The Economist Corporate Network

INVESTING IN AN ACCELERATING ASIA?

Insights from Asia's business leaders
on their outlook for 2013

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Companies are expecting their sales to grow twice as fast as the size of their workforce

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Western firms are changing the way they organize themselves in Asia

- In the past, many Western firms ran Asia Pacific as one management unit, with a regional HQ
- Today, the region has become too big and firms are carving up Asia Pacific into more manageable blocks. The countries most likely to be carved out of the Asia region to stand alone are China and Japan

Unprecedented gravitational shift

For Western firms, the share of global revenues coming from Asia continues to rise at staggering speed

- In 2011, Western firms said that Asia contributed 19% of their global revenues. In 2012, that figure rose to 22%
- By 2017, Western firms expect Asia to contribute 32%
- However, this will still be below Asia's estimated 35% share of the global economy in 2017

Communication failure?

Our survey shows that 44% of executives at Western firms feel they are under-investing in Asia relative to the region's opportunity

- External constraints have a part to play in explaining this picture, but more important are internal constraints within these companies
- Western management teams back in European or American headquarters often view the world through the lens of their low-growth home markets, and fail to recognise the brighter prospects elsewhere
- To combat this bias, more and more firms are moving senior management into Asia. Back in 2008, just 19% of Western firms had a member of their main board of directors living and working in Asia. In 2012, that number had risen to 38%
- Equally, though, executives in Asia need to get better at communicating the size of the opportunity in the region

Overheating hubs

Are Singapore and Hong Kong burning up?

- Our survey shows that companies are struggling in Singapore and Hong Kong with soaring property prices, rising cost of living concerns, shortages of staff and scarce school places
- Such issues are starting to cause some firms to think about moving their regional management teams out of these traditional hubs or else to look at new organisational structures

I. Introduction

Asia's business leaders share their perspectives on the region

Every year, the Economist Corporate Network—the emerging markets advisory business of The Economist Group—conducts a survey of its 500 clients in Asia Pacific. These 500 firms are some of the world's largest multinationals, and their collective views provide critical insights into the world's fastest growing region.

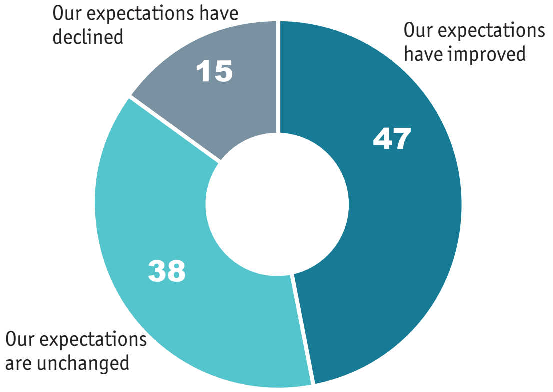
The latest Asia Business Outlook Survey (ABOS) was carried out in December 2012, and as such presents an up-to-the-minute view of Asia's most senior business leaders and decision-makers. How are companies performing in Asia Pacific? What are CEOs expecting in 2013? Which markets are becoming more attractive and which are losing their lustre? How are firms re-shaping their strategies and tackling their big operational challenges?

Some 207 respondents completed the survey, with an even spread from India in the west to Japan in the east, and from China in the north to Australia in the south. Respondents were all senior executives, many of them with overall responsibility for the Asia Pacific region. The majority came from Western multinational companies. (See Appendix on page 28 for more details about the survey respondents.)

II. Asia gathers speed

After a slowdown in 2012, executives expect better things in 2013—but only modestly so

Chart 1
Have your business expectations for Asia Pacific changed over the past year?
(%)



