

Asia Business Council Annual Survey 2014

Executive Summary

September 2014

Survey Overview

- Survey was conducted in July 2014
- Response rate of 88% (58 of 66 members)
- Members were asked about their economic outlook and investment plans
- Members were also asked to consider specific problems in the following areas:
 - Energy and the environment
 - Finance and business
 - Geo-political
 - Social

Recovery of American Economy as a Counterbalance to China's Slowdown

Among Asia Business Council members, 55% believed business conditions will improve over the next 12 months, a significant increase from our surveys in 2013 (39%) and 2012 (25%). This year saw a sizable decrease in the number of members holding a negative outlook, as only 10% foresee a worsening market. Others remained to be convinced of an upturn in the markets as 34% of respondents said that they felt business conditions in Asia will remain about the same (See Figure 1).

The members who believed that conditions will improve in the next year indicated that a recovery in demand from the United States and Europe contributed to their optimistic outlook. Within Asia, respondents feel optimistic about India and Indonesia. For Indonesia, members were hopeful that a pragmatic new president will bring about pro-business reforms. Some stated that the newly elected Indian and Indonesian government leaders must face down fiscal deficits before they are able to meet the expectations of the international business community. Members were hopeful that Indian Prime Minister Modi's new government would bring about needed reforms, and many are optimistic about business opportunities in the country in the near future. However, there are also worries about inflation and the fiscal deficit. The majority of members were positive about the prospects for greater economic integration within the ASEAN region.

Some members indicated that China's economic slowdown had the greatest potential to have a negative influence on the region. While some had faith in the Chinese leadership's abilities to engineer a soft landing, others cautioned that "the intended reform in China may take much longer

than expected.” Members were also pessimistic about Japan’s growth potential in light of Prime Minister Abe’s recently passed consumption tax. According to one member, “in Japan, painful structural reforms and an extended period of fiscal austerity lie ahead if ‘Abenomics’ is to succeed.”

While many responses were skeptical of China’s economic prospects in the near term, a common theme that emerged was the resurgence of the American economy and its potential to buoy Asia’s fortunes. One member, citing a reason for his positive economic outlook, wrote “the strong recovery of the U.S. could convert to increasing orders to Asia as an important supply chain for the world’s production.” Another believed that the recovery of the U.S. is sustainable.

Challenges in the External Environment: Geopolitical Uncertainty and Concerns over U.S. Fed Tapering

When asked about the greatest economic problem facing Asia, 25% of respondents indicated that it was inflation, a rise from the 16% who held this view last year. Among their concerns are the rise in interest rates and oil and gas prices. Only 7% of members listed recession as the greatest economic threat in Asia, down from 35% in 2013.

In terms of other threats to growth in the region, a large proportion of members were worried about geopolitical uncertainties, specifically mentioning territorial disputes between China and Japan along with rising tensions in the South China Sea, and political instability in the Middle East putting pressure on energy prices.

Another common concern is that the U.S. Federal Reserve’s signals that it would taper quantitative easing would have a negative impact on emerging economies in Asia. One respondent wrote, “potential tapering in the US with capital outflow from emerging markets and consequent economic slowdown is Asia’s biggest problem.”

Challenges to Business: Technological Change and Environmental Concern

Energy and environmental issues were the top concern for businesses across Asia, with 57% of members rating it as “very important” for business in Asia (see Figure 2). Finance and business was ranked as the area with the most impact on members’ own business (see Figure 3). Geopolitical issues came third, with 47% of respondents rating it as “very important” for business in Asia.

Specific issues of common concern directly affecting members’ businesses included credit availability, market access and expansion, and talent attraction and retention, especially at the management level, and regulatory uncertainties.

The speed of change in the business environment as a result of technological disruption and innovation was seen as both an emerging challenge and opportunity. Several members spoke of the need to stay on the cutting edge of disruptive technologies and adopt a quicker response to changes in the marketplace. One member remarked that businesses need to leverage the “technology know-how and the scale that Asia offers to innovate...in Asia and then apply [it] in the Western markets.”

Hiring and retaining talent remained a salient issue as well. Several members spoke of the necessity to deal with human resources challenges at all levels of their organization, from rising labor costs to top management succession. Some expressed frustration with restrictions on foreign investment in some countries along with non-tariff barriers that undermine trade, but believe that the ASEAN Economic Community and Trans-Pacific Partnership could present new opportunities. Others mentioned rising inequality and wage disparity as having an adverse effect on their business operations.

