

# Asia Business Council Annual Survey 2022

September 2022



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# Asia Business Council Annual Survey 2022

By Colleen Howe



## Survey Overview and Key Findings

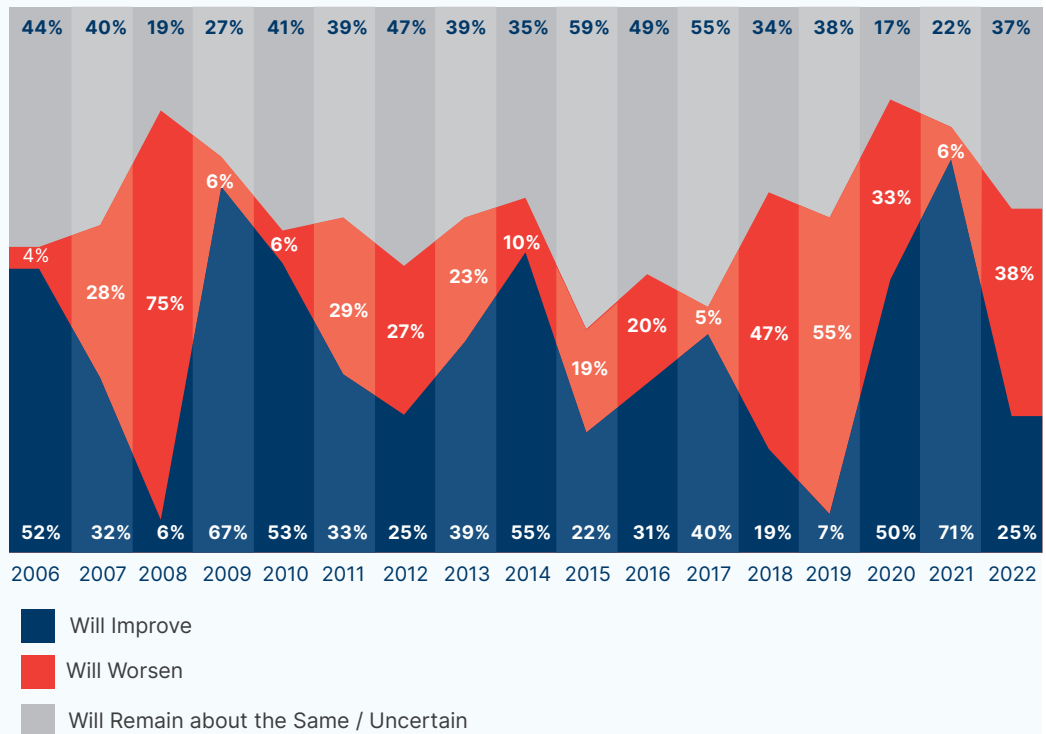
- The Asia Business Council Annual Survey 2022 was conducted in July–August 2022 and had a response rate of 73% (48 out of 66 members).
- Respondents had split views about the business environment in the coming year, with 38% expecting conditions to worsen, 37% expecting conditions to remain about the same or uncertain, and 25% expecting conditions to improve.
- 67% of respondents expected inflation to be the biggest economic challenge over the next year as the conflict in Ukraine drives a rise in food and fuel prices and other inputs costs, and as disruptions to global supply chains continue.
- As inflation worries rose, energy topped the list of member concerns, followed by financial issues.
- Two-thirds of respondents said they had taken actions in response to global supply chain disruptions. The most common steps were diversifying sourcing (58%) and increasing inventory (33%).
- The outlook for sales and capital spending tipped toward the positive, with 69% of respondents expecting increased sales in the coming year and 52% planning to increase capital expenditures. The outlook for employment was weaker, with only 44% of respondents expecting employment at their companies to rise over the next year.
- The U.S. and China remained the top two investment destinations for members, but fewer members were planning new or increased investments in those economies than in 2021.
- Asked about concerns in connection with the war in Ukraine, members were most worried about the conflict’s effects on energy security, inflation, the humanitarian crisis, and food security.
- For a majority of respondents, the key workforce-related priorities are implementing digital transformation or educating employees on new technologies and making succession plans.