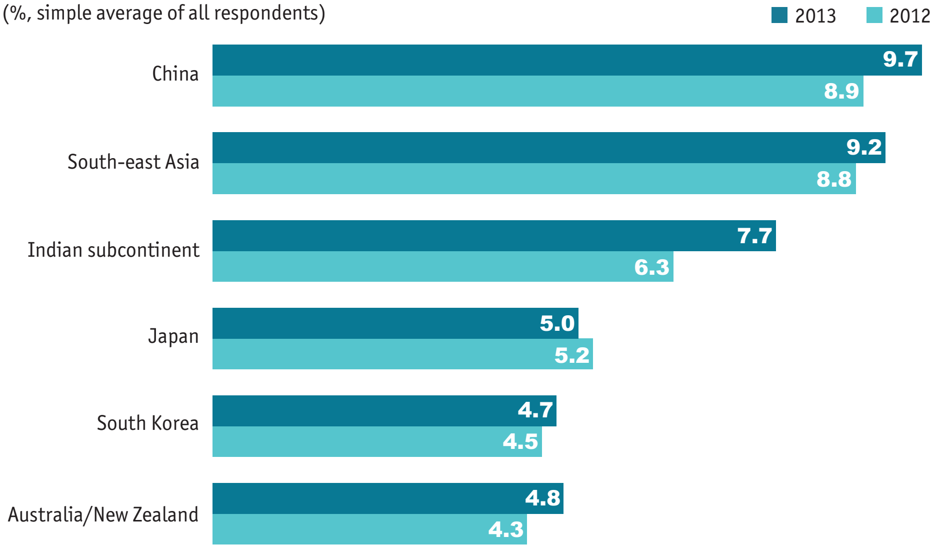
Source: *Economist Corporate Network ABOS 2013*

Few people would declare the year 2012 a disaster. Equally, though, few would declare it a great success either. The global economy slowed during the year, and many companies saw their rate of growth in Asia slow too.

But standing on the cusp of 2013, the mood appears to be improving. Respondents to our latest ABOS survey are certainly feeling brighter about the future. At a high level, 47% of executives say their expectations for Asia have improved today compared to a year ago. Only 15% say their expectations have fallen. (See chart 1.)

What's more, our survey shows that companies are expecting their sales to grow faster in 2013 than they did in 2012. Indeed, for every territory—with the exception of Japan—executives are expecting growth rates to pick up, albeit relatively modestly. (See chart 2.)

Chart 2
How did your revenues grow (or decline) in 2012 and what do you expect in 2013?
(%, simple average of all respondents)



Source: *Economist Corporate Network ABOS 2013*

Expectations among survey respondents are highest for China. Indeed, one of the broad themes of this report is how important China is to company plans, in spite of the many challenges that respondents say they increasingly face. Not only is it the biggest market in Asia, and the fastest growing, it is also the number one investment destination for companies (see section 6, "Investment priorities for 2013", on page 12). For many firms, China is reaching a point where it is being managed separately from the rest of Asia Pacific (see section 10, "Asia gets too big to manage", on page 19).

The second fastest growing market for company sales is not India, but South-east Asia. While India's economy continues to disappoint, South-east Asia is showing surprising resilience in the face of a relatively soft global economy.

The lowest expectations for sales growth are reserved for Australia. The country's commodity export story has weakened a little as prices for iron ore and coal have fallen. And the domestic economy remains relatively subdued. Investment into the mining sector—a big contributor to recent domestic growth—is falling. And the strong Australian dollar—driven up by commodity exports—is hurting domestic industry, making it cheaper to import goods than to make them locally.

III. But is it enough?

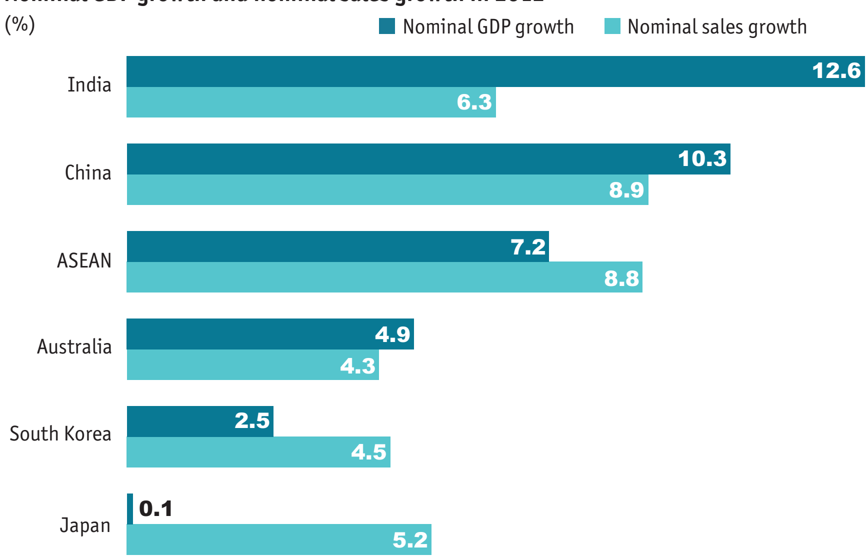
Are companies growing too slowly?