U.S. Becomes Top Investment Destination in 2014

The United States has surpassed China as the most favored destination for investment in the past 12 months. Survey respondents were asked where they invested in the past year and the results were compared with their responses given in the 2013 survey. 40% of respondents have invested in the U.S., up from 36% the previous year (See Figure 4). China came second, with 35% of respondents (excluding those from China) investing there in the past 12 months. Results have also shown that more respondents have invested in India, with 31% of respondents indicating that they have invested there, as compared to 18% the year before. Europe matched India with 31% of respondents followed by Indonesia with 24%. The Philippines, Latin America, Singapore, and Africa were also popular destinations.

In the next 1-3 years, 55% of members expressed interest in investing in the U.S., with a percent increase of 11% from last year (See Figure 5). 44% indicated their plans to invest in China, while 33% of members were looking to invest in India. Other new destinations for investment mentioned by respondents included Myanmar and Kazakhstan.

Figure 1
How Do You Feel About Overall Business Conditions In the Next 12 Months?

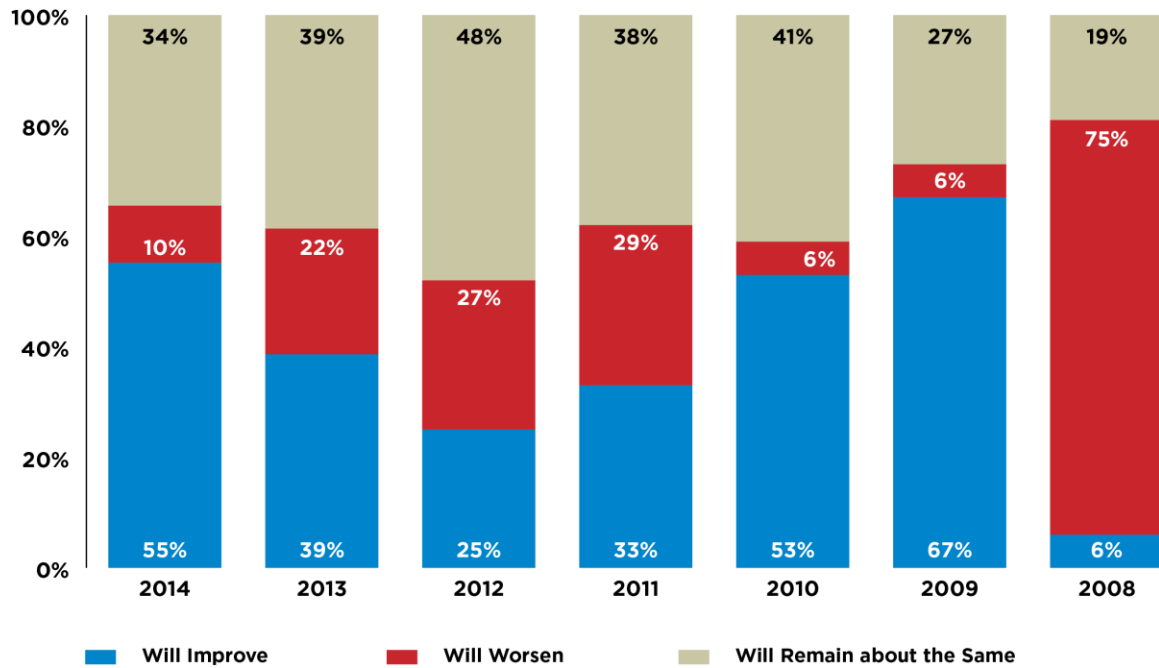


Figure 2

How Important Is This Issue For Business In Asia?

