

Focus on: Asia Pacific

International Business Report 2009 – Regional focus series

A year of turmoil

Exports and industrial production saw a fast and furious decline across Asia Pacific, and whilst this year is shaping up to be worse than previously believed for most economies in the region, there are signs that the region will recover quicker than either the US or the EU. The key indicators¹ highlight the issues facing the economy:

- many Asian economies started to grow again in Q2 2009, even as America and Europe continued to falter, and this strong performance continued through the third quarter
- mainland China's GDP was up 8.9 per cent year-on-year in the three months to September, compared with a 1.2 per cent rise in Japan
- exports have fallen off the edge of a cliff across Asia, with many economies experiencing double digit declines; the 20 percentage point year-on-year August decline in India marked the eleventh straight month of contraction
- unemployment continues to rise throughout the region; in Australia unemployment levels reached a six-year high of 5.9 per cent in June and remains at 5.8 per cent, whilst in Singapore the rate of 3.3 per cent is the highest in three years.

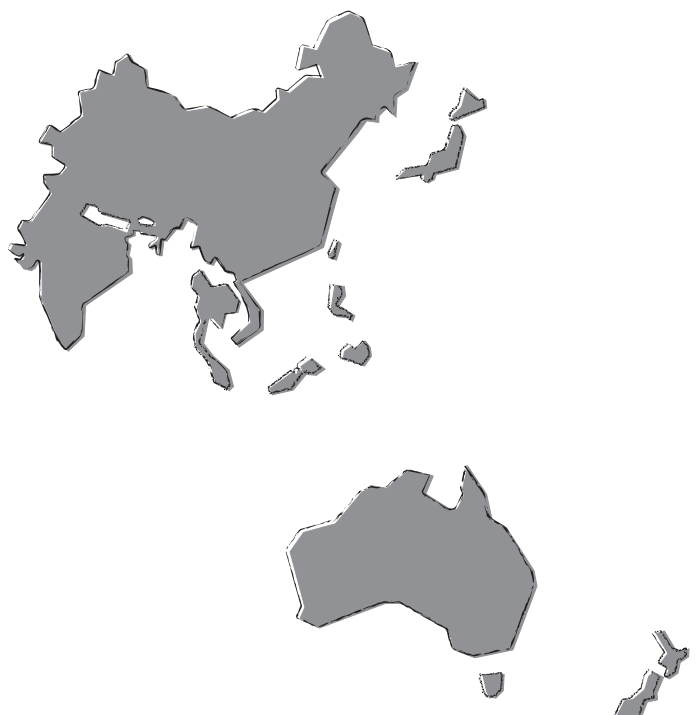
Impact on privately held businesses

The Grant Thornton International Business Report (IBR) 2009 surveyed the views of 7,200 privately held businesses (PHBs) in 36 economies around the world. This report focuses on Asia Pacific, the experiences and attitudes of its privately held businesses and how they have been affected by the worst economic downturn in decades as illustrated

Figure 1: Key indicators for PHBs

Asia Pacific region compared to the global average	2007	2008	2009	2009
	Asia Pacific	Asia Pacific	Asia Pacific	Global
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	+63%	+51%	+2%	-16%
Issue of greatest concern in the next 12 months				
Fall in consumer demand			44%	39%
Increased cost of energy			15%	10%
Change in employment levels				
Balance of PHBs expecting an increase over those expecting a reduction	+50%	+31%	+8%	-4%
Constraints on expansion				
Shortage of orders/reduced demand	43%	37%	53%	49%
Lack of availability of a skilled workforce	40%	44%	33%	27%

Source: Grant Thornton IBR 2009



¹ Source: International Monetary Fund, The Economist and Experian.

in figure 1.

The IBR survey tells us that PHBs in Asia Pacific expect to suffer as much as other businesses globally in terms of falling consumer demand over the course of 2009, and whilst employment growth is expected to fall back sharply, a lack of availability of a skilled workforce remains an issue. These concerns impact negatively on expectations for turnover growth and on profitability and PHBs are even less optimistic about the year ahead than they were 12 months ago. Clearly the effects of the global decline in activity are taking their toll on PHBs.

