

Asia Business Council Annual Survey 2016

EXECUTIVE SUMMARY

September 2016

SURVEY OVERVIEW

- Survey was conducted in July 2016
- Response rate of 82% (61 out of 74 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
 - ◆ Geo-political
 - ◆ Social

HALF EXPECT BUSINESS CONDITIONS TO REMAIN THE SAME; ALMOST A THIRD ARE OPTIMISTIC

The majority (49%) of the Asia Business Council members who responded to the annual survey believed business conditions will remain the same in the coming 12 months, which is a 10% decrease from surveys in 2015 (see figure 1). An increased number of respondents also showed optimism in business conditions, with 31% of respondents expecting improvement, compared to 22% the same time last year. Of those who thought business conditions will remain the same or wors-

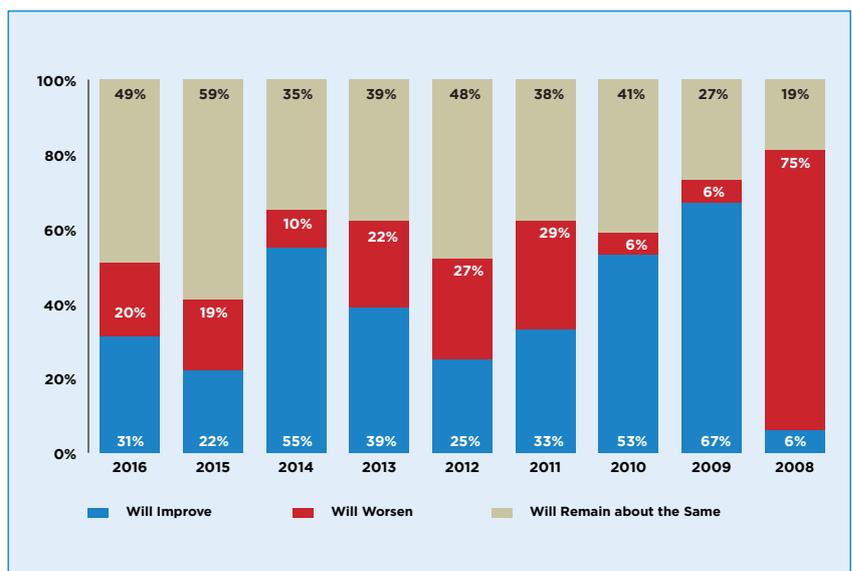


FIGURE 1
HOW DO YOU FEEL ABOUT OVERALL BUSINESS CONDITIONS IN THE NEXT 12 MONTHS?

en, responses noted economic, political, and social uncertainties. One member described the world as “entering an era of complex and faster change.”

Those that cited positive views of the business environment in the coming year made note of ASEAN as a region for growth, increasing consumption in Asia especially in emerging markets and among particular segments such as middle class, millennial, or aging consumers, as well as the improving U.S. economy. Those who expressed concern in the state of the economy in the coming year overwhelmingly cited China’s slowing economic growth, as well as Japan’s slow economic reforms. Many addressed geopolitical tensions within Asia, such as tensions in the South China Sea and in Northeast Asia. Other concerns mentioned include socio-political turmoil in Europe and the increased nationalistic tendencies of its member countries.

GREATEST CHALLENGES TO ASIA: GLOBAL SLOWDOWN, TRADE, AND GEOPOLITICS

When asked about the greatest economic problem for Asia in the coming year, 33% of members chose recession as their main concern. Many shared concerns about the slow growth rates globally. Slowing global trade, coupled with industrial overcapacity, is seen as a huge challenge to export-dependent Asia and could take years to resolve. Many expressed worry that tensions among Asian countries over the South China Sea and in Northeast Asia have no resolution to date, and new concerns are emerging such as the rising influence of radical Islam in the region. European issues, especially Brexit, the refugee crisis, and terrorism, are expected to introduce further uncertainty. The U.S. presidential election leaves question marks as to what could happen to a domestic economy that is positively growing and contributing to Asia’s economic well-being. Adding to these issues are the instability of money exchange rates and low commodity prices (though a few members expect a rebound of commodity prices in the near future).

