

Asia
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Asia Business Council Annual Survey 2020

Thoughts from the Top in a World of Risk and Uncertainty

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Asia Business Council

Annual Survey 2020

Thoughts from the Top in a World of Risk and Uncertainty

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Survey Overview

The Asia Business Council Annual Survey 2020 was conducted in August and September this year and yielded a response rate of 83 percent (58 out of 70 members). Asia Business Council members are Chairmen and CEOs mainly in Asia but also in Europe, the United States, and Australia who lead companies with a combined valuation of nearly \$3 trillion and directly employ about 3 million people.

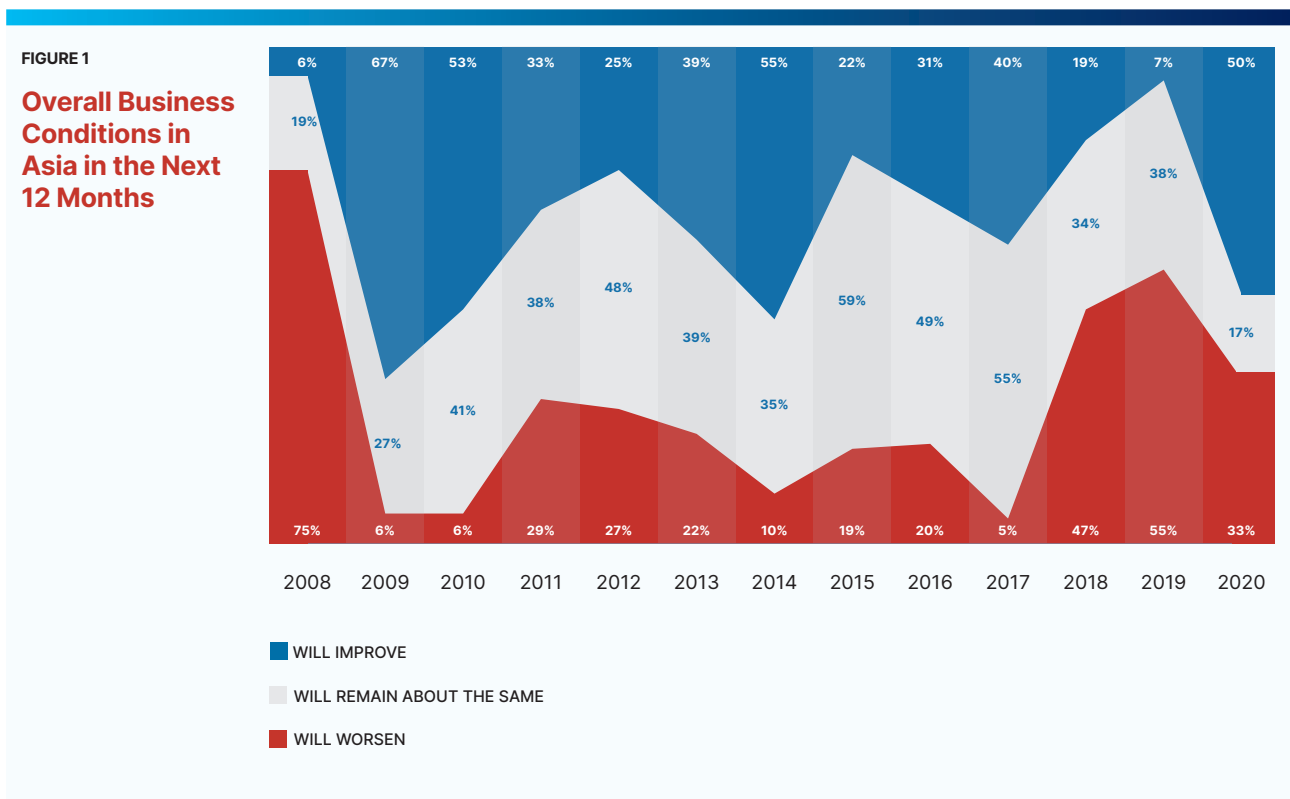
For 2020, respondents' outlook on the economic environment in Asia was significantly more optimistic than the previous year, with 50 percent of respondents expecting overall business conditions to improve in the next 12 months. However, some 74 percent of respondents believe economic activity will only return to pre-pandemic levels at the end of 2021 or later, and some 64 percent of respondents think that U.S.-China relations will remain the same or worsen after the U.S. presidential election.