Interestingly, the growth rates that companies are experiencing in many markets in Asia are less than the underlying rates of economic growth. This is especially true for India and China. Chart 3 shows nominal company sales growth (ie, a combination of price rises and increasing volumes) in 2012 plotted against nominal GDP growth (which includes inflation). In India, for example, nominal GDP grew by 12.6% in 2012, whereas nominal sales only grew by 6.3% for the companies in our survey.

One important thought follows from this observation. While the growth rates that major multinationals are achieving in their emerging markets might look impressive by global standards (especially relative to a market like Europe), they are not as good as they could or should be.

Why might this be the case? It could be that the strength and quality of competition in the markets of Asia Pacific is heating up. Local Asian firms are rising rapidly, and may enjoy domestic advantages, possibly through better cultural understanding, more appropriate business models, better relationships with government, entrenched protectionism, or perhaps less restrictions around how they win new business.

Chart 3
Nominal GDP growth and nominal sales growth in 2012



Source: *Economist Corporate Network ABOS 2013*

Equally, it could be that foreign firms are under-investing in their business in order to capture the benefits of Asia's rapid economic growth. Our survey certainly presents some evidence of this under-investment (see section 9, "Communication failure?", on page 17).

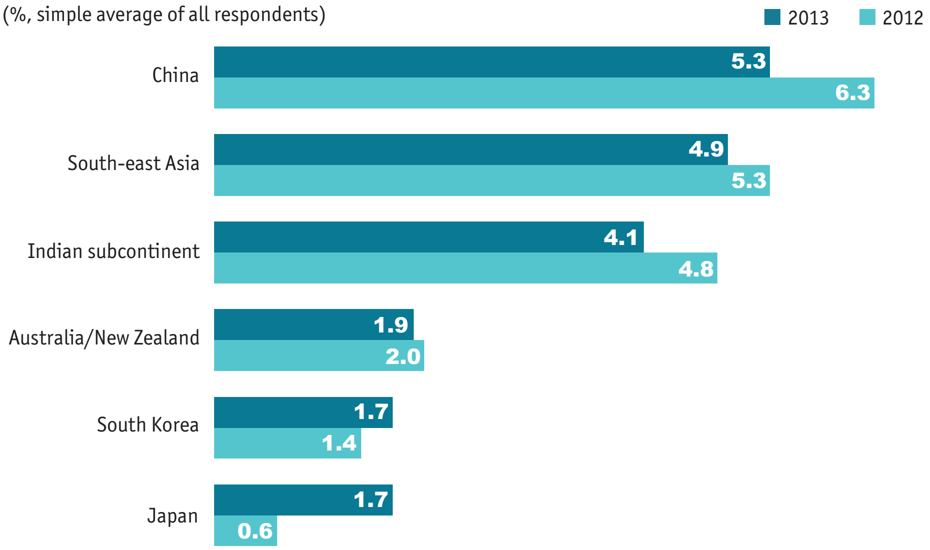
However, this growth under-achievement is not universally true across Asia. In South-east Asia, the companies in our survey report that sales are growing more rapidly than GDP. Many firms tell us that the ASEAN markets are much easier places to do business than China and India.

IV. Asia's productivity challenge

Companies are expecting sales to grow much faster than the size of their workforce

Across Asia, most companies expect their revenues to grow in 2013. Not surprisingly, most companies also expect the size of their workforce to grow in 2013. This is true for all markets, but firms will be hiring most aggressively in China, South-east Asia, and India—the places where growth expectations are highest. (See chart 4.)