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- Asked about their climate goals, 83% of respondents have a target to reach net-zero carbon emissions by 2050 or earlier, and 34% plan to reach net-zero by 2040 or earlier.
  - The top priorities in companies' climate strategies are reducing the carbon intensity of existing operations (66%) and investing in the development of new technologies to enable decarbonization (54%).
  - The most commonly cited motivations for businesses seeking to reduce their carbon footprint were to enhance their competitiveness (83%) and comply with existing or upcoming regulations and disclosure requirements (66%).
  - According to those surveyed, the policy measures that would most help businesses decarbonize are policy clarity (83%), harmonization of international disclosure standards (68%), and tax incentives for green goods and services (63%).

## “Roaring Twenties” or Stagflation and Continued Economic Pain?

FIGURE 1

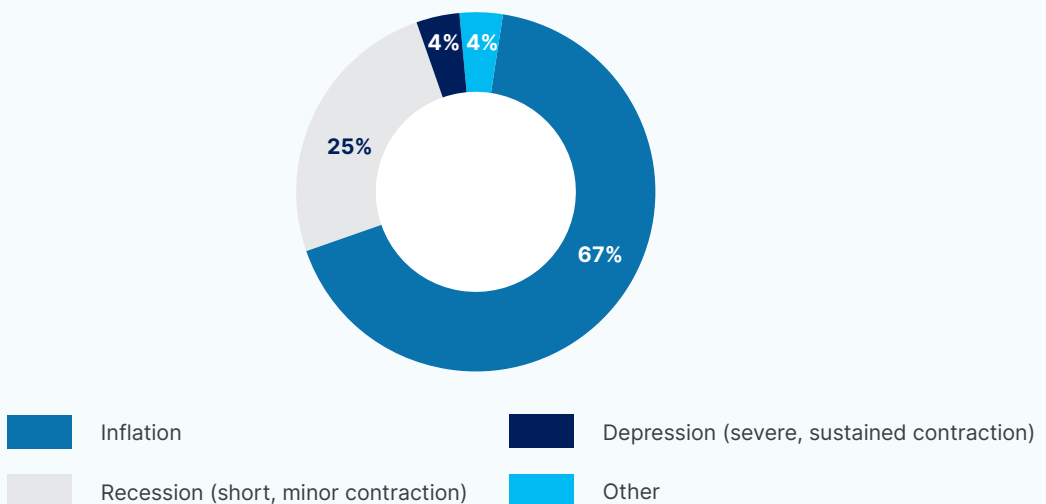
**How do you feel about overall business conditions in the next 12 months?**



Asia Business Council members were divided in their assessment of the economic outlook for the year ahead, with 38% expecting conditions to worsen, 37% expecting conditions to remain about the same or uncertain, and 25% expecting conditions to improve. That was in stark contrast to last year, when 71% of members surveyed expected business conditions to improve in the coming 12 months.