Aside from gauging members' views on the economic outlook, the survey quantifies the impact of the coronavirus and U.S.-China tensions by looking at metrics such as sales and revenue, capital spending, employment, production, and investment. For the pandemic, survey results show that layoffs will likely continue in the near future. For U.S.-China tensions, while 24 percent of respondents indicate that they have considered postponing investments in China because of the geopolitical situation, collectively respondents still see China as the most attractive region in the next 12 months both for new investments and increases in existing investments.

The survey also asked respondents to rank relevant issues for their businesses from a selection that included public health, geopolitics, technology as well as the environment. The qualitative responses from the survey also demonstrate the various avenues through which companies are addressing the challenges and opportunities in a business world that is very much in flux.

Section One: Is the Worst Over?

Compared to the Annual Survey 2019, there was a marked increase this year in the number and percentage of respondents who felt that overall business conditions in Asia in the next 12 months will improve. More specifically, the percentage of respondents who felt that business conditions will improve rose from 7 percent in 2019 to 50 percent in 2020. The percentage of respondents who felt that business conditions will worsen decreased from 55 percent in 2019 to 33 percent in 2020. While there have been fluctuations in business optimism and pessimism in the past (see Figure 1), this is only the second time since 2008 that a change of similar



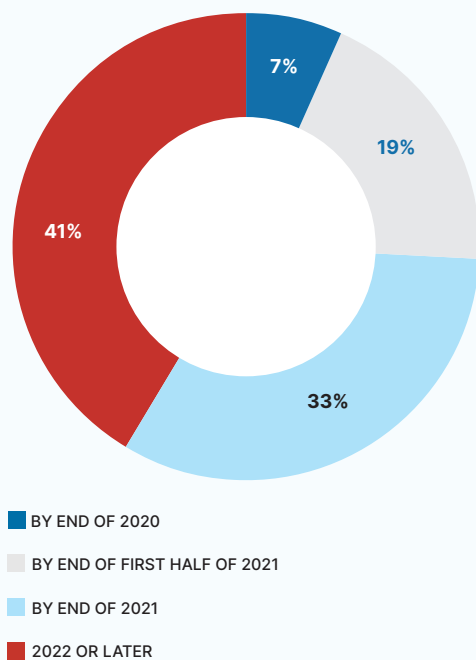
magnitude in one year's time can be observed from the survey. As can be guessed, the first time this occurred was between 2008 and 2009 when, in the aftermath of the global financial crisis, the percentage of respondents who felt that business conditions would improve rose from 6 percent to 67 percent, while those who felt that business conditions would worsen fell from 75 percent to 6 percent.

Having said that, respondents were keenly aware of the challenging business environment in Asia, with 69 percent of respondents mentioning the global pandemic as the biggest challenge facing Asia in the next 12 months, and 31 percent referring to geopolitical tensions, notably in U.S.-China relations. In general, respondents were not particularly optimistic about a quick economic recovery from the pandemic or the future of U.S.-China relations in light of the U.S. presidential election.

When asked when economic activity would return to pre-pandemic levels, 33 percent of respondents predicted by the end of 2021 and 41 percent predicted

FIGURE 2

When will Economic Activity Return to Pre-Pandemic Levels?



2022 or after; only 7 percent predicted economic activity would recover by the end of 2020 (see Figure 2). An overwhelming 91 percent of respondents said that the discovery and wide distribution of an effective vaccine would be “very important” or “essential” to the economic outlook.

As for U.S.-China relations, respondents also leaned toward continued caution. Some 41 percent of respondents predicted that there would be no change in U.S.-China relations after the U.S. presidential election, while 23 percent predicted that they would worsen (see Figure 3). In terms of the two presidential candidates, 75 percent of respondents predicted that Joe Biden would win, while 25 percent predicted

that Donald Trump would (see Figure 4). Among respondents who predict a Trump victory, the majority believe it would worsen or maintain the status quo for U.S.-China relations (see Figure 5). While respondents who predict a Biden victory are more positive on its impact on U.S.-China relations, it would still be more appropriate to describe their opinions on this as somewhat divided rather than completely optimistic (see Figure 6).