Another sentiment has been that reforms everywhere are slow. While China, Japan, and India require deeper reforms to improve their economies, many pointed out that such efforts are coming too slowly and that the changes are not strong enough.

REGIONAL VARIATIONS: LARGE CONCERNS OVER CHINA AND JAPAN COUPLED WITH OPTIMISM ABOUT INDIA AND ASEAN

At the country level, a main concern of respondents was China’s overall economic slowdown. Members cited slow restructuring as a hindrance to increased efficiency and profitability of state-owned enterprises (SOEs). There is skepticism about the country’s plans to reduce the excess capacity of SOEs. China’s exports as a proportion of the country’s overall economic growth peaked a decade ago and are now going down, leaving China to grapple with how to fill this economic hole. When asked what countries members have invested in or increased their investments in during the past year, there was a 15% decrease in those choosing China as an investment base, echoing uncertainties about the country’s economic condition and future outlook. Planned investments in China in the next one to three years also saw a decrease, from 47% to 35% of respondents saying they will invest there.

Japan’s slow economic recovery was also a common concern among respondents. One respondent noted, “Japanese efforts to reflate the economy have only kept the economy from going further down.” Additionally, the appreciation of the yen is reversing the economic stimulus to which a low yen had contributed earlier this year. The Japanese economy may be lagging, but one positive aspect is the growth of young consumers, which will lead to market expansion in the medium-long term.

India has been a beacon of hope to many respondents both in this year's and last year's surveys. Its strong economic growth rate is expected to continue, as is our respondents' investments into the country, up 4% from last year for both investments in the previous year and future planned investments. A concern raised by a respondent, however, questions the stability of India's economy when much of it depends on climate cycles for agriculture. Climate change may exacerbate this vulnerability.

ASEAN is another region deemed as a growth hotspot. Respondents noted regional growth opportunities, especially due to the increased integration of the region. ASEAN has seen continued economic growth in the last year, and there are high hopes for it to continue to do so. While concerns for the region include support for ASEAN's "community-building and regional integration, inclusiveness of economic growth, [and] infrastructure constraints that limit business opportunities," general sentiments remain positive.

U.S. THE TOP INVESTMENT DESTINATION

The United States was the top destination for investment among respondents, with 38% of respondents from outside the country indicating they have invested or increased investments in the country in the past year (see figure 2). Indonesia surpassed China to become the second country with the most