Chart 4
How did the size of your workforce grow (or decline) in 2012 and what do you expect in 2013?
(%, simple average of all respondents)

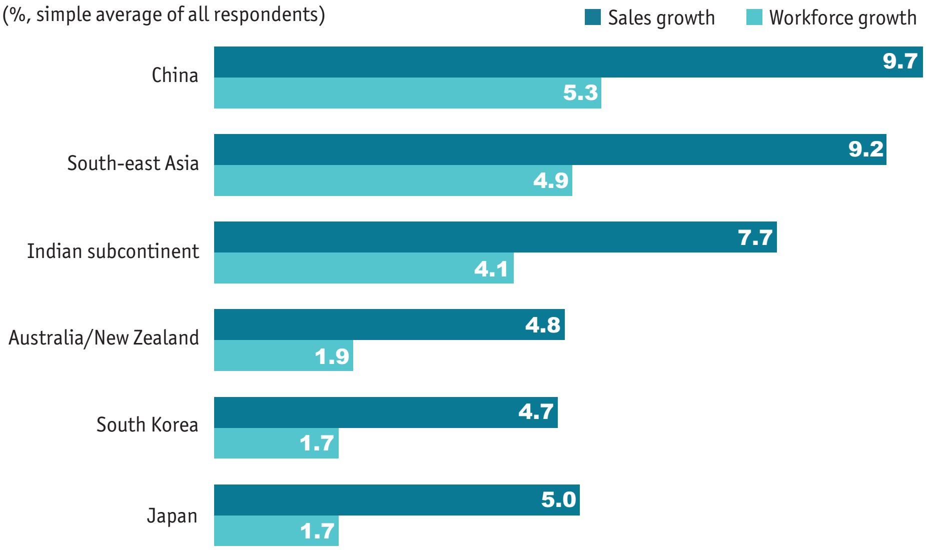


Source: *Economist Corporate Network ABOS 2013*

Importantly, however, companies are expecting their revenues to grow at a faster rate than the size of their workforce. Indeed, for most parts of Asia, the expected growth rate for revenues in 2013 is around twice the expected growth rate for staff numbers. (See chart 5.)

This implies that firms are expecting their revenue per worker to increase in 2013. Two possible conclusions follow from this observation. One possibility is that firms expect most of the increase in their revenues to come from price rises, while the volume of underlying business increases at the same rate as the growth in their workforce. Alternatively, if price increases are only modest, then that means firms are expecting the productivity of their workers to rise.

Chart 5
Expectations for sales growth and workforce growth in 2013
(%, simple average of all respondents)



Source: *Economist Corporate Network ABOS 2013*

Our interpretation is that the latter story—growth through productivity—is more likely. Take China. Our survey shows that companies are expecting their sales to grow by 9.7% in 2013, but for their workforce to grow by just 5.3%. Our expectation for inflation (a proxy for price rises) in 2013 is around 3%. This implies that labour productivity will need to rise in order to meet the sales target.

What's more, anecdotally we have had many conversations with companies over the past year suggesting that improving labour productivity is a priority. Wages in most parts of Asia Pacific are rising rapidly. Companies can no longer rely on business models built on big pools of cheap labour. Instead, they are investing heavily in capital and technology. Many firms—especially those in manufacturing—are shifting towards greater automation, thereby reducing the need to hire more workers. For instance, Foxconn, the world's largest maker of electronic components, announced in 2011 that it would deploy as many as one million robots in its Chinese factories by 2013 to do much of the work currently done by human hands.

However, raising worker productivity is easier said than done. This will surely be an ever more pressing issue for companies in Asia in the years ahead.

V. On the money?

Executives had mixed fortunes when it came to predicting how their companies would perform in 2012

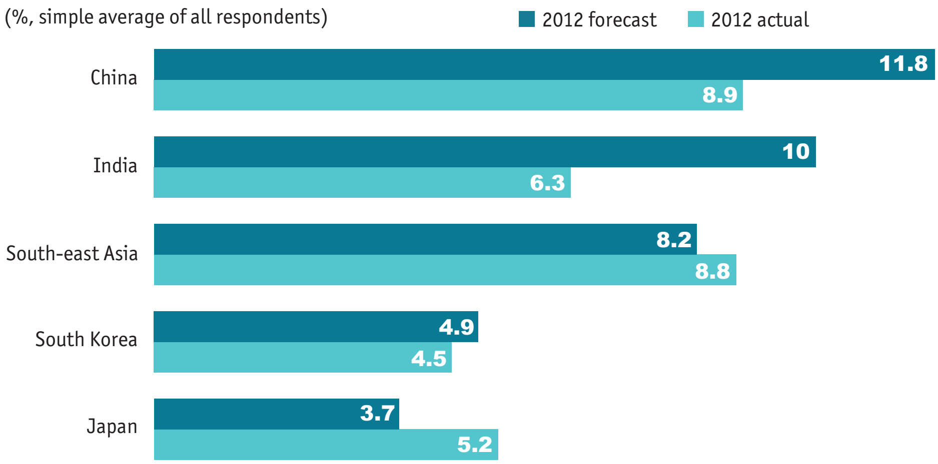
Economists are often encouraged to back-test their forecasts to check the accuracy of their predictions. But what about the 500 companies in the Economist Corporate Network? How good are they at predicting the future of their business?

