



# Future of Asia Pacific

## *Opportunity knocks - if regional challenges can be overcome*

Asia Pacific is the engine room of the global economy. GDP growth across the region outstrips the West; while the vast majority of European and North American economies are forecast to grow by less than 2% in 2016, many of those in Asia Pacific are looking for at least 3% growth and in some cases more. And while the Chinese economy cools, increasing economic cooperation between its neighbours has the potential to offset this.

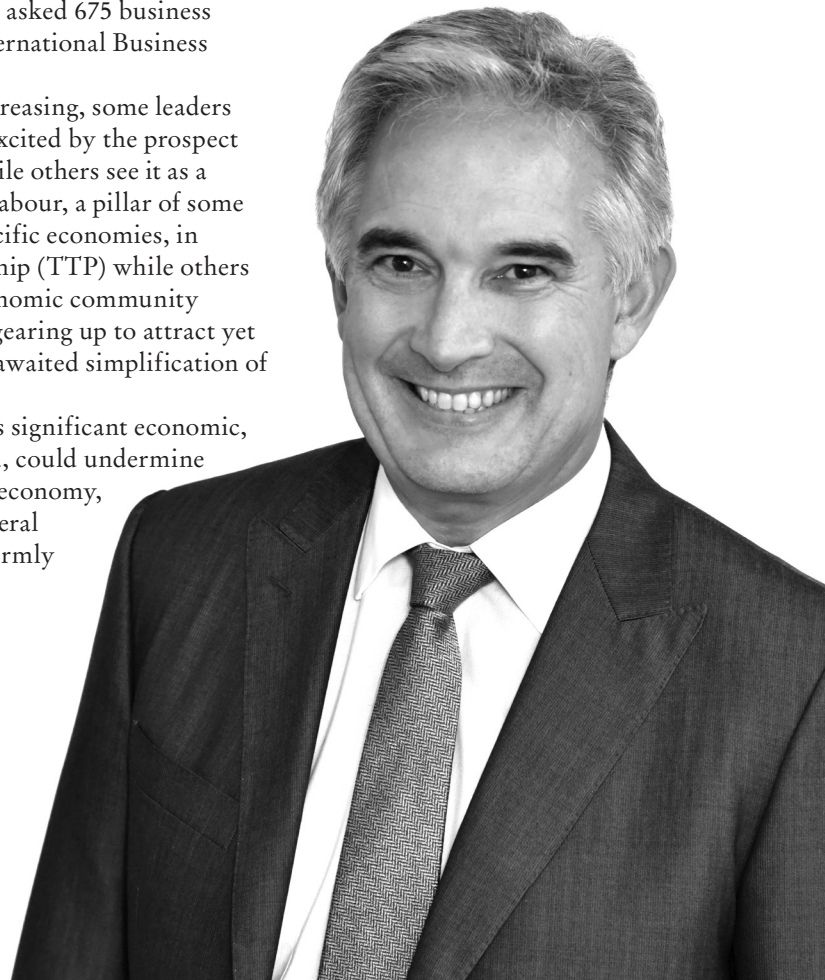
Faced with a myriad of challenges and opportunities, what are the views of business leaders across Asia Pacific? Grant Thornton asked 675 business leaders across ten Asia Pacific countries through its International Business Report<sup>1</sup>(IBR) to find out.

We found that while overall business optimism is increasing, some leaders see challenge where others see opportunity. Many are excited by the prospect of automation transforming the business landscape, while others see it as a potential threat to third party providers of low skilled labour, a pillar of some economies in the region. Likewise, developed Asian Pacific economies, in particular, are positive about the Trans Pacific Partnership (TTP) while others urge diversification of investment into the ASEAN economic community (AEC) with attractive incentives on offer. India is also gearing up to attract yet more foreign investors in 2017 by introducing the long awaited simplification of the indirect tax system.