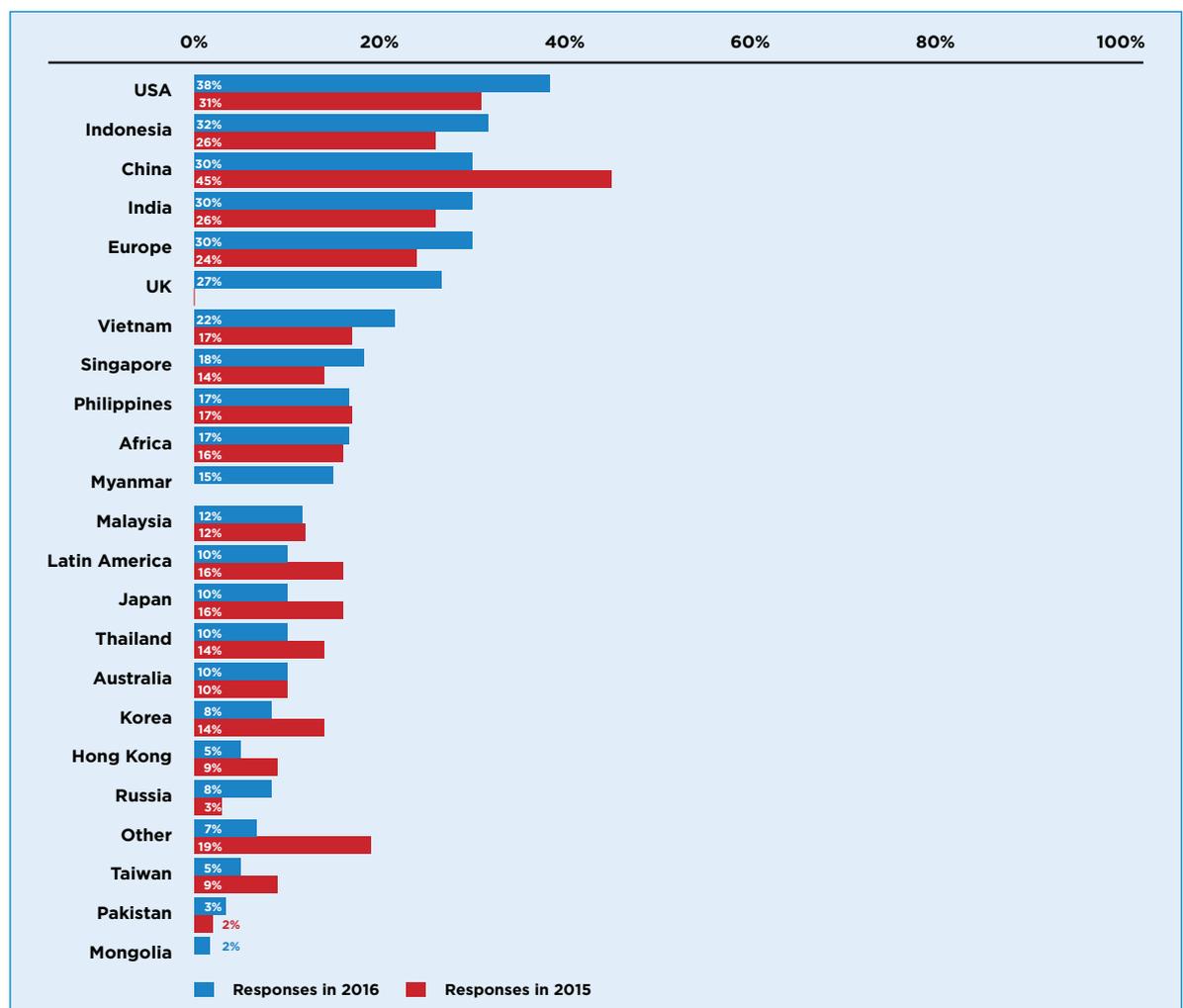


FIGURE 2
IN WHAT COUNTRIES HAVE YOU INVESTED OR INCREASED YOUR INVESTMENT?

respondents investing, up 6% from last year to 32%. The number of respondents investing in China fell from 45% to 30% in the past year. India and Europe tied China for third place.

Though investments in China fell dramatically this year, it trails the U.S. by just 2% in members' plans for future investments in the next one to three years, though the direction of change is opposite, with the U.S. seeing a rise of future investment plans to 37% of respondents, and China falling to 35% this year (see figure 3). This suggests members still remain hopeful in their investments in China despite macroeconomic concerns. In the next one to three years, ASEAN is expected to experience a surge in investment from members, with a doubling of respondents planning investments in Indonesia (from 15% to 30%), a tripling in Vietnam (from 9% to 27%), and modest increases elsewhere in the region. Due to Brexit, Europe and the U.K. were surveyed separately, with 10% fewer respondents planning future investments in the U.K. than those planning investments in the rest of Europe. Other new investment destinations mentioned include Iran, Cambodia, and Central Asia. The results exclude home countries.