Looking ahead

Many of the Asia Pacific economies are forecast to post positive growth this year, led by forecast expansion of 8.1 and 6.3 percentage points in mainland China and India respectively, whilst emerging Asia is forecast to grow by 4.8 percentage points this year. The major drag to the region's economy will be Japan, which is expected to post a 5.5 percentage point contraction across 2009.

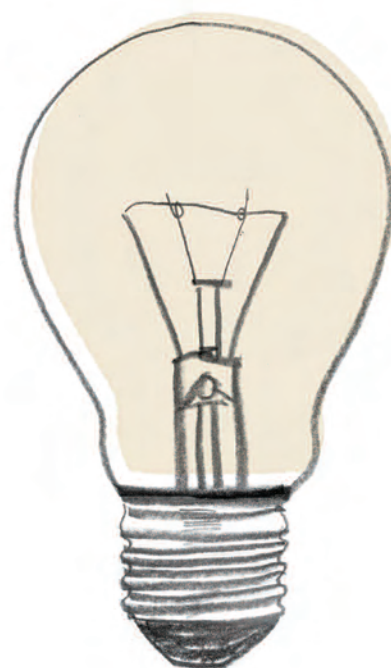
However, Japan is expected to post modest growth of 0.8 percentage points in 2010, whilst mainland China (8.8 percentage points) and emerging Asia (6.7 percentage points) are expected to perform strongly. The major risk is that inventories have been run down so much in the last nine months meaning businesses have started to restock, but if there is no equivalent growth in demand, then the recession will assume a 'W' shape, as the recovery runs out of steam and lurches back

downwards.

Any recovery in the Asia Pacific regional economy will need privately held businesses to be back at the forefront to drive new business, employment and trade. To achieve this:

- businesses need to adjust to the new level of demand while working on innovative ways to develop product and market share
- access to credit needs to be improved to enable businesses to manage their working capital and long term funding needs
- a rapidly deteriorating labour market will need to be well managed if job security fears are not to further dampen consumer spending.

It is clear that during the months and years ahead, all businesses will face a number of key threats and opportunities which will require senior management to make some very 'big decisions'. Businesses surviving the downturn will look back on these decisions as pivotal moments in their company's history. Focusing on the right things will give businesses under pressure more room for manoeuvre, while for others it will provide opportunities to realise their ambitions more quickly than they had planned.



International Business Report results

The Grant Thornton IBR 2009 reveals that privately held businesses in almost all countries are less optimistic about economic prospects for the year ahead. Overall optimism amongst PHBs in the Asia Pacific economies² has fallen from 2008; this year a balance³ of just +2 per cent of PHBs in Asia Pacific countries are positive about their country's economy compared to a balance of +51 per cent in 2008, although this is higher than the global average of -16 per cent.

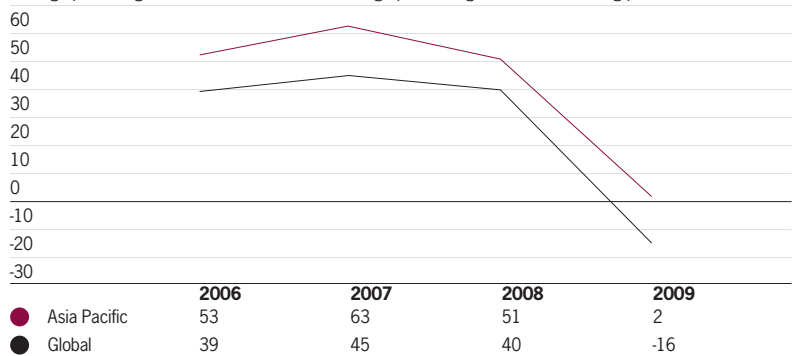
For the sixth consecutive year, India tops the league table with a net balance of +83 per cent (+95 per cent in 2008), whilst Japan remains at the bottom with a balance of -85 per cent.

