East Asia

International Business Report 2008 – Regional focus

The Grant Thornton IBR 2008 reveals that privately held businesses (PHBs) in most economies remain optimistic about economic prospects for the year ahead. For the fifth consecutive year, India tops the league table as the most optimistic economy with an optimism/pessimism balance[1] of +95 per cent with the Philippines joining them at the top for the first time (also +95 per cent). Japan is still at the bottom this year with a balance of -49 per cent.

Optimism amongst businesses in East Asia[2] is in line with the global average, although levels of optimism do vary throughout the East Asian economies. Overall optimism has fallen from 2007. This year +39 per cent of all East Asian businesses are positive about their economy compared to a balance of +54 per cent in 2007. However, East Asia continues to present a very mixed picture with optimism/pessimism balances ranging from +95 per cent in the Philippines to -49 per cent in Japan.

1 the balance is the proportion of businesses reporting they are optimistic less those reporting they are pessimistic.
2 for the purposes of IBR, the term 'East Asia' refers to those East Asian economies covered by our survey – mainland China, Hong Kong, Japan, Malaysia, the Philippines, Singapore, Taiwan, Thailand, Taiwan and Vietnam.

East Asian economies

In many economies, growth in 2007 was above what can be sustained over the medium-term. For East Asia as a whole, growth accelerated to 9.3 per cent, led by mainland China, which expanded by 11.4 per cent, its fastest rate in 13 years. Mainland China's share of regional GDP (measured at market exchange rates) continued to advance. Inflation remained in check in most of East Asia, except mainland China.

Signs of overheating initially appeared in quickly escalating asset prices but then spilled over into rising consumer prices. Price hikes in international commodity markets have aggravated inflation pressures. By November 2007, inflation had risen to an 11-year high in mainland China and had reached double digits in Vietnam by the end of the year. Current account surpluses widened again, and rose by over one per cent of GDP in East Asia relative to 2006. Mainland China posted a record current account surplus of $353 billion.

Business expectations/revenue

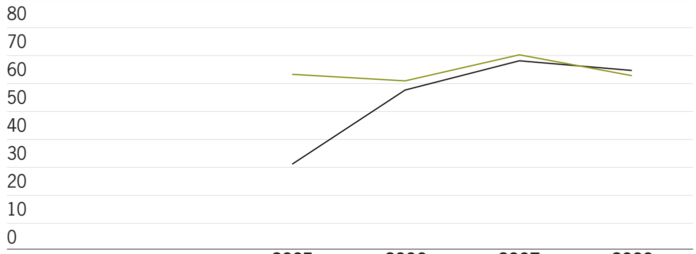
- Optimism levels amongst PHBs in East Asia regarding revenue prospects have fallen from +68 per cent in 2007 to +65 per cent in 2008.
- Optimism levels amongst PHBs globally have also dropped falling by seven per cent between 2007 and 2008.
- Levels of optimism regarding exports are just +6 per cent. This is well below the global average (+18 per cent) and is down from +19 per cent from 2007.

Employment

- Expected employment growth in East Asia has fallen from a balance of +44 per cent in 2007 to +20 per cent in 2008.
- Globally fewer PHBs expect employment to grow in 2008 (+33 per cent) compared to 2007 (+45 per cent).
- Actual reported employment growth in East Asia (+40 per cent) was lower than expected in 2007.

Figure 1: Revenue expectations for East Asia and the global average 2005-2008

Percentage balance of businesses indicating optimism against those indicating pessimism

