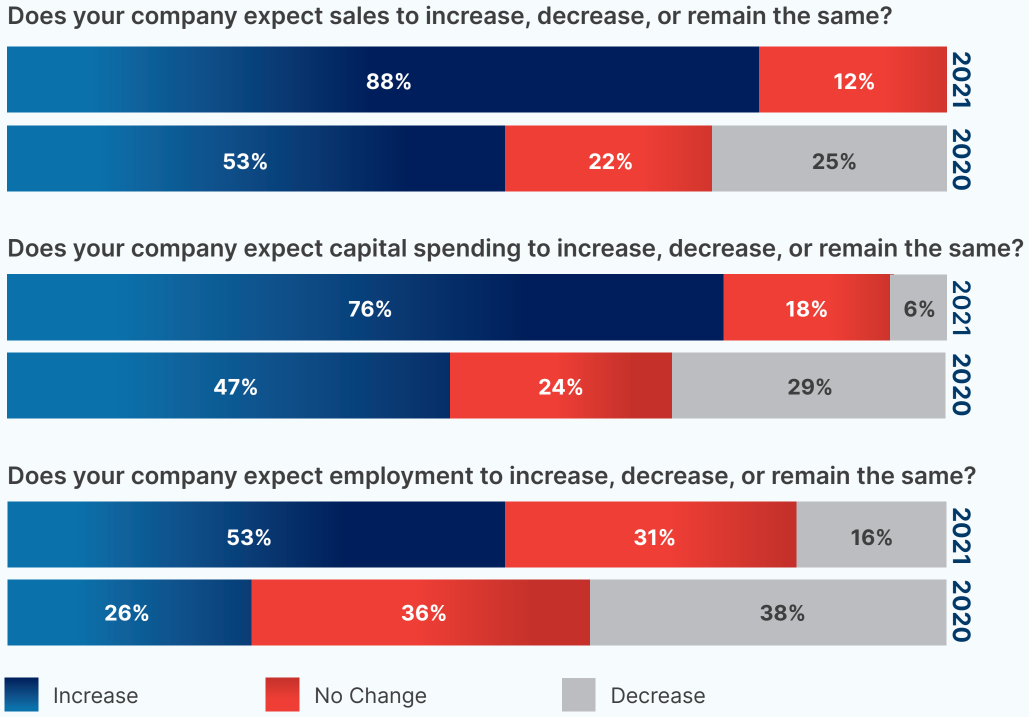


Nowhere to go but up: That sums up Asia Business Council members' economic outlook for the year ahead. A majority (71%) of members who responded to the annual survey expected business conditions to improve in the next 12 months, while only 6% believed that they would worsen. This is the highest level of optimism registered by the Council's survey since it began in 2006. The optimism was driven by expectations of increased COVID-19 vaccination rates and improved pandemic management overall, which respondents believed would stimulate demand and allow economies to reopen. The optimism also reflects an expected improvement in economic conditions off a low base. "We have hit nearly rock bottom in nearly every sector since the pandemic," one member said.

A minority (22%) of respondents believed that business conditions would remain about the same in the coming 12 months. Those who did not expect the situation to improve were uncertain or pessimistic about prospects for the vaccine rollout and effective containment of the pandemic. They also pointed to factors that could complicate a business recovery, such as supply chain imbalances, regulatory uncertainty, balance sheet restructuring, and a potential increase in non-performing loans. A small number (6%) of respondents expected the situation to worsen. These respondents saw geopolitical tensions, inflationary pressures, and the pandemic's ongoing impact on the purchasing power of lower- and middle-income consumers tipping the scales to downside.

FIGURE 2

Over the next 12 months...



Optimism Tempered by Mixed Employment Outlook; Growth May Not Fully Recover Until Next Year