To find out, we looked back at our ABOS survey a year ago, conducted in December 2011. We wanted to see what executives were forecasting for their sales growth at the start of 2012, and then to compare those forecasts with the actual sales performance at the end of 2012. The results are shown in chart 6.

For some parts of Asia, the results were extremely accurate, notably in South-east Asia and South Korea. In Japan, executives under-estimated their sales performance, perhaps because they made their forecasts when the country was still under the shadow of the tsunami and earthquake that struck in 2011. In the end, the reconstruction and rebuilding activities in 2012 led to a year of strong economic growth for Japan.

The biggest forecasting error made by executives was in India. Companies were expecting average sales growth of 10%, but the actual result was a much poorer 6.3%. India's weak economic performance caught most observers by surprise, so it's to be expected that companies were also overly-optimistic.

Chart 6
Sales growth forecast vs actual sales growth for 2012
(%, simple average of all respondents)



Source: *Economist Corporate Network ABOS 2013*

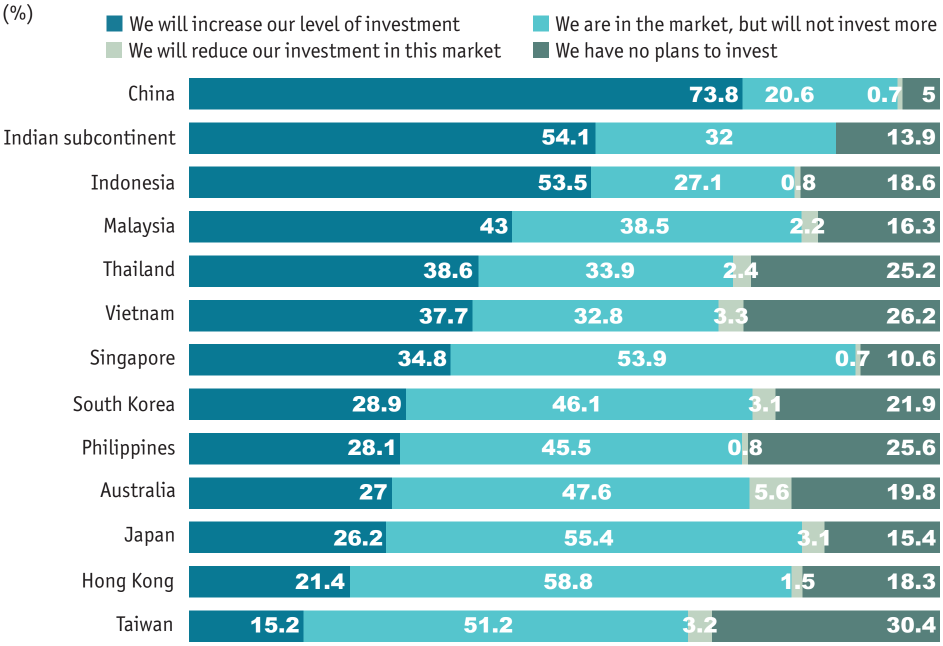
VI. Investment priorities in 2013

China and India remain the top two investment destinations. Indonesia is a close third, while Vietnam has lost its shine

Given the economic growth rates in Asia Pacific, the region is clearly a place of great promise. But which markets and countries are attracting the greatest commitments for new investment?

Top of the list of investment priorities is China. (See chart 7.) As the world's second largest economy, and with growth rates that remain impressive, China's gravitational pull appears undiminished. Nearly three-quarters of the companies in our survey say they will increase their investment there in 2013.