FIGURE 2

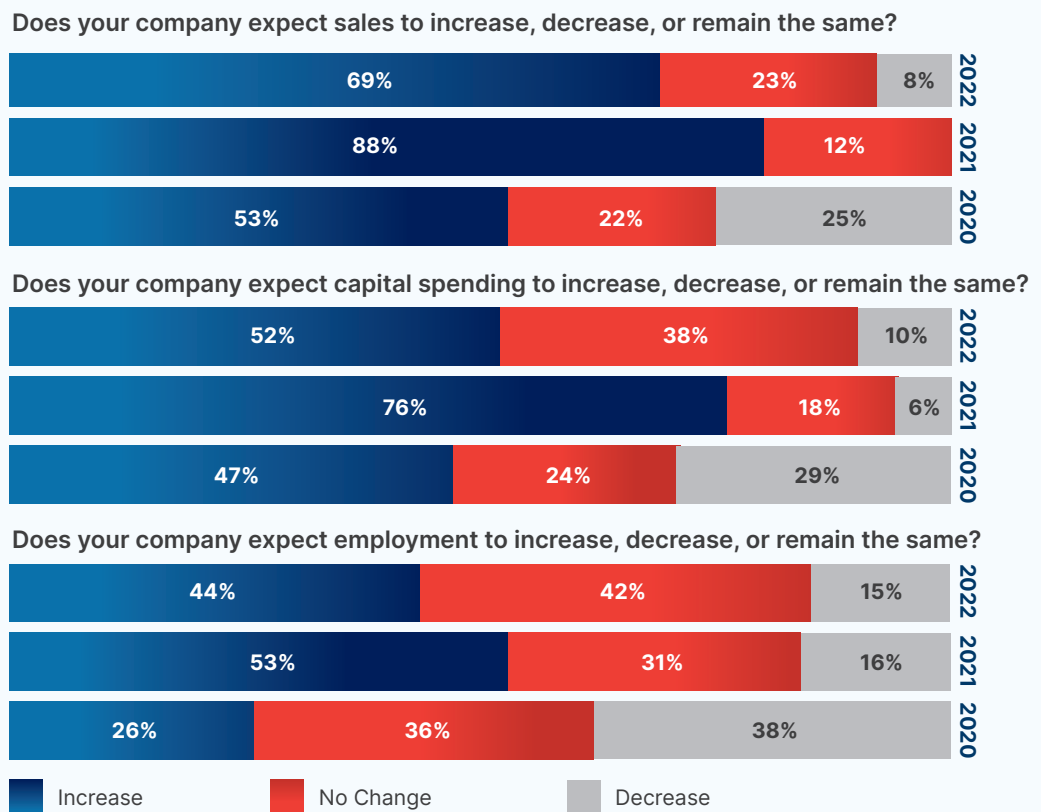
**What do you expect will be the biggest economic challenge facing Asia in the next 12 months?**



Respondents to the survey overwhelmingly thought inflation, now mostly driven by the conflict in Ukraine and the resulting food and fuel price spikes, would be the biggest economic problem in Asia in the year ahead. 67% cited inflation as the biggest economic problem facing Asia, up from 39% last year, when the economic outlook was resoundingly one of recovery from the initial shock of the COVID-19 pandemic. This year, facing inflation coupled with slowing economic growth, some worried the world could be entering a period of stagflation. “The top priority must be getting inflation under control, which will be painful,” cautioned one. A few respondents thought the worst economic effects of inflation could be avoided with effective government policy, or if the economic boost from rising demand offsets the negative impact of inflation. Another 25% reported that a recession, not inflation, was their main concern, and 4% predicted a deep, protracted depression.

Respondents who expected business conditions to deteriorate or remain about the same believed that in addition to inflation, rising interest rates, geopolitical uncertainty, and an economic downturn in China would hold back investment and dampen consumer sentiment. Several predicted a global downturn over the coming year, to which Asia would not be immune. Respondents in developing countries worried about the reduced buying power of low-income consumers and the prospect of social instability.

FIGURE 3, 4 & 5  
Over the next 12 months.



Conversely, those who expected business conditions to improve believed the continued recovery from the COVID-19 pandemic would outweigh any economic headwinds. “The worst appears to be over,” said one respondent. Another expected consumer markets to experience a boost reminiscent of the “roaring twenties,” referring to the period of heightened consumption and economic prosperity that followed World War I and the Spanish flu pandemic. The expected reopening of China sometime in the next year and a projected easing of supply chain disruptions were also seen as supporting the scenario of continued economic recovery. A few believed that Asia would be relatively resilient to a recession in the U.S. and Europe. “Asia hopefully will continue to chug along,” said one respondent, describing the consumer markets of China and India as its “two locomotives.”