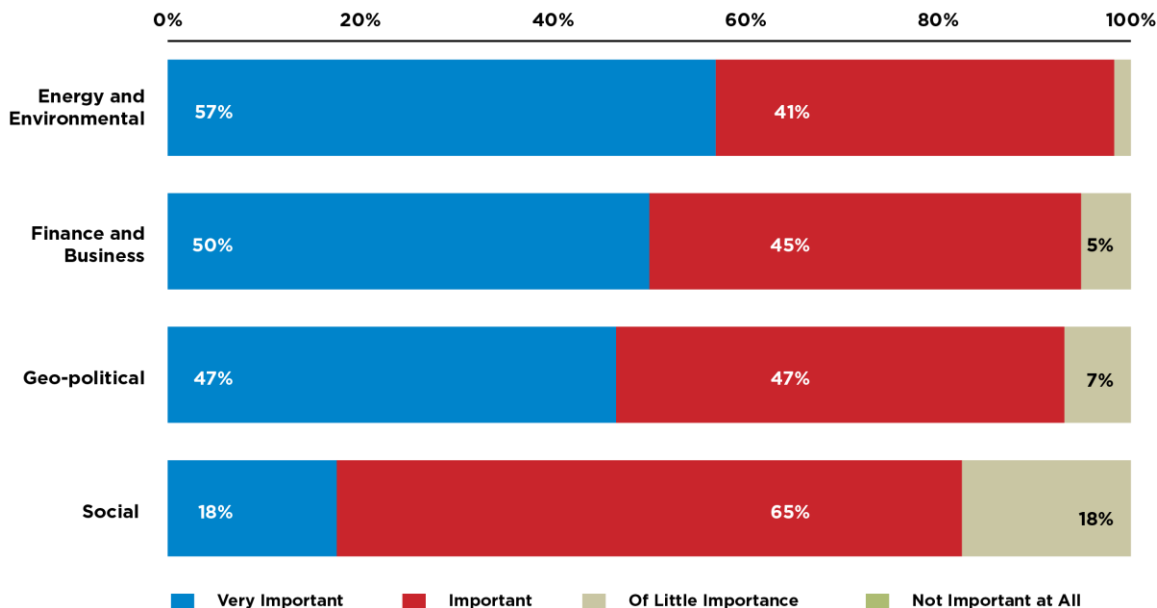


Figure 3

How Much Does this Issue Impact Your Business?

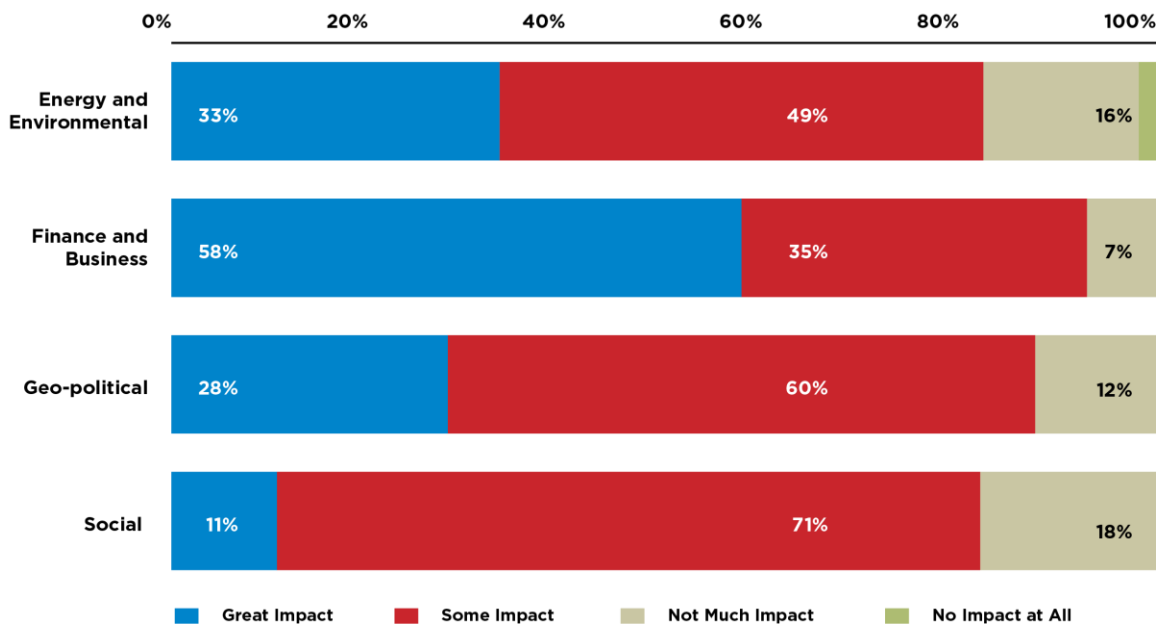


Figure 4

In What Countries Have You Invested or Increased Your Investment?