FIGURE 3

Expectations for U.S.-China Relations after the U.S. Presidential Election

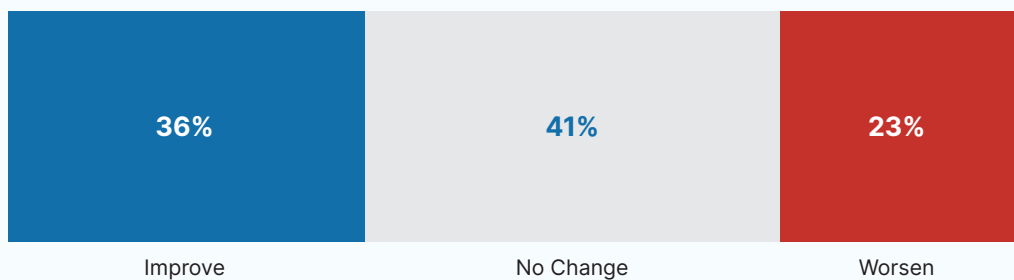


FIGURE 4

Predictions on the Result of the U.S. Presidential Election

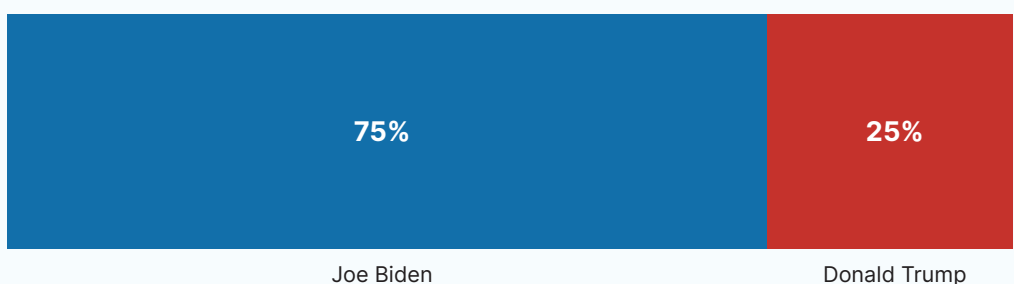


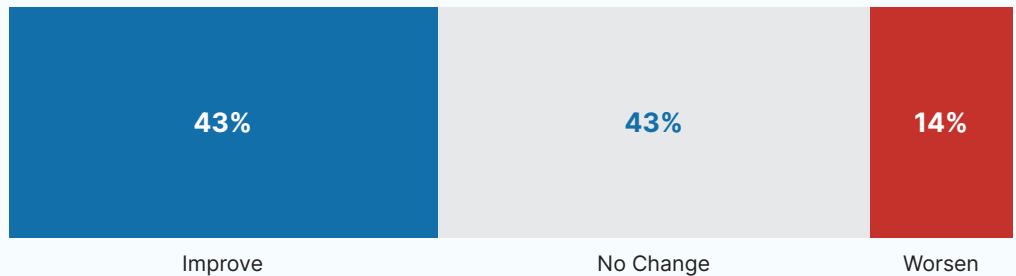
FIGURE 5

Expectations for U.S.-China Relations among Respondents who Predict Donald Trump will Win



FIGURE 6

Expectations for U.S.-China Relations among Respondents who Predict Joe Biden will Win