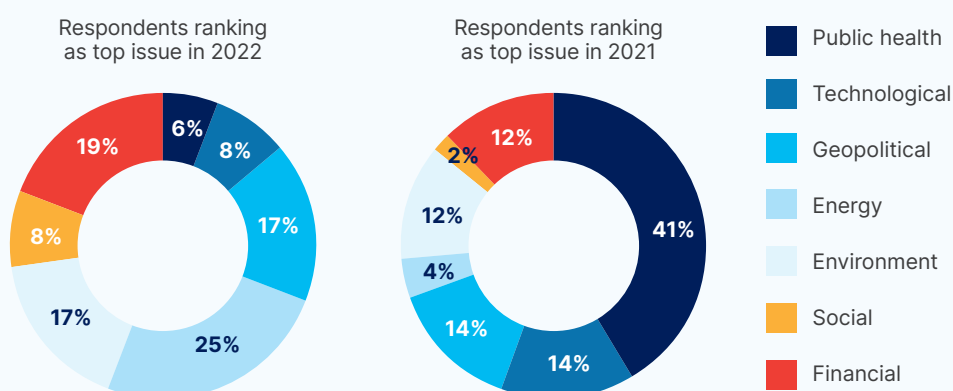
### Respondents Optimistic on Sales and Capital Spending

Survey participants mostly remained optimistic that sales at their businesses would increase in the coming year (69%), while 23% expected sales to be about the same. Slightly over half of respondents said they also expected to increase capital spending in the next year. But the employment outlook was less optimistic, with less than half of respondents saying that employment at their companies would increase in the next year.

### Energy Security Weighs on Business Leaders’ Minds

With the war in Ukraine creating mounting concerns about energy security, energy moved to the fore this year as the top issue for the greatest number of respondents (25%), followed by financial issues (19%). Higher prices coupled with changes in energy policies in some economies have contributed to a sense that businesses may need to be prepared for a lower-consumption future. Members who saw energy as their top concern reported taking steps to decrease energy consumption, such as by using energy-efficient technologies, helping customers become more energy-efficient, and relying more heavily on renewable energy resources. They also moved to reduce their energy-related business risk through stockpiling additional fuel, hedging, and diversifying supplies.

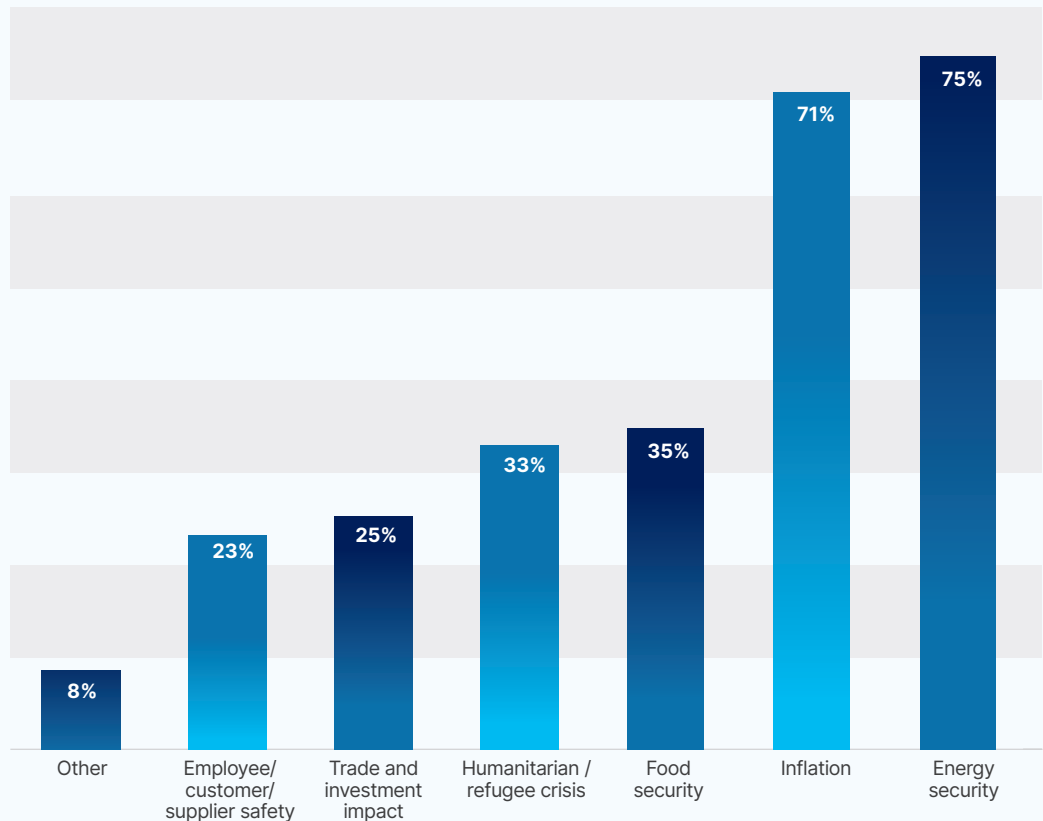
**FIGURE 6**  
**Looking ahead to the next 12 months, which of the following issues is most important for your business?**