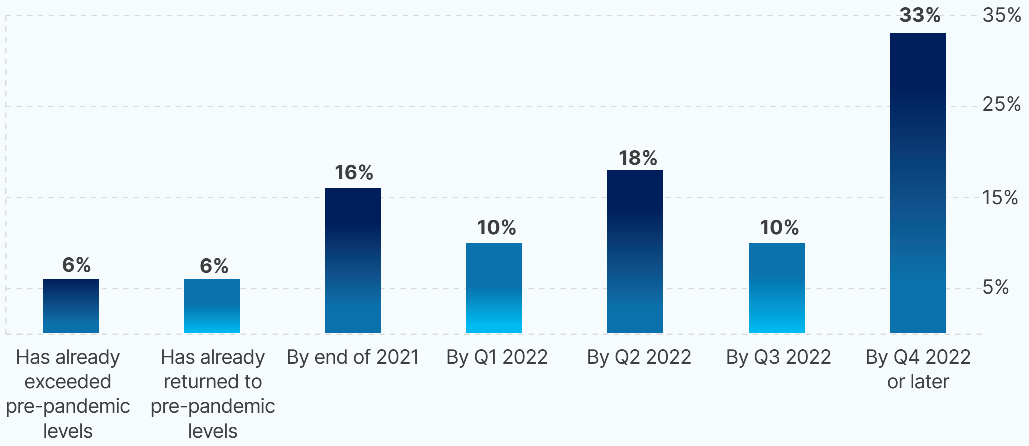
An overwhelming majority of respondents, nearly 90%, expect higher sales in the coming year, and 75% plan to increase capital spending. But hiring continues to lag despite optimistic expectations for the economic recovery. Only around half (53%) of respondents expect to increase employment next year. Some 30% say employment will be flat and 16% expect a decline, potentially because of increased automation and digitalization, which 20% of respondents said would be a key feature of post-pandemic working arrangements.

Despite confidence that overall economic conditions will strengthen this year, most respondents (71%) did not think growth in the economy where their company is headquartered would return to pre-pandemic levels until 2022. While respondents were split on their predictions, one-third thought growth would not fully recover until the final quarter of 2022 or later. Members had significantly tempered their expectations compared to last year, when 59% thought economic activity would return to pre-pandemic levels by the end of 2021.

A majority (65%) of respondents said rates of COVID-19 vaccination were the most important factor driving their outlook for economic recovery in the economy where their company is headquartered. Another 12% said controlling the spread of new variants was the key consideration, and 8% said their outlook relied most heavily on the resumption of consumer confidence. While deploying vaccines was overwhelmingly the top concern, controlling the spread of variants and opening borders were most often cited as the second-ranked consideration, by 37% and 18% of members, respectively.

FIGURE 3

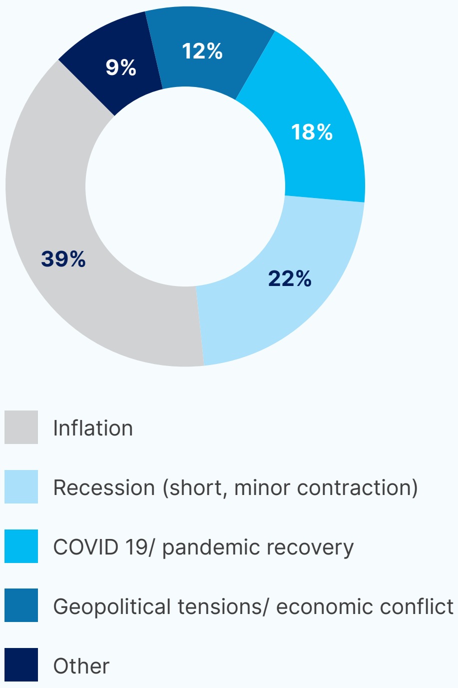
When do you think economic activity in your headquarter country/ economy will return to pre-pandemic levels?



"Hyperinflation" Concerns Driven by Supply Constraints, Macroeconomic Policies

FIGURE 4

What do you expect will be the biggest economic challenge facing Asia in the next 12 months?