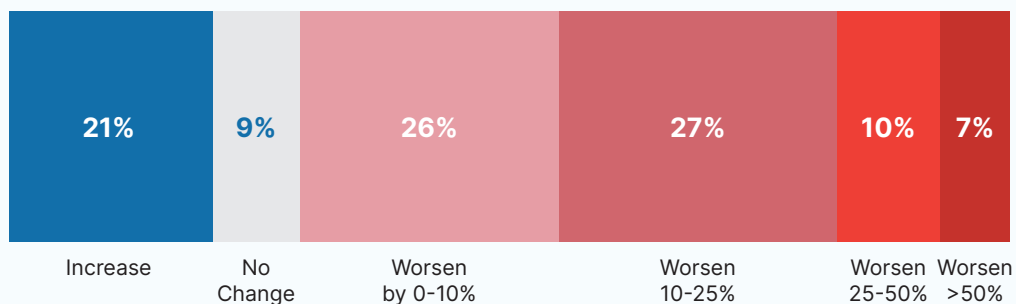


Section Two: Impact of the Global Pandemic

In relation to the COVID-19 pandemic, it should come as no surprise that the majority of respondents saw it as having a negative impact on demand as measured by sales or revenue. While a fall in demand by 0-10 percent or 10-25 percent were the most common, some businesses saw a fall by more than 25 percent or even 50 percent (see Figure 7). As a result, respondents note that their

FIGURE 7

Impact on Sales or Revenue since the Pandemic Broke Out



companies have already taken or plan to take action by changing their investment plans, engaging in business restructuring, raising cash, having layoffs, and shifting production plans (see Figure 8). Indeed, layoff plans echo respondents' projections for sales, capital spending, and employment of their companies in the next 12 months (see Figure 9). Of the three metrics, employment is the only one for which more respondents expect a decrease rather than an increase.

FIGURE 8

Action in Response to the COVID-19 Pandemic

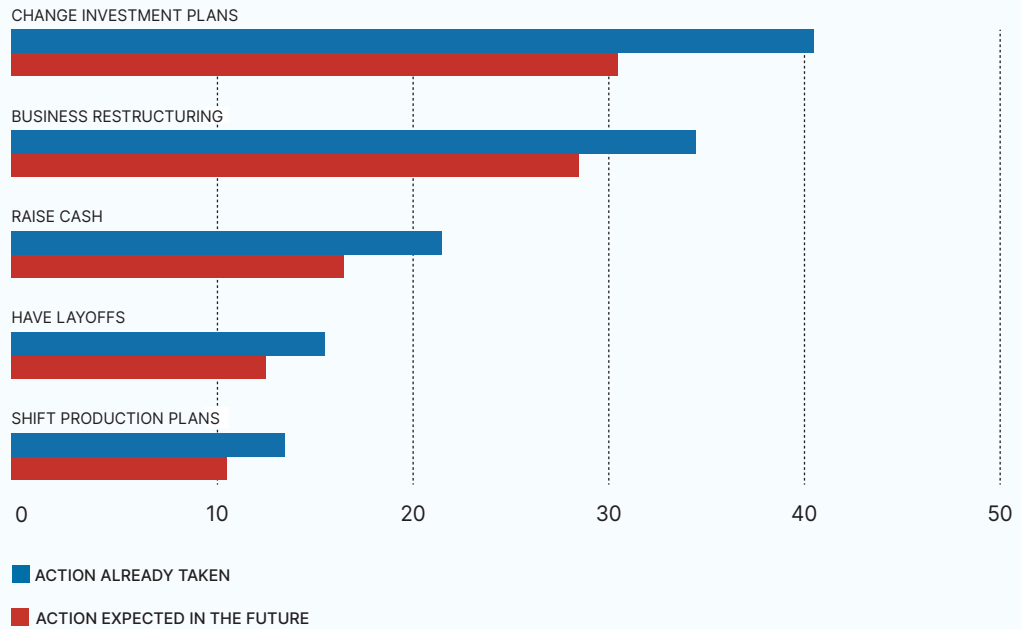
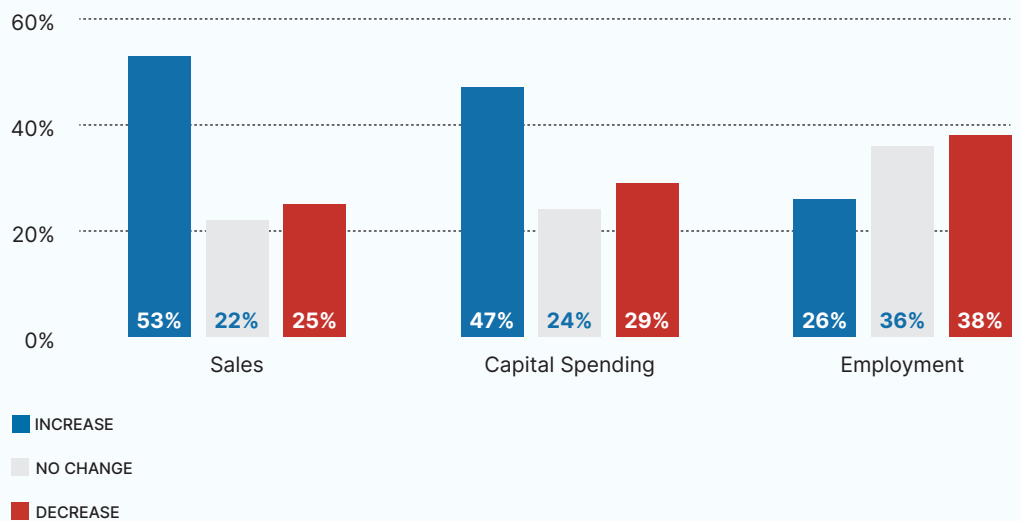