Members who saw financial concerns as their top issue reported taking steps to improve liquidity, profitability, and financial risk, including by implementing digital transformation to improve productivity, increasing prices, controlling costs, rearranging portfolios, and reducing exposure to interest rate-sensitive businesses.

Geopolitical and environmental issues were also top-of-mind for 17% of respondents each. Public health was cited as the main challenge for Asian businesses by fewer respondents—just 6%, down from 41% last year—as many economies in Asia returned to business as usual, and as public health concerns were superseded by worries over the war in Ukraine and the prospect of food and energy shortages.

**FIGURE 7**  
**What concerns you most in connection with the war in Ukraine? Select all that apply.**

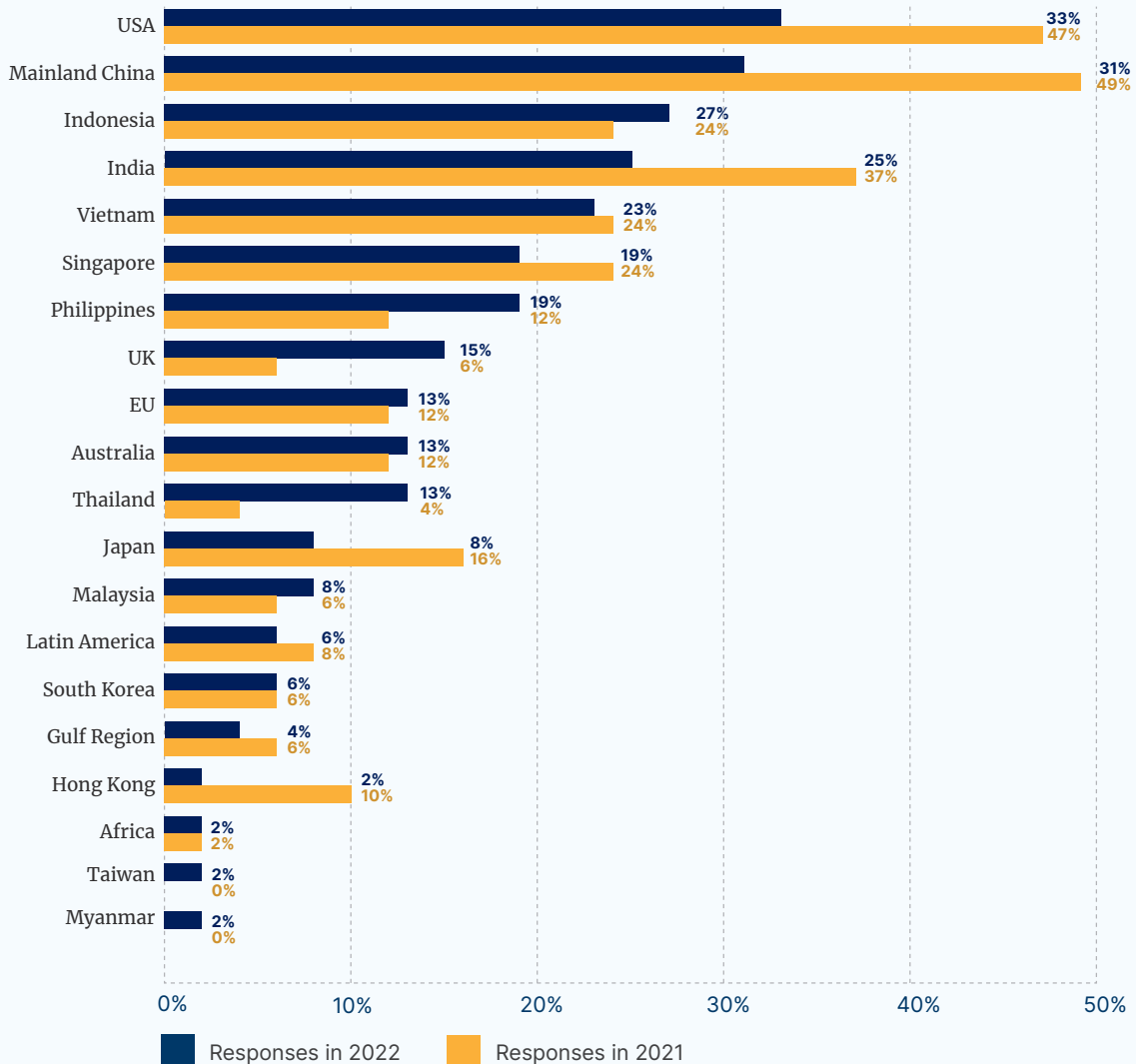


Over 70% of respondents said they were most concerned about the inflation and/or energy security impacts of the war in Ukraine. Around one-third said the humanitarian crisis and food security issues stemming from the conflict in Ukraine were among their top concerns, and one-quarter cited the trade and investment impact of the war.