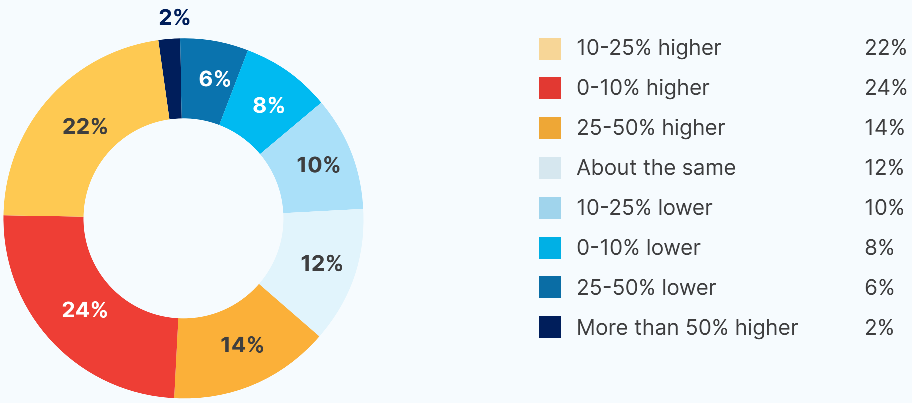


A plurality of survey respondents (39%) thought inflation would be the biggest economic challenge facing Asia over the next 12 months, up from just 5% of respondents last year. Respondents concerned about inflation cited cost increases stemming from supply side constraints such as supply chain disruptions and raw material shortages, as well as the impact of loose monetary policies. Pent-up demand, wage inflation, rising commodity prices, and excess liquidity were also described as contributing factors. Those who expected inflation to be the main downside risk worried interest rate hikes would burden consumers and corporates who must service their debts. That "could impact the recovery before it is sustainable," one respondent said.

Anecdotally, there does appear to be a surge of pent-up demand. A majority, or 62%, of respondents reported that demand in their industries—notably technology, finance, and healthcare—had surpassed pre-pandemic levels. The roughly one-quarter of respondents who saw demand still lagging pre-pandemic levels were more heavily concentrated in pandemic-impacted industries such as travel, food and beverages, building and construction, and real estate.

FIGURE 5

Compared to pre-pandemic levels, is demand (sales or revenue) in your business(es) higher or lower?



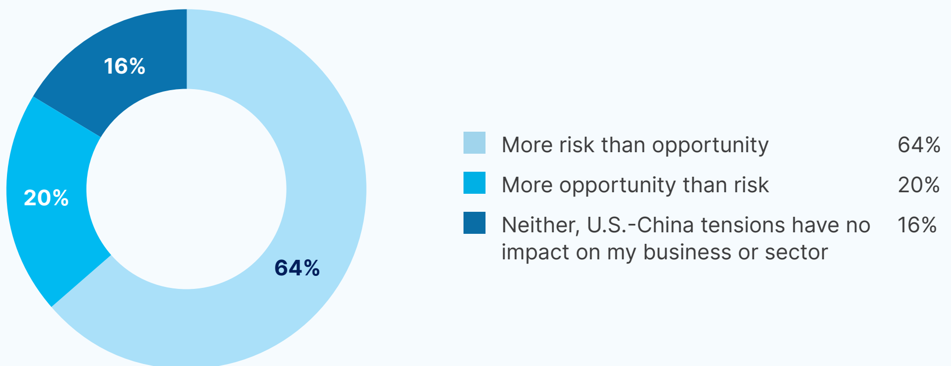
Recession Could Still be on the Horizon for Asia

Although members overwhelmingly expected economic conditions to improve, 22% of respondents believed a recession would be the biggest economic challenge in Asia over the next year. That was down from this time last year when over half (55%) of respondents expected a recession. Respondents predicting a recession were concerned about the ongoing effects of the pandemic, especially on lesser-developed economies and in areas where vaccination rates remain low. Political and economic factors such as populist government interventions and the lack of a financial buffer in less-developed economies were cited as complicating the outlook for some respondents. An additional 18% of respondents believed the challenge of recovering from the pandemic was the main issue facing businesses in Asia. Another 12% thought geopolitical tensions and the U.S.-China economic conflict were the biggest risk. A few respondents expressed concern about deglobalization, fearing Asia in particular may face international isolation if countries and economies maintain strict border controls.

As U.S.-China Tensions Grow, Businesses See More Risk Than Opportunity, but Most Plan to Ride Out the Conflict

FIGURE 6

Do you believe U.S.-China tensions pose greater risk or greater opportunity for your business or sector?