On the other side of the coin though, the region faces significant economic, political and social challenges which, if left unmitigated, could undermine its economic promise. The re-balancing of the Chinese economy, ageing populations, territorial conflicts and the US Federal Reserve's plans to increase interest rates, are all issues firmly on the minds of business leaders across the region.

**28%** OF ASIA PACIFIC BUSINESS LEADERS ARE OPTIMISTIC ABOUT THE OUTLOOK FOR THEIR COUNTRY'S ECONOMY OVER THE COMING 12 MONTHS

Robert Quant  
Global leader - collaboration and capability with regional responsibilities for Asia Pacific, Grant Thornton



<sup>1</sup> Grant Thornton's International Business Report is a quarterly survey of 2,500 business in 36 economies worldwide.



# Business optimism split between emerging and developed economies

Despite potential threats to growth across Asia Pacific, business optimism across the region as a whole increased by seven percentage points to net 28% in the second quarter of 2016.<sup>2</sup> This level is significantly above the IBR long run average of optimism for the region of 18%.

A closer look at the country specific optimism levels reveal a substantial split between emerging and developed economies. Business leaders in emerging Asia Pacific economies reported optimism at 50%, while in developed economies it was -20% (20% more pessimistic than optimistic).

A number of economies across Asia Pacific have formed close links to China in recent years, but they now need to diversify in order to avoid overreliance and a potential economic slowdown.

Among developed economies, optimism is particularly low in Singapore and Japan where in

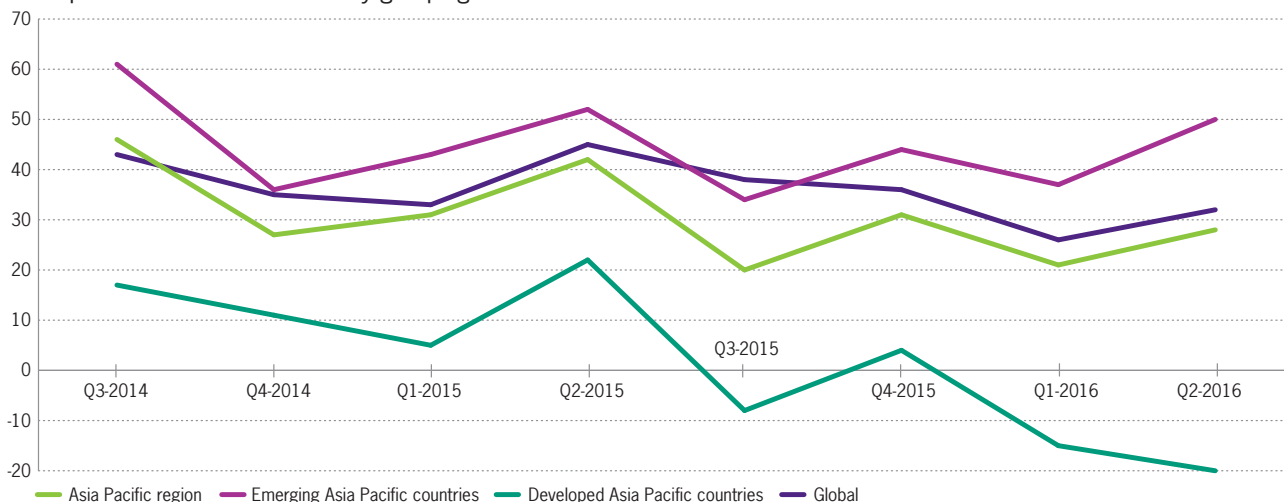
Q2 2016 it fell to -12% and -51% respectively. IBR data shows that revenue and export expectations among Singaporean business leaders have been declining. Meanwhile in Japan, despite the positive economic effects of Abenomics, loose monetary policy by foreign central banks has mitigated the Japanese government's efforts to boost exports.