Optimism/pessimism

- PHBs in Asia Pacific are much less optimistic about the 12 months ahead for their economies (+2 per cent) compared with 2008 (+51 per cent)
- the 49 percentage point drop in optimism across Asia Pacific is actually slightly lower than the global decline of 56 percentage points.

Figure 2: Outlook for the economy over the next 12 months: 2006-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2009



²for the purposes of IBR, the term 'Asia Pacific' refers to those Asia Pacific economies covered by our survey – Australia, mainland China, Hong Kong, India, Japan, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand and Vietnam.

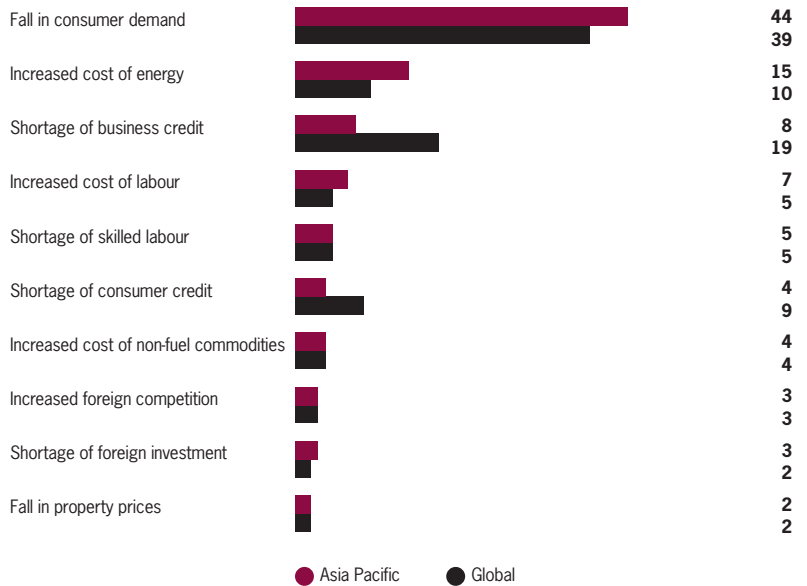
³the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

Greatest concern

- a fall in consumer demand is viewed as the greatest concern restricting expansion for PHBs in Asia Pacific (44 per cent); this is above the global average (39 per cent)
- a shortage of business credit is the greatest concern for almost one fifth of PHBs globally, but for just eight per cent of those in Asia Pacific.

Figure 3: Greatest concern in the next 12 months

Average percentage of businesses



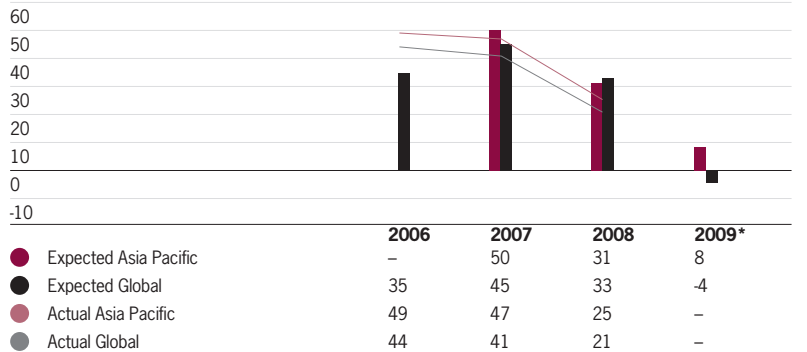
Source: Grant Thornton IBR 2009

Employment

- PHBs in Asia Pacific expect employment growth to decline across 2009, with the balance of businesses expecting employment to increase falling by 23 percentage points
- globally, PHBs expect employment growth to contract even more sharply (-4 per cent)
- actual employment growth across Asia Pacific in 2008 (+25 per cent) was slightly lower than expected (+31 per cent).