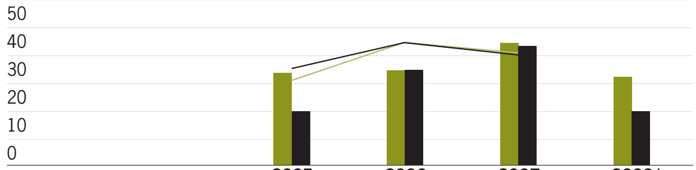


	2005	2006	2007	2008
Global	63	61	70	63
East Asia	31	58	68	65

Source: Grant Thornton IBR 2008

Figure 2: Employment history of East Asia and the global average 2005-2008

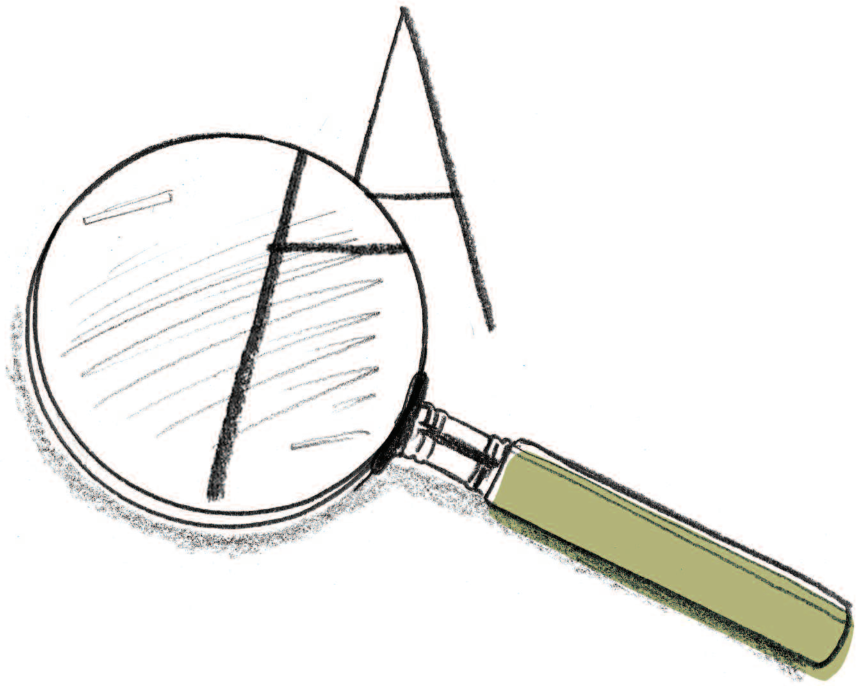
Percentage balance of businesses indicating optimism against those indicating pessimism



	2005	2006	2007	2008*
Expected Global	34	35	45	33
Expected East Asia	20	35	44	20
Actual Global	31	44	41	–
Actual East Asia	35	44	40	–

*2008 data will be documented in IBR 2009

Source: Grant Thornton IBR 2008



Constraints

- Shortage of orders/reduced demand is the constraint restricting expansion cited most by PHBs in East Asia (45 per cent).
- The largest constraint for businesses globally is a lack of availability of a skilled workforce (35 per cent). This factor is cited as a constraint by 37 per cent of PHBs in East Asia.
- PHBs in East Asia view all financial factors as far larger constraints on expansion than is true of businesses globally.

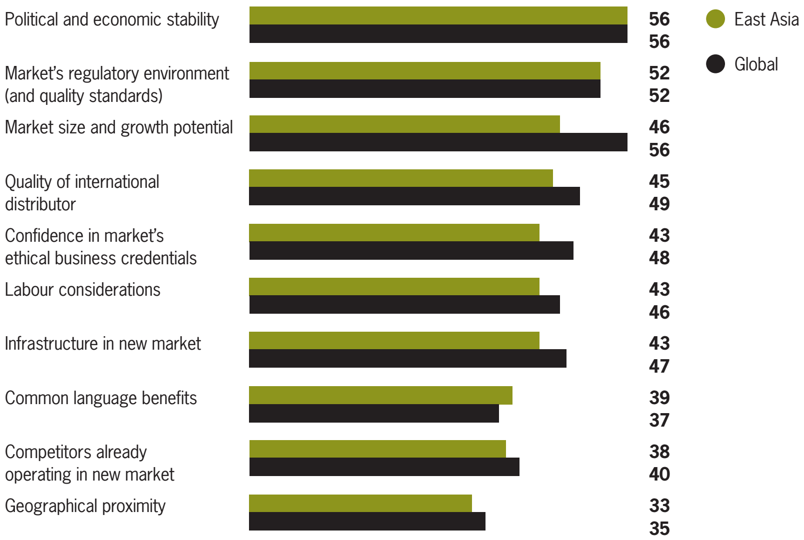
Emerging markets

- Similarly to businesses globally, the most important factor for PHBs in East Asia when determining whether to invest internationally is political and economic stability (56 per cent).
- 39 per cent of PHBs in East Asia export. This is the same level as businesses globally and is up from 30 per cent in 2007.
- 32 per cent of PHBs in East Asia import, which is slightly below the global average (39 per cent).
- Over half of PHBs in East Asia see their main source of competition coming nationally (53 per cent). This is above the global average (42 per cent).