However, across emerging Asia Pacific economies, the Philippines has the highest business optimism of any economy in the world in the IBR (94%). Business leaders there are particularly expectant about increases in exports and profitability over the next 12 months. The latter is also particularly true right across the

ASEAN region, no doubt excited by the opportunities presented by the launch of the ASEAN Economic Community in 2015. Positive government initiatives, such as Indonesia's tax amnesty<sup>3</sup> are also contributing to business optimism across the ASEAN Economic Community which reached 34% in Q2 2016.

The increase in optimism across the ASEAN countries in particular is striking, and comes after the launch of the ASEAN Economic Community last year. This is a real opportunity for businesses in the region to make the most of greater integration to boost their growth and increase economic output.

Net optimism - Asia Pacific country groupings



<sup>2</sup> Net optimism is calculated as the percentage of optimistic respondents less the percentage of pessimistic respondents

<sup>3</sup> Indonesia's tax amnesty is to be followed by long called for tax reform. <http://www.bloomberg.com/news/articles/2016-09-18/indonesia-stocks-jolted-by-reality-as-tax-amnesty-optimism-fades>

# Hope for automation; concern over ageing populations

The IBR also asked Asia Pacific business leaders what they saw as the biggest threats and opportunities facing the region over the next five years.

Overall, leaders cite the evolution of business automation technology as the biggest opportunity (cited by 29% of respondents) they face, by freeing up workers to focus on higher value added processes. DHL's recent S\$140m investment<sup>4</sup> in an automated parcel sorting South Asia hub in Singapore illustrates this trend. One in four also cited this as a risk, perhaps a nod to the region being home to third party providers of lower value roles such as call centres.

Automation will fundamentally change the way businesses operate. Those businesses who are prepared to be brave and invest in new ways of working, while also getting the most out of their skilled workforce, will stand the best chance of success in the years ahead.

The second biggest opportunity, highlighted by 25% of leaders, is the TPP. This is particularly high on the agenda for leaders in developed economies across the region, and comes despite recent political challenges to the agreement due to the rise of populist politics, which seek to undermine multilateral trade agreements in favour of protectionist policies.

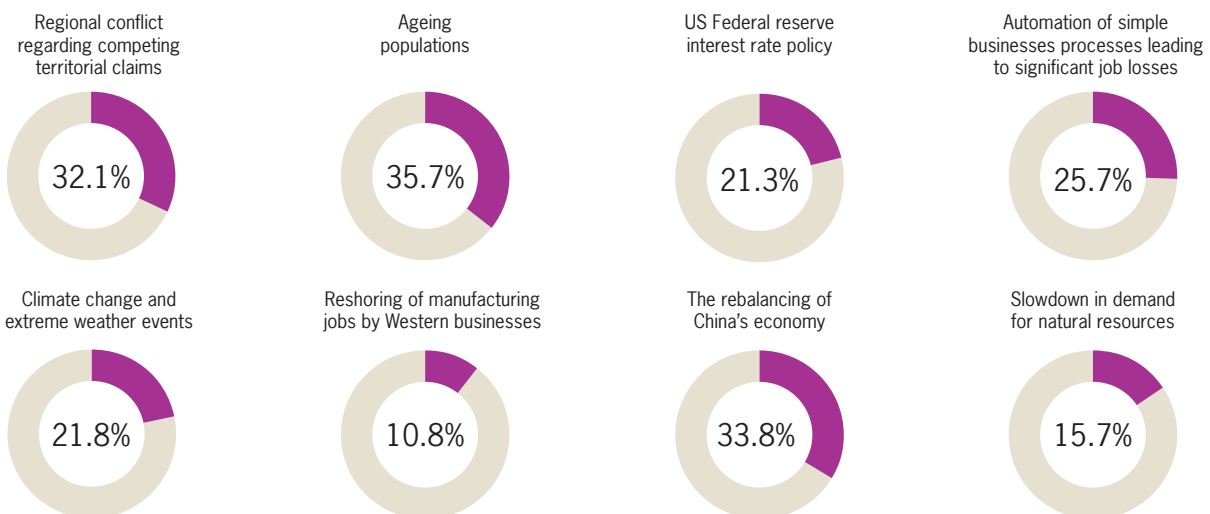
When asked about threats, the most cited was the trend of ageing populations (36%). This comes as higher incomes and better care have led to people living longer, as fertility rates have declined. Countries within the region stand to lose 15% of their work force while the cost of health care and social welfare increases as the proportion of the population over 65 increases.