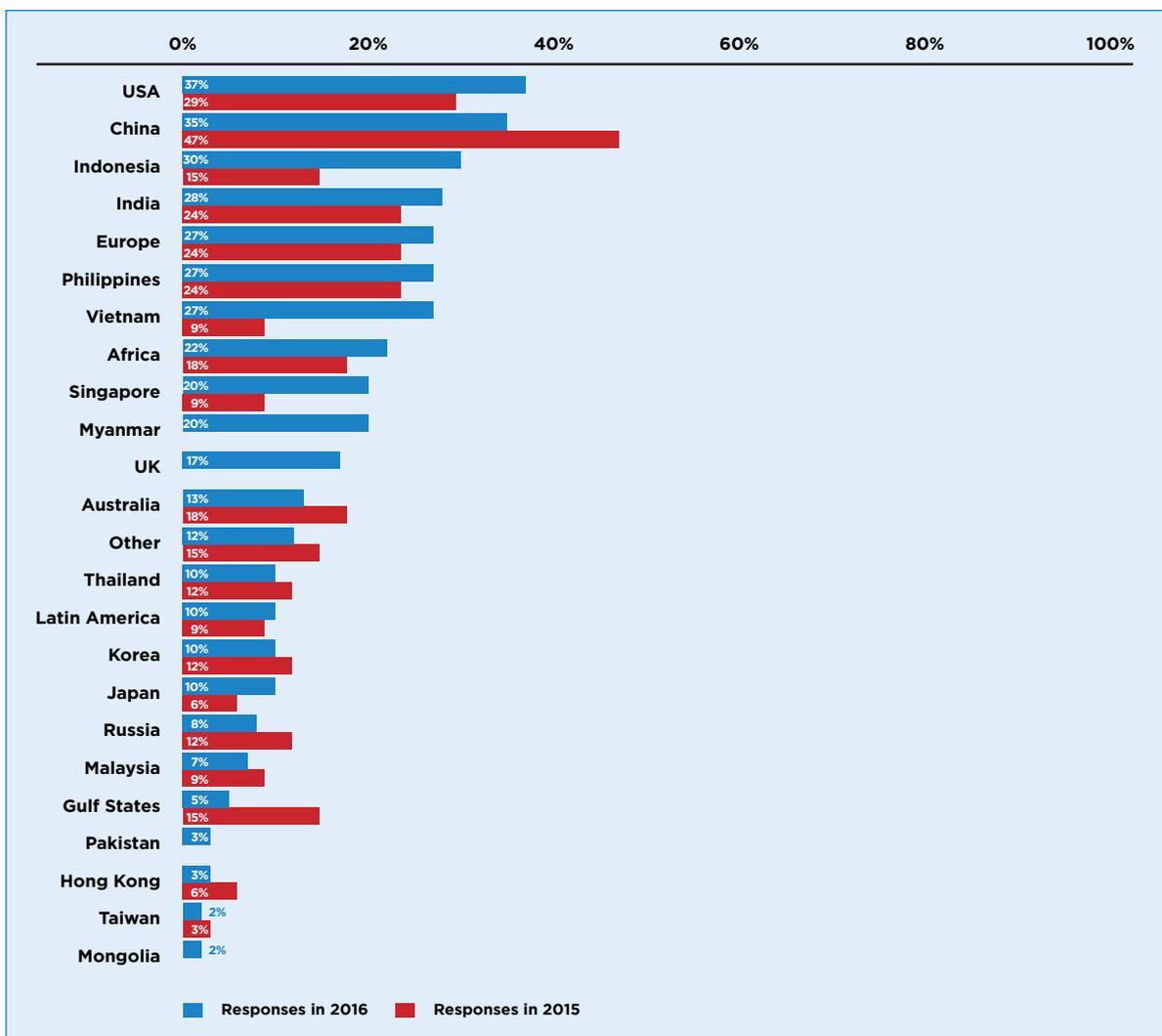
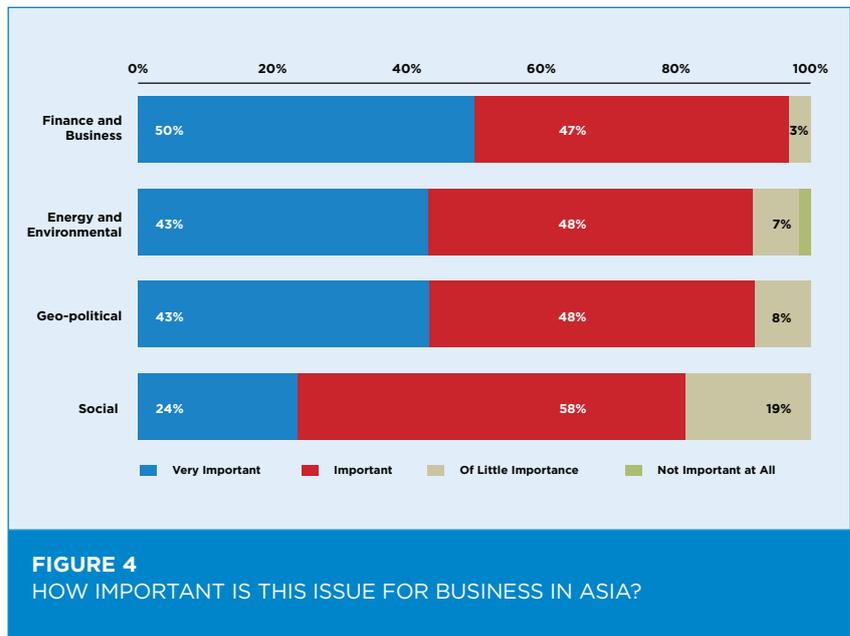


FIGURE 3
IN THE NEXT 1-3 YEARS, WHERE DO YOU PLAN TO INVEST OR INCREASE YOUR INVESTMENT?