Figure 3: Largest constraints on growth for East Asian businesses compared to the global 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

*excluding mainland China
Source: Grant Thornton IBR 2008

Figure 4: Importance of factors determining foreign investment
Percentage of businesses rating level 4 or 5 on a scale of 1 to 5 where 1 is a low priority and 5 is a high priority



Source: Grant Thornton IBR 2008

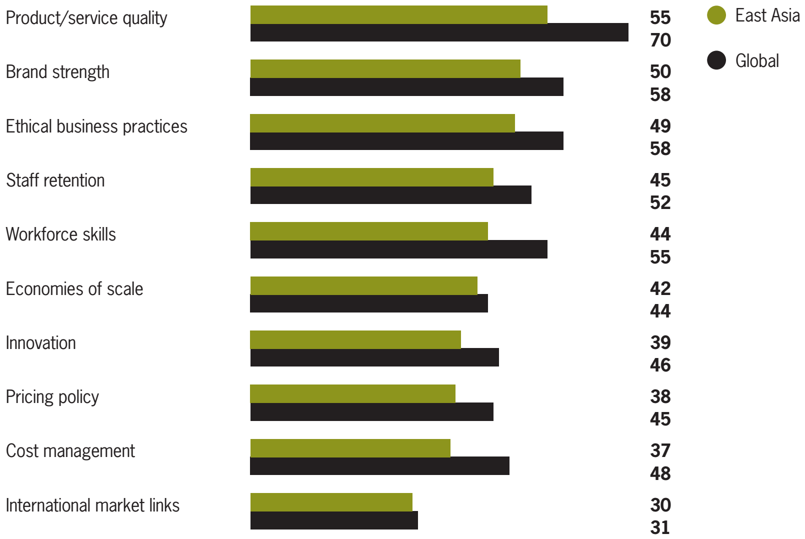
Competitiveness

- Similarly to businesses globally, PHBs in East Asia see their greatest source of competitive advantage as product/ service quality (55 per cent).
- 48 per cent of PHBs globally regard cost management as a source of competitive advantage, compared to 37 per cent of PHBs in East Asia.
- PHBs in East Asia rate all sources of competitive advantage below their respective global averages.

Corporate social responsibility (CSR)

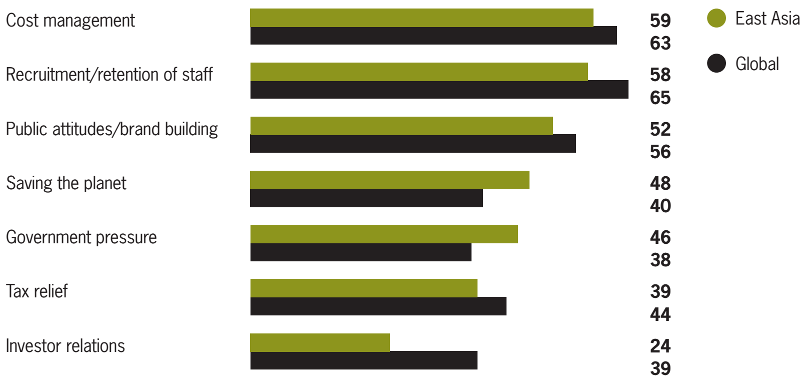
- Cost management is viewed as the biggest driver towards more ethical practices by PHBs in East Asia (59 per cent).
- 58 per cent of PHBs in East Asia provided internships/apprenticeships/work experience in the 2007, compared to 67 per cent of businesses globally.
- 61 per cent of PHBs in East Asia have incorporated their policies in to a written CSR document. This is above the global average (56 per cent).