Figure 4: Employment history: 2006-2009

Balance percentage of businesses



*actual 2009 data will be documented in IBR 2010

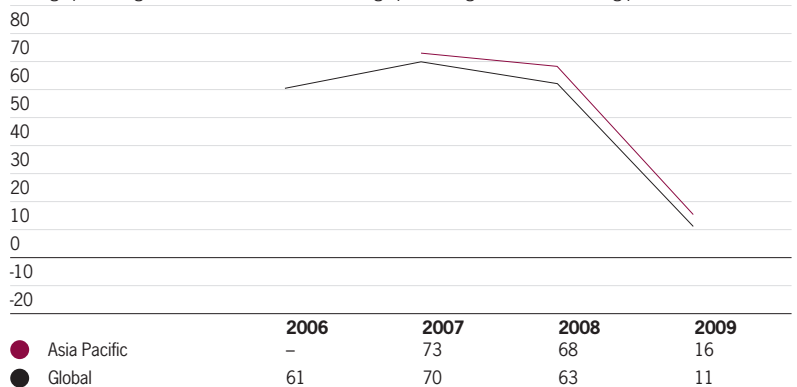
Source: Grant Thornton IBR 2009

Revenue expectations

- optimism levels regarding revenue prospects have plummeted in Asia Pacific this year, falling by 52 percentage points, from +68 per cent in 2008 to +16 per cent
- the global decline in revenue prospects is the largest in IBR history, also falling by 52 percentage points.

Figure 5: Revenue expectations: 2006-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



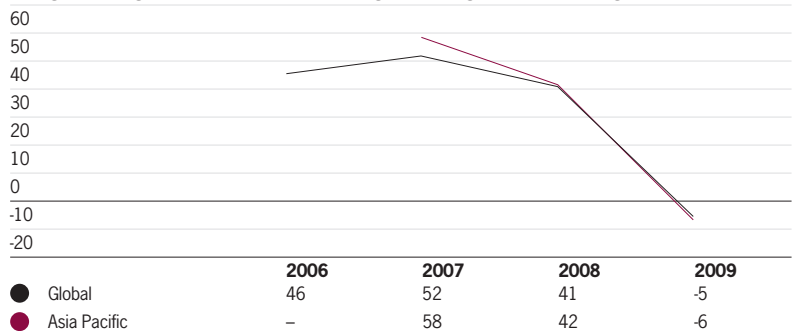
Source: Grant Thornton IBR 2009

Profitability expectations

- profitability expectations amongst PHBs in Asia Pacific also plummeted this year, falling by 48 percentage points, from +42 per cent in 2008 to -6 per cent
- the global decline in optimism regarding profitability across all countries is also the greatest in IBR history, falling by 46 percentage points to -5 per cent this year.

Figure 6: Profitability expectations: 2006-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



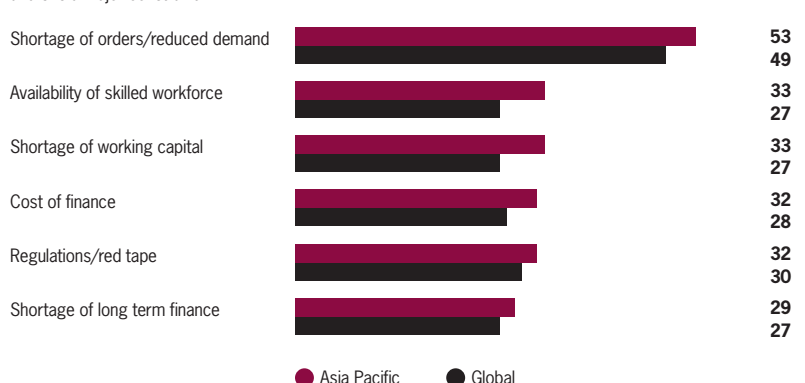
Source: Grant Thornton IBR 2009

Constraints

- a shortage of orders/reduced demand is viewed as the major constraint restricting expansion for PHBs in Asia Pacific in 2009; at 53 per cent this is marginally above the global average (49 per cent)
- financial constraints on expansion are of slightly more concern to PHBs in Asia Pacific when compared to the global average.

