

Asia Business Council Annual Survey 2011

Executive Summary

September 2011

Survey Overview

- Survey was conducted in July-August 2011
- Response rate of 76% (49 of 64 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

Marked increase in views that business conditions will worsen

Leading Asian business executives are more concerned about business conditions than at any time since the 2008 economic downturn, according to the 2011 Asia Business Council Annual Survey. One-third of respondents (33%) expect Asian business conditions to improve, and 39% believe that conditions will remain unchanged in the next 12 months. However, 29% of members expect conditions to deteriorate (See Figure 1). This finding contrasts with last year's results, in which 53% of respondents believed that the Asian economy would improve, while only 6% predicted deteriorating conditions.

Survey comments tell the story of a two-speed world. In Asia, inflation is the biggest economic worry. Looking at the West, members express unease about the ability of Europe and the U.S. to come to grip with deep-seated problems. For better or worse, the Asia-Pacific region "is decoupling from the West," notes a member. While Asia is generating more of its own momentum, weakness in the West will still hurt the region. "The strength of rising consumer demand in Asia will be countered and slowed by sluggish demand in Europe and the US," says another. Adds a third member, "Fortunately or unfortunately, this is a connected world." The debt crisis, if unresolved, will drag down global trade, slow global lending, and limit economic growth.

Inflation is considered by almost three-quarters of respondents (73%) as a major challenge facing Asian businesses in the coming year. While several members are confident that central banks' tightening monetary policies will help combat inflation, others are concerned about potential social consequences of spikes in food, commodity, and asset prices. One member describes the need for China, amongst others, to restrain growth to quell fears of "socially disruptive inflation," while another mentions that the possibility of popular backlash in India. A number of comments point out the risk of stagflation, where economic slowdown is coupled with inflation.

China still dominating investment interest by far

China is the favored destination for investment from Council members in the past year, with almost three-quarters of respondents (71%) investing (excluding members from the country). The second most significant country is the U.S. (31%), followed closely by India, Vietnam, Singapore, and Indonesia (See Figure 2). Looking ahead to the next 1-3 years, members continue to report keen interest in investing in China, followed by India, the U.S., Vietnam, Indonesia, and Singapore. In terms of new investment destinations, Latin America is frequently mentioned, including Brazil and Mexico. Other emerging market destinations mentioned include Africa, Russia, and the UAE.

Great concerns about rising energy costs and global economic volatility

Consistent with last year, members rank energy and the environment as the top issue confronting business in Asia, and finance and business as the area that most impacts their own business (See Figure 3).

In terms of energy and the environment, the greatest concerns mentioned are the rising cost of energy, scarce energy supply, environmental degradation, and water issues. One member mentioned that these issues are “moving goal posts” that make “investment decisions harder to judge.” Several members mention government legislation and regulation as having a major influence on investment decisions. One member mentions the “slow development of viable alternative green energy” as a drawback. Several members call out sustainability and green corporate practices as important issues. For Japan, the instability and shortage of electrical power post-Fukushima is a concern.

In the area of finance and business, global volatility arising from the debt crisis in Europe and the U.S. is a common concern, as are the rising cost of and uncertainty in access to reliable financing. A member warns that “businesses need to know this [uncertain] environment and control risks.”

Warnings about protectionism and the risk of social unrest

On the geo-political front, protectionism is by far the most mentioned issue of concern in respondents' open-ended comments. The top geo-political issues in Asia mentioned are the continued tensions on the Korean Peninsula and between China and the U.S. Others include the political change in Southeast Asia and India-Pakistan relations. In the Middle East, the Arab spring has increased concerns over energy security. In the West, continued political gridlock and the lack of political will to address the debt crisis. As one member mentions, “Worldwide political leadership is becoming less and less predictable given the trend towards politicians more and more only responding towards public opinion rather than leading and helping to form public opinion and building public consensus. This leads to a less predictable business environment which is much more dynamic.”

Finally, in terms of social issues, the risk of social unrest in Asian countries stemming from disparities in wealth and economic opportunity, further aggravated by inflation and enabled by the power of social media, is the predominant concern among respondents. In the developed world, one member mentions the danger of “increasing tension in an increasingly to two-class society with a diminishing middle class.” As remedies, one member urges “inclusive growth and access to education,” while another points to a “need for increase in per capita GDP in the region and a stable social structure.”