## U.S. and China Remain Top Investment Destinations, but FDI Plans Down from Last Year

FIGURE 8

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



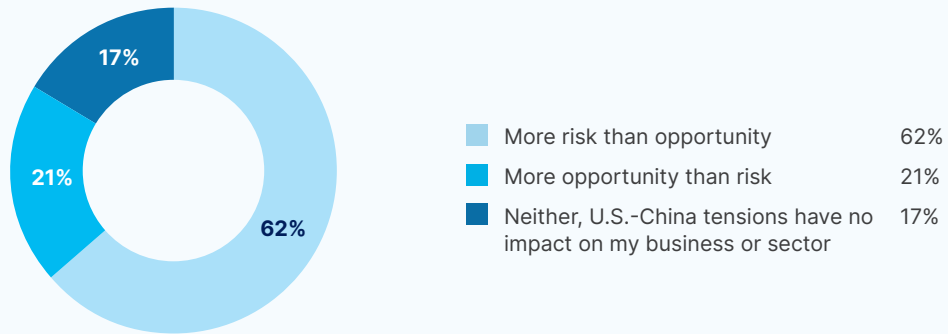
The U.S. and China remained the top two investment destinations for members, but fewer members were planning new or increased investments in those economies compared to 2021—only 33% and 31% of respondents, respectively, compared to 47% and 49% last year. Indonesia overtook India as the third most popular investment destination this year, as India saw a drop in planned investments from 37% of respondents to 25% of respondents. Several other economies in Southeast Asia—the Philippines, Thailand, and Malaysia—also saw an uptick in investment interest compared to 2021. Conversely, Hong Kong and Japan, which have maintained relatively more stringent COVID-19 policies than other economies in the region, saw a noticeable decline in investment interest.