Figure 7: Constraints on expansion

Average percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint

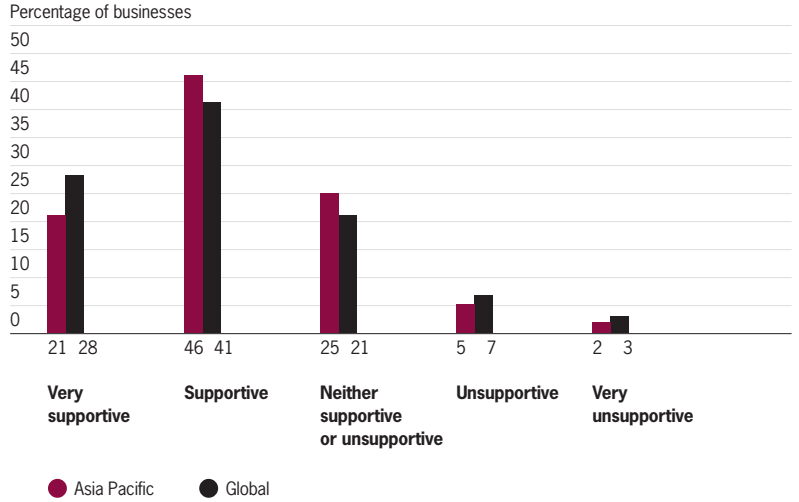


Source: Grant Thornton IBR 2009

Support of lender

- two-thirds of PHBs in Asia Pacific class lenders as supportive or very supportive towards their business; just below the global average of 69 per cent
- just seven per cent of PHBs in Asia Pacific identify their lenders as unsupportive or very unsupportive towards their business, slightly below the global average of ten per cent.

Figure 8: Level of support provided by lenders

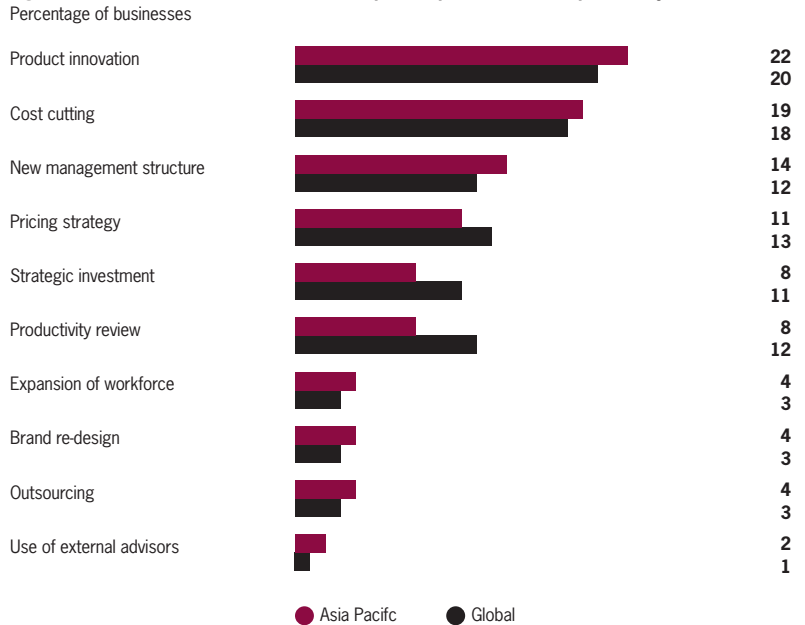


Source: Grant Thornton IBR 2009

Business planning

- similarly to PHBs globally, product innovation has been the most successful initiative introduced by businesses in Asia Pacific to increase profits (22 per cent)
- cost cutting is cited as the second most successful initiative in Asia Pacific (19 per cent), as it is globally (18 per cent).

Figure 9: Successful initiatives that have been put into place to increase profitability



Source: Grant Thornton IBR 2009

The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,200 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina	Japan
Armenia	Malaysia
Australia	Mexico
Belgium	Netherlands
Botswana	New Zealand
Brazil	Philippines
Canada	Poland
Chile	Russia
Mainland China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Kingdom
Ireland	United States
Italy	Vietnam



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