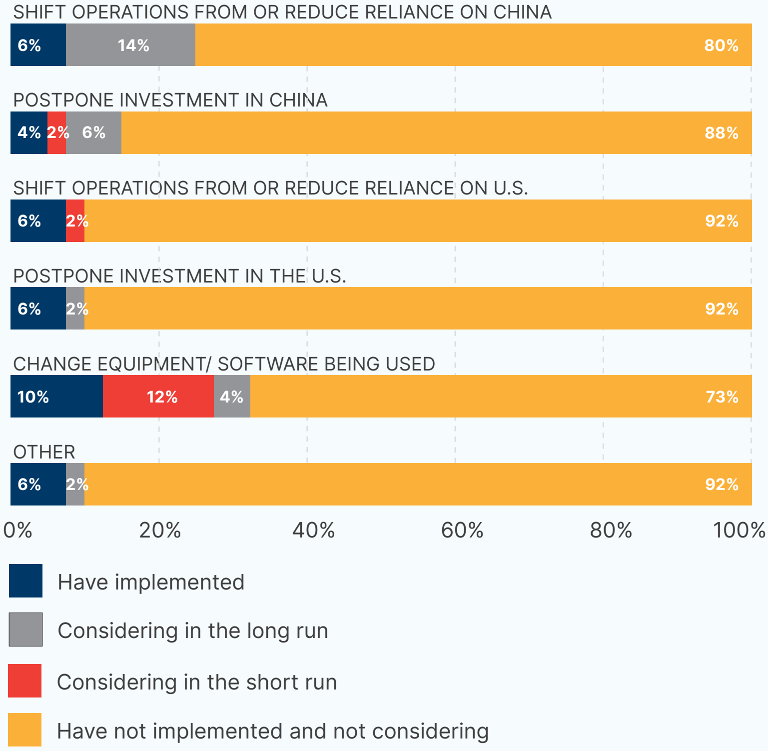
In last year's survey, 43%% of respondents who correctly predicted Joe Biden would win the 2020 U.S. presidential election thought U.S.-China relations would improve, leaving some on the back foot as President Biden largely continued his predecessor's policy of confronting China on economic issues. Some respondents attributed the continued tensions to the pressures of domestic public opinion, particularly anti-China sentiment in the U.S., which one respondent said has left President Biden with "little room to maneuver." Another said the problem was a lack of mutual understanding, noting that China incorrectly perceived the U.S. to be a dysfunctional and declining power. That lack of understanding has increased the "risk of miscalculations leading to adverse consequences," the respondent said. Most respondents viewed the conflict as negative for Asian business. Over 60% said U.S.-China tensions posed more risk than opportunity for their business or sector, while only 20% perceived more opportunity than risk. Many respondents felt they were caught in the middle of the U.S.-China conflict. Multinational companies for whom both countries are key markets or production bases felt the risk most keenly. They expressed having little choice but to strive to maintain balanced relations with both the U.S. and China.

For businesses without direct exposure to both markets, increased uncertainty and the impact on growth and stability in Asia were nonetheless key concerns. Some respondents worried that doing business in China could lead them to become the target of U.S. sanctions. Others were concerned about excessive reliance on the Chinese economy. Among those, one cited plans to diversify procurement. While the likelihood remains slim, a few respondents mentioned the small but potentially devastating risk of military conflict.

Some 20% of respondents, particularly those headquartered in South and Southeast Asia, saw a silver lining to the U.S.-China tensions. Those respondents who saw more opportunity than risk were concentrated largely in the manufacturing and financial sectors. They expected to profit from supply chain diversions and increased foreign direct investment (FDI) as multinationals diversify their operations and as the two superpowers seek to expand their influence in the region through policies such as the Belt and Road Initiative. But some respondents tempered their optimism. One observed that ASEAN economies would benefit only "as long as the frictions between the two countries do not escalate further." Another predicted that short-term benefits would be outweighed by longer-term losses. Yet another 16% of members saw no impact from the tensions—they are mostly those whose companies focus on serving domestic markets.

FIGURE 7

In light of U.S.-China tensions, have you implemented or are you considering any of the following?



Although 63% of members perceived U.S.-China tensions as a risk to their business, only 45% of members—whether based in China, the U.S., or a third country—were weighing or had taken any concrete actions to hedge the risks.

The vast majority (92%) of respondents said they had not and would not consider reducing reliance on the U.S. Members were slightly less optimistic about China but still overwhelmingly planned to continue operations there, with 80% of respondents saying they had not and would not consider reducing their reliance on China. A larger share of respondents (27%) were considering or had taken the less costly step of changing the equipment or software used by their company.