FIGURE 9

Sales, Capital Spending and Employment Over the Next 12 Months

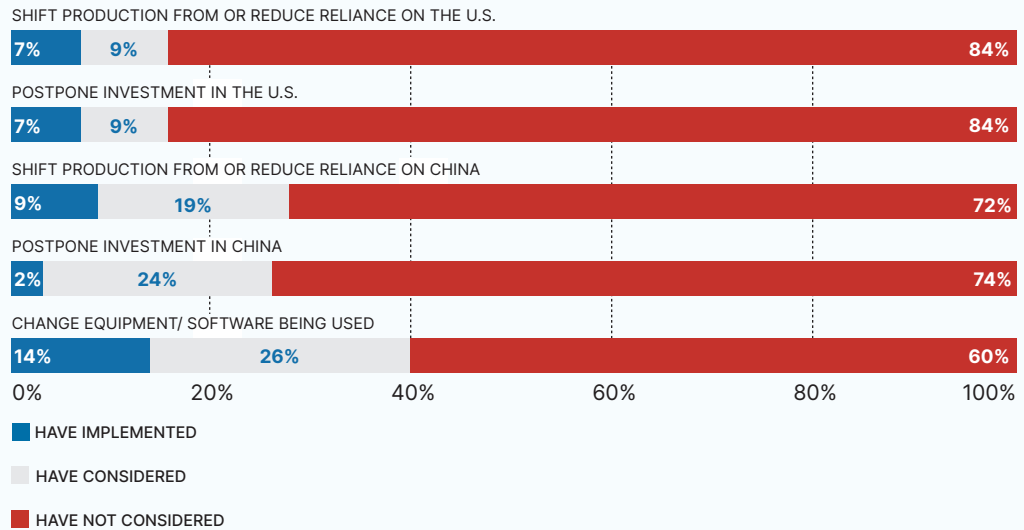


Section Three: Impact of U.S.-China Tensions

Relative to the pandemic, it may take a bit more time for U.S.-China tensions to translate into widespread and concrete actions in the private sector. Survey results show that the most common response has been to change equipment or software, with 14 percent of respondents saying that they have already implemented this and another 26 percent of respondents saying that they have considered it (see Figure 10).

FIGURE 10

Business Responses to U.S.-China Tensions



Beyond equipment or software, 9 percent and 19 percent of respondents have considered shifting production from or reducing their reliance on the U.S. and China respectively, with 77 percent of respondents mentioning Southeast Asia as their top alternative location if they were to do so. In particular, there were multiple mentions of Vietnam as a potential choice. Nonetheless, only a handful have already implemented these plans.

Similarly, while 9 percent and 24 percent of respondents have considered postponing investments in the U.S. and China respectively, only a small minority have already implemented it. In fact, according to a separate question in the survey, collectively respondents still see China as the most attractive region in the next 12 months for new investments as well as increases in existing investments (see Figures 11 – 12).