Figure 1

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

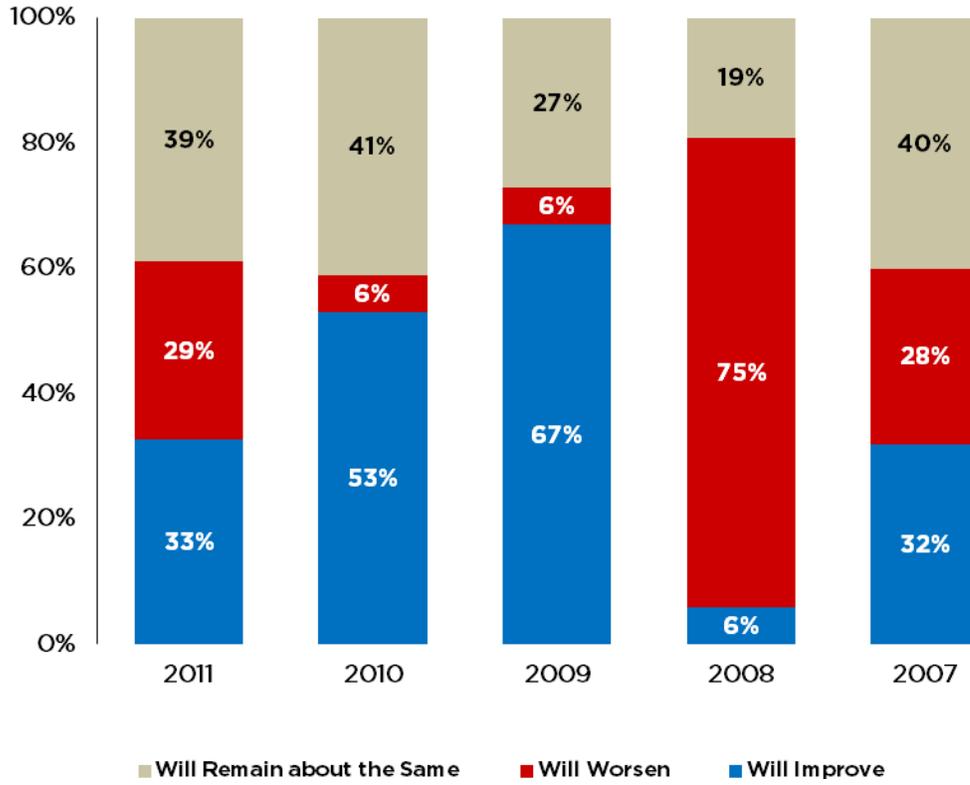


Figure 2

In What Countries Have You Invested or Increased Your Investment?

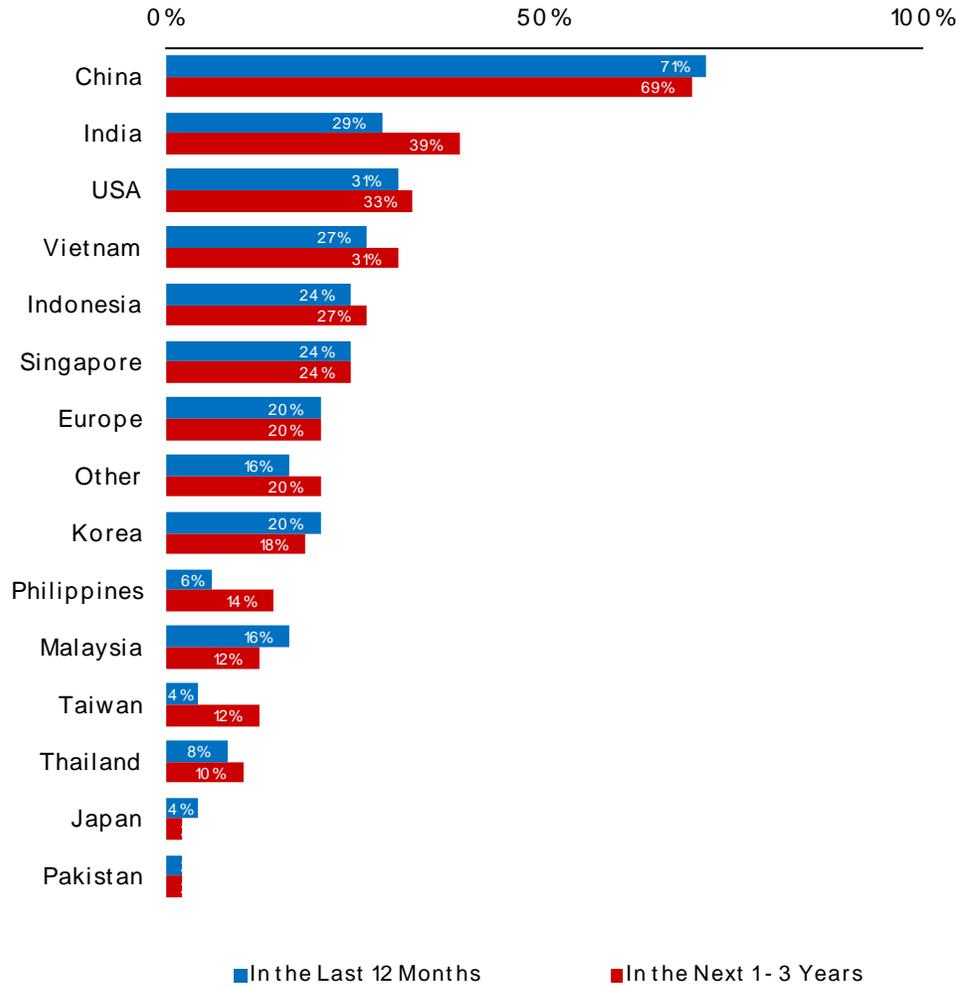


Figure 3

How Important is this Issue for Business in Asia?