## CEOs Prepared for Heightened Business Risk as U.S.-China Tensions Here to Stay

FIGURE 9

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

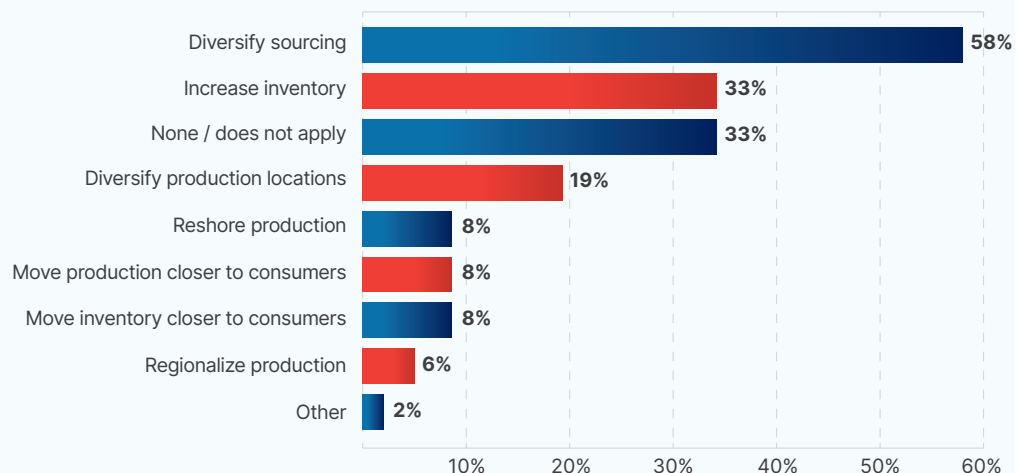


The falling interest in the U.S. and China as investment destinations underscored not only the deteriorating macroeconomic situation, but also the continued risks posed by geopolitical tensions. This year, 62% of those surveyed saw U.S.-China tensions as presenting more risk than opportunity for their business or sector, roughly the same share as last year. Another 21% saw the tensions as offering more opportunity than risk, while 17% reported no impact.

Those who viewed U.S.-China tensions as a risk to their business generally saw the instability as bad for business and a drag on global growth. This year, there appeared to be a shift in perceptions of the tensions. Respondents characterized the conflict not only as a trade war, but as a part of a broader trend toward deglobalization and a more fragmented world, with protectionist actions often justified on national security grounds. “More and more sectors are being classified as sensitive by more countries,” noted one respondent. This could have worrying consequences for Asia, which is deeply enmeshed in global value chains. From an operational standpoint, financial and technological decoupling between the two superpowers could increase costs for companies operating in Asia and exacerbate supply chain issues. Asian businesses, for their part, have not been quick to reshore, with only 8% reporting moving their production bases back home over the past year.

FIGURE 10

**In the past 12 months, have you taken any of the following actions in response to supply chain disruptions? Select all that apply.**