Figure 5: Main sources of competitive advantage for East Asian businesses compared to the global average
Percentage of businesses rating strength of the advantage 4 or 5 on a scale of 1 to 5 where 1 is not very strong and 5 is very strong



Source: Grant Thornton IBR 2008

Figure 6: Importance of drivers to more ethical practices for East Asian businesses compared to the global average
Percentage of businesses rating the importance 4 or 5 on a scale of 1 to 5 where 1 is not very important and 5 is very important



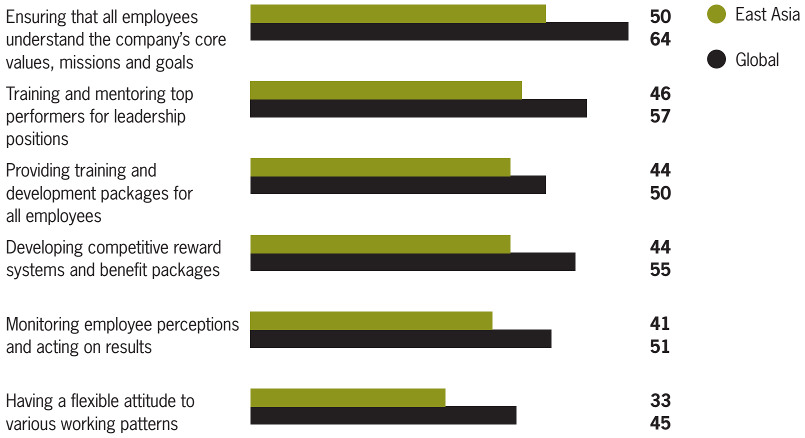
Source: Grant Thornton IBR 2008

Recruitment and retention

- Similarly to businesses globally, the balance of PHBs in East Asia more focused on retention than one year ago is +58 per cent.
- 50 per cent of PHBs in East Asia ensure that all employees understand the company's core values, mission and goals to aid recruitment/retention.
- The loss of business or orders to competitors is viewed as the major problem staff retention issues have caused PHBs in East Asia (42 per cent).
- It is costing 68 per cent of PHBs in East Asia significantly more to pay their staff than it was 12 months ago. This is above the global average (63 per cent).

Figure 7: Usage of recruitment and retention tools for East Asian businesses compared to the global average

Percentage of businesses rating the level 4 or 5 on a scale of 1 to 5 where 1 is not at all and 5 is a great deal



Source: Grant Thornton IBR 2008

Outlook for East Asian economies

Growth in East Asia is expected to decelerate in 2008 to 8.1 per cent. Fixed investment growth is expected to slow somewhat as a result of tighter monetary policy in mainland China. Rebalancing growth there toward domestic consumption and away from exports and investment in industry will depend on the success of a wide range of reforms.

Though the prospect of a recession in Japan looks less likely than in the United States, growth is expected to decelerate sharply there. Appreciation of the yen real exchange rates is likely to dent export growth, and consumer confidence is also ebbing.

East Asia remains tied to global activity through traditional trade channels and, increasingly, through its closer integration into international financial markets. Nevertheless, in an unsteady global environment, favourable policy conditions and the productivity growth associated with the region's modernisation and structural transformation will continue to sustain strong growth.

The Grant Thornton International Business Report (IBR) 2008 examines the attitudes, plans and trends of 7,800 privately held businesses in 34 economies across six continents. The Grant Thornton IBR builds on data collected in previous surveys and boasts 16-year trend data for European Union (EU) countries and six-year trend data for international economies.

To find out more about the Grant Thornton IBR and to obtain copies of reports, including focuses on emerging markets, corporate social responsibility and recruitment and retention, please visit www.internationalbusinessreport.com.

Focus reports are also available for each of the 34 participating economies, as well as regional and global summaries. You can also complete the questionnaire online and benchmark your answers against PHBs around the world by industry, size and geographical location.

Participating economies

Argentina
Armenia
Australia
Belgium
Botswana
Brazil
Canada
Mainland China
Denmark
France
Germany
Greece
Hong Kong
India
Ireland
Italy
Japan
Malaysia
Mexico
Netherlands
New Zealand
Philippines
Poland
Russia
Singapore
South Africa
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