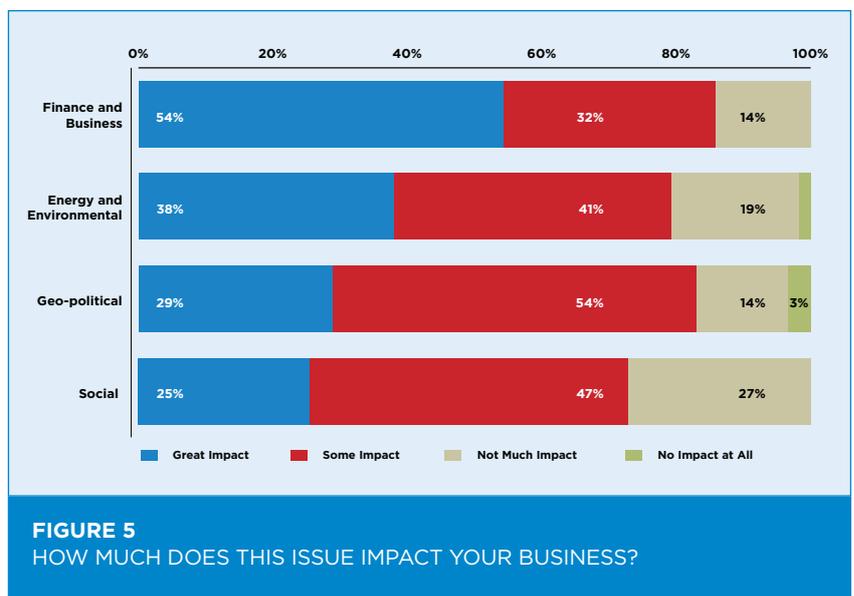
SLIGHTLY REDUCED CONCERNS OVER FINANCE AND BUSINESS; BUT ENVIRONMENT, GEOPOLITICS, AND SOCIAL ISSUES HAVE BECOME BIGGER CONCERNS

In terms of topical issues, regulatory burden and uncertainty featured heavily among members' business concerns. The potential of disruptive technologies, including the Internet of Things, mobile and electronic commerce, the shared economy, intelligent or smart products, and fintech, are seen by some as huge opportunities; others warned of competition and security threats that technology will bring. Rapid urbanization in many parts of Asia is expected to bring many new investment opportunities, particularly in infrastructure, energy, transport, and healthcare. Several respondents shared the sentiment that it is challenging to find investments with good returns, particularly given the cost of capital. One respondent questioned, "What is the acceptable rate of return?"

Members' assessment of issues affecting business in Asia showed a marked increase in concern for geo-political and social issues (see figure 4). While the importance of finance and business issues as well as energy and environmental issues for business in Asia was consistent with last year's trends, both geo-political issues and social issues saw a 9% increase in the "very important" category, relative to last year, reflecting members' increased concern about the effects of these issues on Asian businesses.



When answering the extent to which select issues affect a member's business, finance and business issues remained the top area of concern but saw a 10% fall from 64% to 54% this year in having a great impact. Energy and environmental issues saw a rise from last year's 28% to this year's 38% in respondents' choice of "great impact" (figure 5). The management of climate change and water resources were two issues mentioned as common concerns, as well as the threat of pandemics and natural disasters. Social issues also saw a rise in



business impact from last year's 17% to this year's 25% of respondents choosing "great impact". Specific geo-political issues respondents worried about include rising nationalistic and protectionist sentiments threaten the global economic and political order; at the same time, eroding public confidence in governments causes turmoil in domestic politics. However, the perceived business impact of geo-political issues as a whole remained steady.