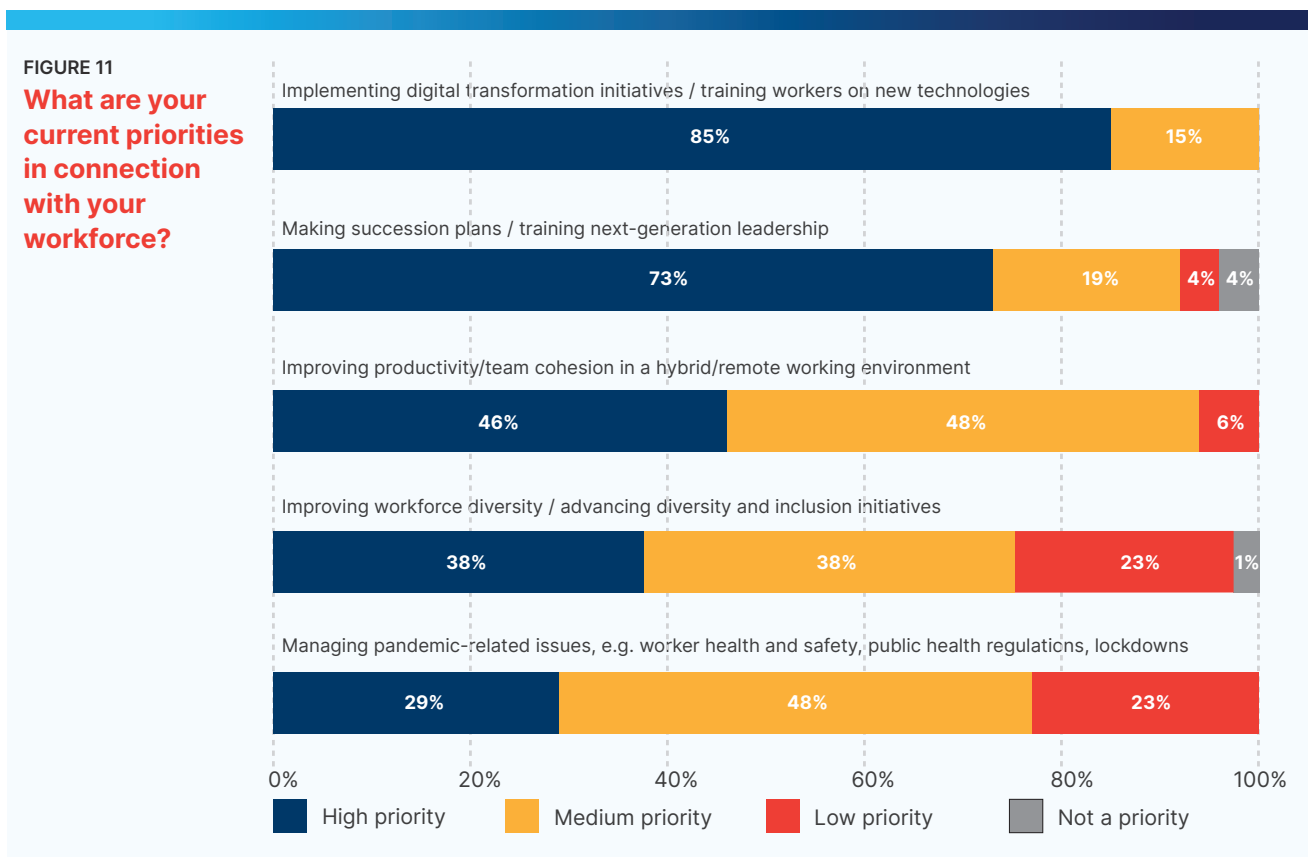


Some respondents feared that domestic instability in the two largest economies would exacerbate tensions, as the U.S. gears up for contentious midterm elections in November 2022 and China grapples with a slowing economy.

Yet other participants continued to see reshoring and supply chain restructuring as a business opportunity, in a share roughly equal to last year (21%). These respondents were largely in South and Southeast Asia and in sectors that stand to benefit from supply chains movements away from China. Price rises as a result of supply chain disruptions have also been a net positive for certain sectors.

Businesses unaffected by the tensions were mostly those that focused on a non-China domestic market. Regardless of where they sat geographically, respondents seemed to agree that the frictions would not be resolved in the short term. “The tension is likely to last for a decade or more,” one said.

## For Asian Workforces, Digital Transformation Tops the To-Do List



An overwhelming majority of those surveyed said digital transformation and training workers on new technologies was a high priority, closely followed by succession planning and training next-generation leadership. Remote working arrangements were a top-priority issue for slightly less than half of respondents. Last year’s survey found that 55% of respondents expected to continue some degree of remote work after the pandemic.

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## An Uncertain Outlook

Uncertainty: that sums up Asia Business Council members' outlook for the year ahead. One year ago, Asian businesses could see the light at the end of the tunnel, as vaccine rollouts promised an end to over a year of health worries, lockdowns, and muted economic growth. In February 2022, the invasion of Ukraine set off a chain of events that roiled global markets and left the world with no clear path out of soaring inflation and slowing growth. The crisis also heightened tensions between China and the West, causing other Asian countries to feel as though they are caught in the crossfire.

The trajectory of economies in Asia will depend on many factors: China's economic performance, the prospects for a resolution to the war in Ukraine, the future path of inflation, and the ever-present risk of new variants of the coronavirus or other zoonotic diseases, along with countries' domestic economic positions coming out of the COVID-19 pandemic.

Climate issues may have temporarily faded into the background as business leaders respond to more urgent day-to-day priorities, but the increasing frequency and unpredictability of extreme weather events will not allow them to remain there for long. Whether through local grassroots pressure or regulatory developments further afield, Asian businesses will come under increasing pressure to meet global climate and environment goals, even as they grapple with myriad financial and geopolitical risks.

Some businesses will find new opportunities amid the energy transition, disruptions to the global trading system, and the rebuilding of supply chains. However, for others, the worst may not be over yet.