FIGURE 11

Number of Respondents Planning to Make New Investments in Various Regions in the Next 12 Months

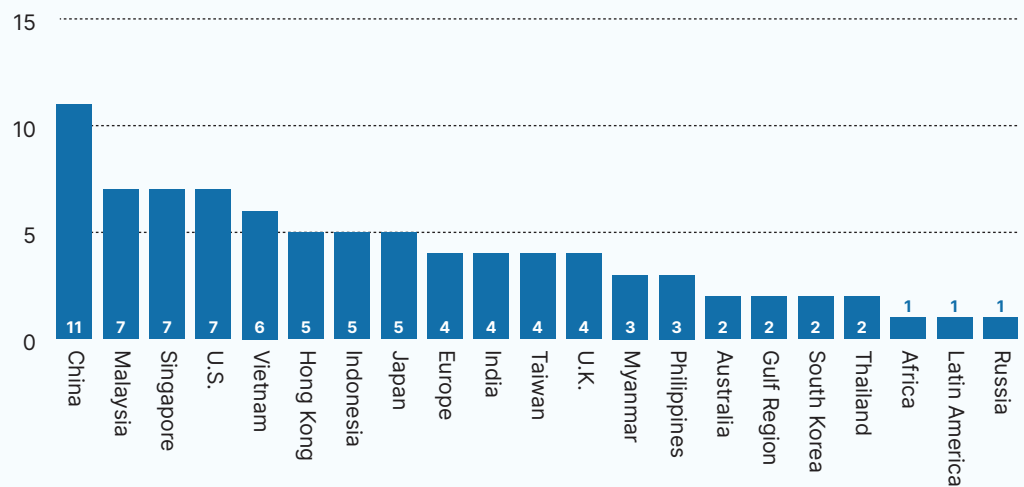
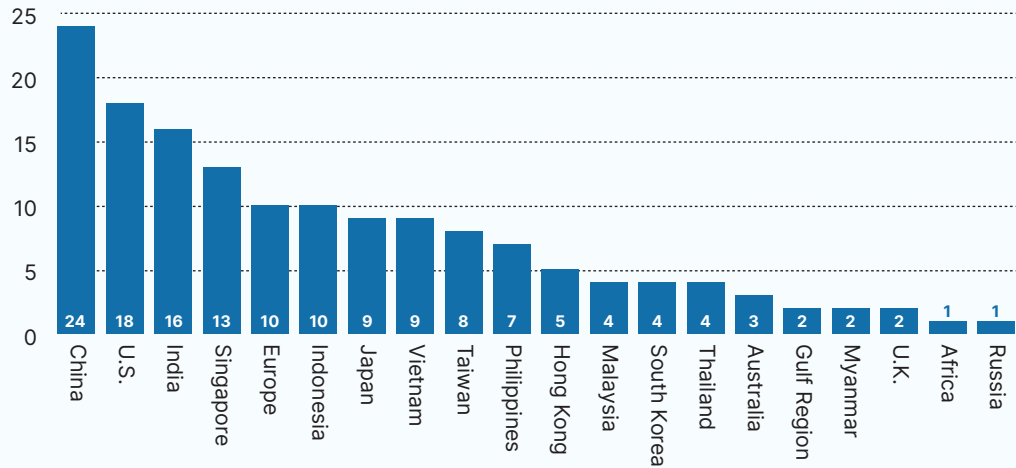


FIGURE 12

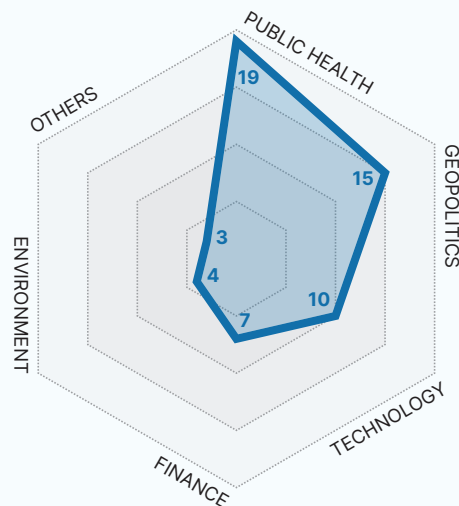
Number of Respondents Planning to Increase Existing Investments in Various Regions in the Next 12 Months



Section Four: Addressing Challenges and Opportunities in a Business World in Flux

FIGURE 13

Top-ranked Issue for Business



When asked about the top-ranked issue for their businesses, respondents overwhelmingly cited public health and geopolitics but also mentioned technology, finance and other issues (see Figure 13). Notably, while only 4 respondents selected the environment as the top-ranked issue, 53 percent of respondents said that their sustainability efforts around the environment and climate change have accelerated in the past year, and 45 percent said that they had remained the same (see Figure 14).