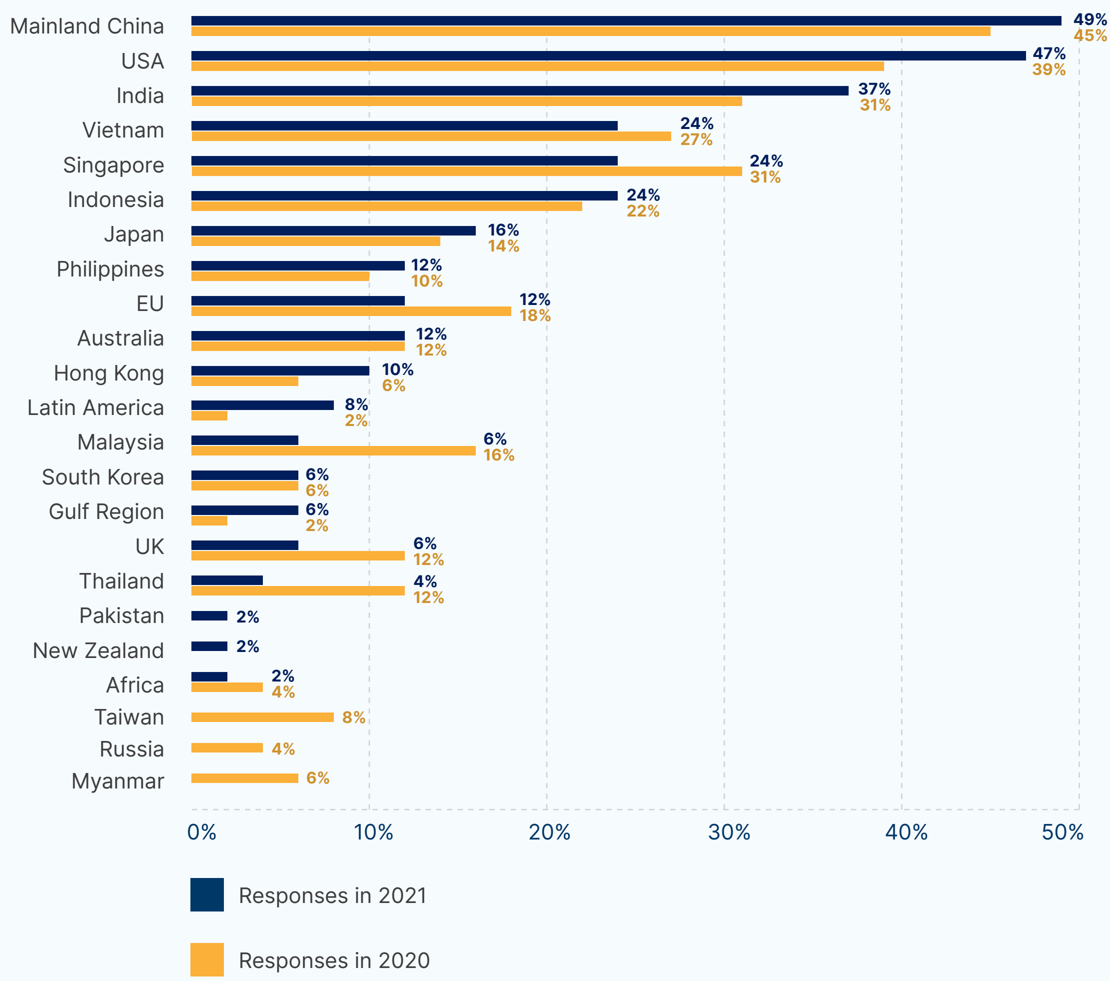
Respondents who had already taken steps to shift or postpone investments were more likely to be in sectors, such as automotive components and electronics manufacturing, that were disproportionately impacted by the tariffs.

Southeast Asian markets such as Indonesia, Singapore, and Vietnam emerged as the top alternative investment destinations for Asian companies shifting from the U.S. or China. This lines up with the response from 20% of members, many of them from South or Southeast Asia, who said opportunities associated with U.S.-China tensions outweighed the risks. Vietnam was desirable for its expanding domestic market and proximity to China. Developed economies that have balanced pandemic control with a degree of openness, such as Europe, Japan, and South Korea, also made the list of potential alternative investment destinations. Finally, the trend of reshoring continued this year, with a few members considering shifting investments back to their headquarter countries, potentially in a bid to cut costs or make supply chains more resilient.

Mainland China and U.S. Remain Top Investment Destinations Even as Investors Look to Diversify

Some 20% of members said they had changed their investment plans because of the COVID-19 pandemic. Even as some members reconsider their global operations, mainland China and the U.S. increased in popularity this year as investment destinations. Nearly half of respondents planned to invest or increase investments in mainland China (49%) and the U.S. (47%) over the next 12 months.