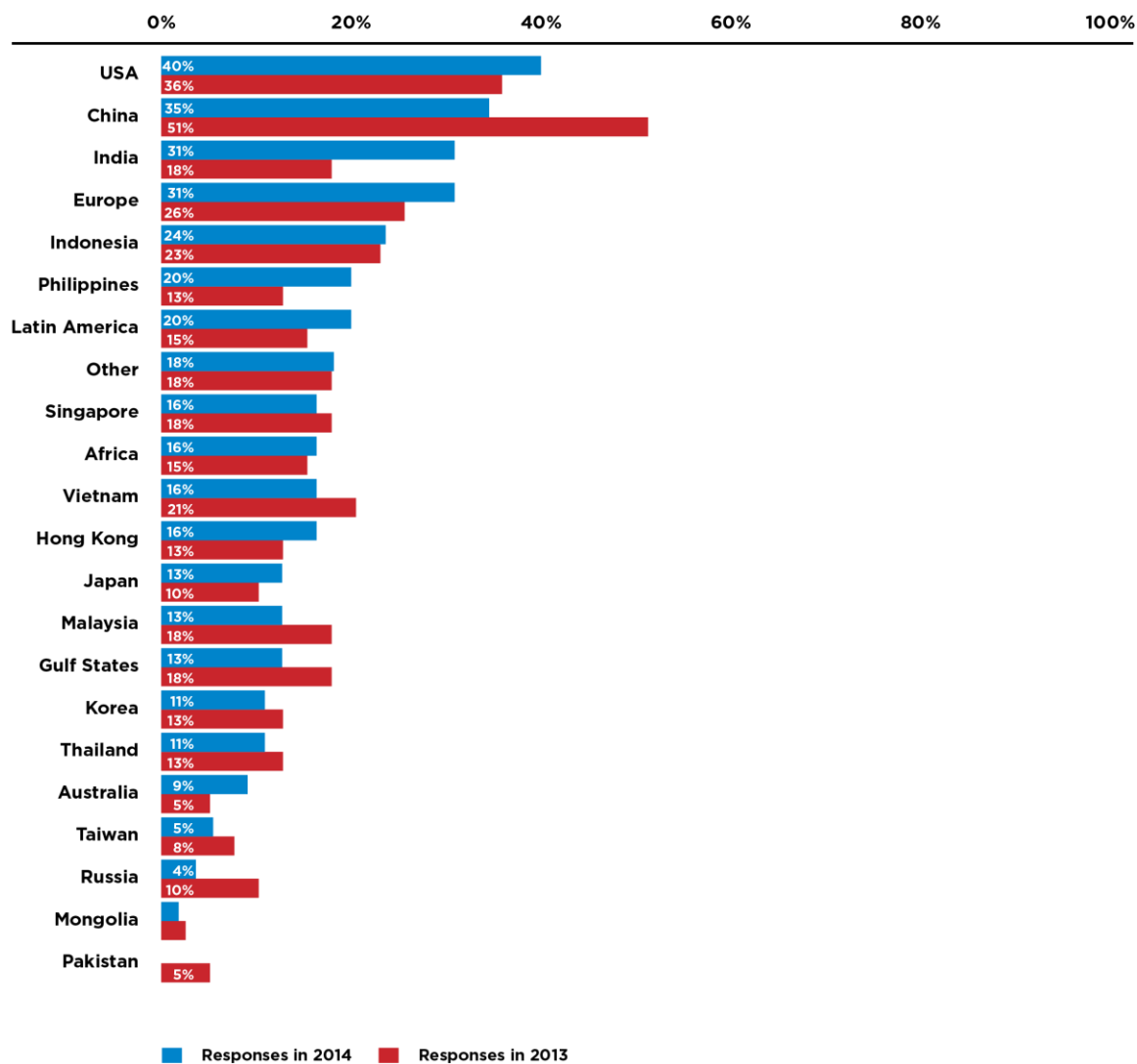


Figure 5

In the Next 1-3 Years, Where Do You Plan to Invest or Increase Your Investment?