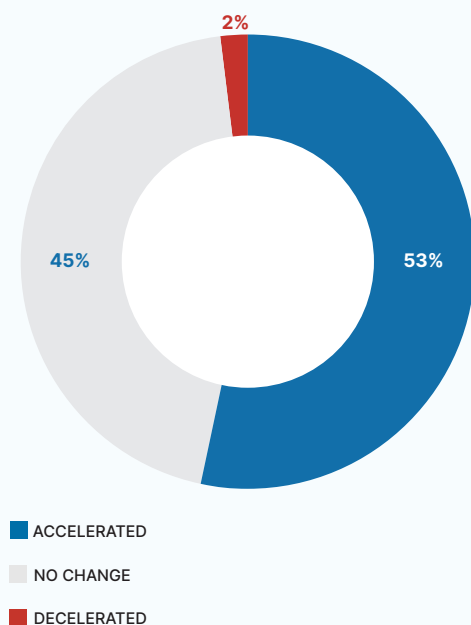
In their qualitative responses, business leaders also shared the various avenues through which they are addressing the challenges and opportunities in a fast-changing business world.

Protecting Employees as a Top Priority

Respondents said that employees are key to their success and protecting them is a top priority to ensure business continuity. Respondents were acutely aware of the need to protect employees' physical and mental health, with one respondent saying

FIGURE 14

Sustainability Efforts in the Past Year



that “trying to work exclusively from a home office adds to mental stress as well as isolation from front-line teams.”

Supporting Public Health Efforts

Companies have also supported public health efforts in their home regions and globally. These efforts included cash assistance, the purchase and distribution of personal protective equipment (PPE), programs to support healthcare professionals, financial assistance for small and medium enterprises (SMEs), and the provision of food to those in need, often in partnership with charitable organizations. One respondent’s company started manufacturing hand sanitizers for free distribution, and

another reduced the salaries of its board and top management to donate money to fight the coronavirus. Respondents also described their coordination with governments and regulators in a collective response to the pandemic.

Adopting Digital Business Models

In terms of opportunities, a number of respondents note that the pandemic has accelerated the adoption of digital business models. While coordinating a company-wide work-from-home policy has been a significant challenge for businesses that require a physical presence, one respondent said that this has simultaneously been a great opportunity “as it provides further incentive towards digitalization, finding new efficiencies, and promoting new and innovative business opportunities.”

Investment Opportunities Amidst the Pandemic

Finally, respondents identified technology and healthcare as areas that are ripe for investment. One respondent said that the “greatest opportunity has been in technology investments across digital, medtech, pharma,” while another said that his company will be supporting and investing in innovative start-ups. With rising health consciousness as a result of the pandemic, companies that have health product divisions have also been allocating more resources to these business lines. In fact, some respondents believe that the pandemic presents investment opportunities that go beyond technology and healthcare. One respondent said that there might be opportunities to invest in troubled companies, while another said that “excessive global liquidity coupled with COVID-19 business disruptions might provide us with both domestic and overseas acquisition opportunities.”

Conclusion

Overall, it is fair to say that the qualitative responses demonstrate the agility and flexibility of companies in the new normal and a mindset that continually seeks opportunities amidst an unprecedented storm. When combined with the quantitative responses, the survey provides a snapshot of how Asian and global companies are adapting to the pandemic, U.S.-China tensions, as well as emerging technologies and environmental issues. As business leaders continue to charge ahead in a highly unusual time, one respondent sums it up by saying that they will need to differentiate between the “signal” and the “noise” when evaluating opportunities and assessing performance in a world of risk and uncertainty.