FIGURE 8 **In what countries/ regions do you plan to invest or increase your investment over the next 12 months?**



That was up from 45% (mainland China) and 39% (U.S.) in 2020. China's comparatively strong track record in controlling the pandemic and the U.S.'s initial vaccine rollout and substantial government stimulus supported the perception of both economies as stable investment destinations in a world roiled by the pandemic. This year's performance looked even stronger as compared to 2019, when participants were still grappling with the impacts of fresh tariff increases: at that time, just 38% of members planned to invest in China and 29% in the U.S.

Several economies in South and Southeast Asia were bright spots for investors this year. India was the second runner-up (37%) after China and the U.S., followed by Vietnam, Singapore, and Indonesia (24%), suggesting that respondents are diversifying to other economies in the region while maintaining or growing their presence in China and the U.S.

But not all ASEAN countries are benefitting from investment diversification. As the pandemic drives investors toward safer options, Southeast Asian economies seen as less politically stable, including Myanmar (-6 percentage points), Thailand (-8 percentage points), and Malaysia (-10 percentage points), saw a decline in respondents who planned investments in these economies. Taiwan also saw an 8-percentage point drop amid concerns that the island could become a flashpoint for U.S.-China tensions.

Outside Asia, Europe saw a decline (-6 percentage points) in respondents planning investments there. Investors seeking developed market opportunities may have shied away from the Eurozone as its recovery lagged that of the U.S. amid a slower rollout of fiscal stimulus and of vaccinations.

The Future of Work: "Essential Nature of Human Communication" Changing

When asked how their companies' post-pandemic working arrangements would differ from those before the pandemic, respondents described a durable shift to more remote work. Some 55% of respondents expected to continue some degree of remote work after the pandemic. Several also said that employee working hours would be more flexible in the post-pandemic working environment. Increased productivity and demand from employees to continue flexible working arrangements were some of the reasons respondents cited for maintaining the changed working arrangements. "I do not think we will ever completely go back to pre-pandemic arrangements," wrote one respondent. "We believe that the essential nature of human communication will change," said another, who described an overall decrease in face-to-face communication and in work-related social events, but an uptick in online meetings. Several respondents also expected business travel to be less frequent in a post-pandemic world, with videoconferencing increasingly replacing business trips. A few respondents still planned to return to fully on-site work, and there will be a greater focus on the health and safety of employees reporting to the office in person.

Some 20% of respondents described a more digital-capable workplace as one of the key changes after the pandemic. Expected changes included the increased automation of manufacturing and the digital transformation of business processes including sales, customer relations, and payments.

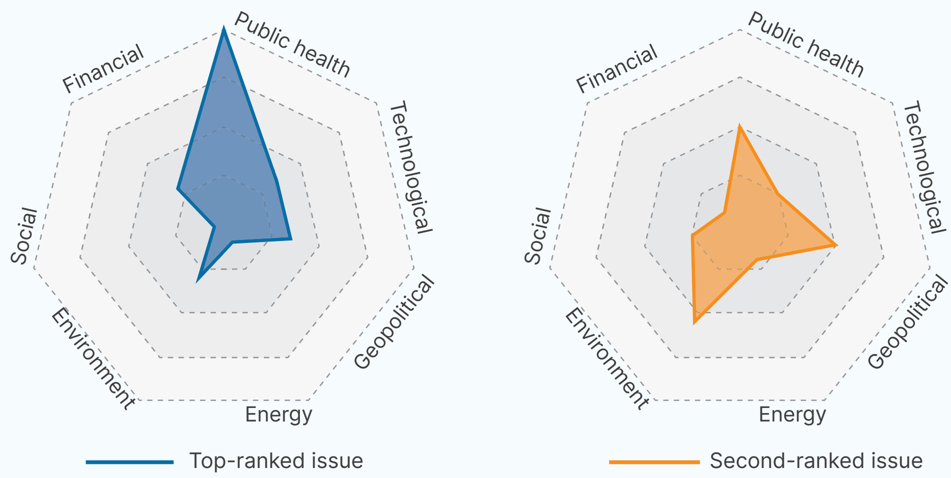
While most did not comment on whether employees would be evaluated differently in the new, more flexible world of work, one respondent said that bonuses would increasingly be based on innovation, suggesting that employers may rethink the traditional model in which employee expectations are based around time spent in a physical office location in favor of a greater emphasis on productivity.