The next biggest threats worrying businesses are the rebalancing of the Chinese economy (34%) and regional

territorial conflicts (32%). Among developed Asia Pacific economies, 60% of leaders cited the rebalancing of the Chinese economy as a threat, testament to how strong the trade ties between China and its neighbours have become. Territorial disputes are a particular concern among ASEAN business leaders, wary that weakened diplomatic relations could undermine recent agreements to boost economic cooperation.

Elsewhere, 21% of business leaders say the US Federal Reserve's interest rate policy is a threat to the region. Many of the countries within Asia Pacific have their national debt denominated in US Dollars, and with the Fed hinting at rate rises soon, successive rate hikes would increase the borrowing costs for these countries and represent a greater proportion of government expenditure.

Which of the following represents the biggest threat for the Asia Pacific region over the next five years?



<sup>4</sup> Biospectrum <http://www.biospectrumasia.com/biospectrum/news/224420/dhl-invests-sgd-140mn-singapore>



# Recommendations for businesses

Asia Pacific spans a huge and diverse business community, from India to Japan to New Zealand. What is clear from our research is that while businesses remain largely confident about the coming months and years, with many areas ripe with opportunity, threats do linger which could undermine growth if left unaddressed.

With so many moving parts, now is the time for dynamic businesses across the Asia Pacific region to reassess the opportunities and challenges present in the regions they operate in. After all, opportunities exist for dynamic organisations that are able to change with the evolving business environment. A healthy proportion of leaders within the region recognise the transformative power of technology to automate business tasks and processes. Those with the foresight to invest time and resource in understanding the opportunity will be in the best position gain a competitive advantage over their peers.

For firms in the ASEAN region, the recent commitment to greater economic cooperation is a major step forward and business goals should reflect the improved relationship with their nearest neighbours, which should open new markets and offer new market opportunities.

At the same time, our research highlights the need for businesses across the region to take proactive steps to minimise the risk of overreliance on China. While it will remain a hugely important trading

power, what's clear is that as it continues to evolve, firms should explore ways to diversify. Not just in terms of trading partners, but product and service offerings too.

Ageing populations have also emerged as a significant threat and while it is not the job of the business community to reverse this demographic trend, it needs to react now to stay ahead of the curve. Automation could be part of the answer, but so could closer links with education institutions, and a revitalised training programme, to ensure the skills needed in their workforce are being developed.

Agile firms will also need to be mindful of the potential changes in government expenditure and how those changes will affect their revenue profile and operating environment.

Grant Thornton is a leading business adviser that helps dynamic organisations to unlock their potential for growth. Our brand is respected globally, as one of the major global accounting organisations recognised by capital markets, regulators and international standards setting bodies.

With over 9,800 people in 20 member firms in the Asia Pacific region, we have the scale to meet your changing needs, combined with the local insight and agility that helps you to stay one step ahead.

Our partners and teams invest the time to truly understand your business, giving real insight and a fresh perspective to keep you moving. So whether you are a business that has domestic, regional or international aspirations, Grant Thornton can help you to realise your ambitions.

**GDP  
GROWTH  
IN ASIA PACIFIC IS  
FORECAST TO REACH  
5.3%  
IN 2016-17**  
(Source: IMF)

To find out more about our Asia Pacific insight and capability visit:  
[www.grantthornton.global/AsiaPacific](http://www.grantthornton.global/AsiaPacific)