A few respondents expected organizational structures to look different post-pandemic, having experimented with structural changes over the past year to adapt to the constraints of the pandemic. In some cases, that meant a devolution of responsibility to regional offices or, conversely, increased offsite management of local offices. The uptake of flexible and remote working may accelerate those changes, as offsite management and geographically distributed teams become more feasible.

Public Health Tops Member Concerns; Virtually All Members Accelerating Environmental Action

FIGURE 9

Rank the following issues in order of importance for your own business



It was no surprise that public health—added to the annual survey for the first time in 2020—was top of mind for members. In this year's survey, 41% of respondents listed public health as the number one concern for Asian business, up from 34% last year, as businesses dealt with a longer than expected public health crisis and the emergence of new variants challenged containment efforts. In addition to the 20% of members who changed investment plans, another 20% of respondents reported restructuring their businesses to cope with the crisis. Over half (53%) of respondents reported taking other actions to stay financially resilient: raising cash, cutting or suspending dividends, decreasing leverage, or having layoffs.

In addition to coping with the crisis financially, members took other actions to address the public health crisis: working with national authorities to support vaccination efforts in their countries, providing free vaccines, and encouraging their own staff to take the vaccine.

Technological and geopolitical issues tied for second place, with 14% of members citing each as their top concern. Automating and digitalizing business processes, ramping up research and development, and finding and training high-tech talent were cited as key technology-related goals and challenges for business. Members concerned by geopolitical issues—mainly U.S.-China tensions—were assessing the situation and proceeding cautiously but acknowledged they had little to no control over geopolitical developments. Geopolitical issues had moved from the fore somewhat, with the share of respondents citing geopolitics as the top concern down by 13 percentage points from last year's survey, which was conducted before the 2020 U.S. presidential election.

FIGURE 10 **Thinking back to a year ago, have your sustainability efforts around the environment and climate change accelerated, decelerated, or remained the same?**

Environmental issues took third place, with 12% of ƨĿţơĐƀķĿƀƴţ considering the environment their top concern, up from 7% last year. Many of these members were taking steps to quantify the environmental impact of their businesses and researching strategies to minimize that impact, such as by charting a path to decarbonization. Those actions were coupled with management changes to promote sustainability, including giving the company board a greater role in environmental, social, and governance (ESG) management and incorporating lean management principles to further sustainability goals.

Although the environment was not the top-ranked issue area for most members, a full 88% of respondents reported accelerating their sustainability efforts over the past year as the corporate decarbonization movement gained momentum, up from just 53% in 2020.

When asked about their greatest concern with regard to the environment and climate change, around 20% of respondents said businesses and governments were not moving fast enough or providing enough support to tackle environmental problems. Some voiced concern that government policies were not based on science, failed to offer an inclusive vision that would benefit all stakeholders, or did not create the proper incentives. One respondent lamented a "lack [of] urgency to change fundamental incentives in the economic system that drive profit maximization." Another 10% of members, many from Southeast Asia, were most concerned about the negative impact of climate change. They highlighted the increase in extreme weather events and the need for greater resilience efforts to adapt to the changes. One expressed concern that the impact of climate change could be more severe than previously expected.

Conversely, a few members believed that governments and other stakeholders were moving too quickly or without considering the economic and social implications of environmental policies; one member noted the rise of "increasingly irrational" shareholder activism.

Finding Opportunities in Crisis

This year's survey indicated a historic rise in business optimism in Asia driven by a belief that the pandemic-driven downturn has finally hit bottom. Most businesses see demand for their products on the upswing. Yet this optimism is tempered by acknowledgement of external risks. Geopolitical tensions and the emergence of new and more dangerous virus variants are creating uncertainty for businesses Even in economies that are performing well, businesses must cope with cost increases, supply chain disruptions, and raw materials shortages.

With crisis comes opportunity. Businesses are preparing for future outbreaks of infectious diseases, accelerating efforts to address climate change, and evaluating opportunities for automation and digital transformation.

Though the rebound in demand is stronger in some industries and economies than others, businesses continue to invest for the future, even as they shore up their balance sheets and navigate the choppy waters of geopolitical tensions.