Chart 7
How will your level of investment change in the following markets during 2013?
(%)



Source: *Economist Corporate Network ABOS 2013*

This is likely driven in part by the increasing geographical diversification of the China opportunity. Production centres are drifting inland, and new markets are rising rapidly in Tier Two, Three and Four cities, most of which lie inland from the established markets of China's eastern and southern provinces. Foreign firms have many gripes in China, from rapidly rising wages, to entrenched favouritism towards local competitors. But such gripes are not yet translating into reduced appetite for investing there.

After China, investment priorities in this year's survey diverge slightly from last year. India has traditionally been neck-and-neck with China on the priority list, but this year has fallen back: only 54% of respondents indicate they will increase spending levels there. India's government has in recent months been applying policy tourniquets to staunch the ebbing economy (particularly around foreign investment legislation), but this may have been too little, too late to sway decision makers at multinational firms in their 2013 planning cycle.

Indonesia continues to rank highly amongst Economist Corporate Network companies, and is barely distinguishable from India in terms of attractiveness. However, while India has been scrambling to make itself more friendly to foreign investors in the second half of 2012, Indonesia is seemingly walking in the opposite direction. Over the course of 2012, the government imposed taxes on the mining sector, proposed limits on foreign ownership in the mining and banking sectors, introduced a raft of minimum wage increases, and dismantled the state regulator for oil and gas production—casting doubt over the status of foreign firms holding oil exploration concessions. All in all, the character of the foreign investment climate in Indonesia has been deteriorating. And yet foreign firms continue to increase their commitment to the country. Given economic growth that is running at a reliable 6% to 7% a year, and a huge domestic population of some 240m, many firms conclude that they simply can't afford to ignore the country.

Most other South-east Asian countries are also proving to be interesting investment targets. But two stand out for being somewhat out of favour. The first is the Philippines, which is attracting the lowest amount of new investment of any ASEAN market. This seems surprising given the extent to which the country is performing economically (it was the third fastest-growing economy in Asia in 2012, behind Mongolia and China). Just as important, the president, Benigno Aquino, is making vigorous attempts to dismantle corruption, introduce economic reforms, and improve the business landscape. The country has a world-class business process outsourcing (BPO) industry that is attracting significant investment in back offices and shared service facilities from around the world. However, call centres and the like are relatively capital-light operations (beyond the real estate and telecoms infrastructure). Outside the BPO space, the Philippines has yet to persuade investors that the country is changing for the better.

The second surprise in South-east Asia is Vietnam. Over the past two years, the country ranked just behind the "big three" of China, India and Indonesia, and has long been a favorite antidote to rising manufacturing costs in China. However, Vietnam finds itself dropping to sixth place this year, undoubtedly the result of the government's mismanagement of the economy. Clients of the Economist Corporate Network complain of a credit crunch which makes working capital problematic, incomplete domestic supply chains which still require importing components and materials from China, troublesome wage inflation, and insufficient road and port infrastructure. While Vietnam does have a lot to offer foreign investors, the story has lost much of its shine, especially as an alternative location to China for manufacturing.

VII. Frontier, or fringe?

Do Myanmar, Mongolia, Cambodia and Laos hold any promise?

This year, we asked Economist Corporate Network members to describe their level of interest in Asia's frontier markets. Many have become subject to intense scrutiny and discussion given their untapped potential and/or resource wealth.

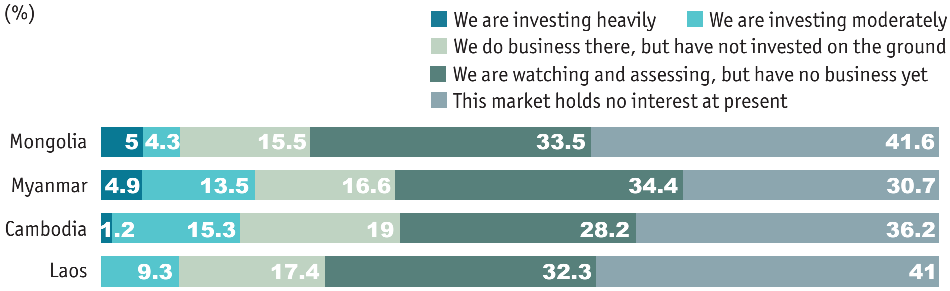
Mongolia's mining boom has made it the second-fastest expanding economy in the world in 2012 (and likely to be the fastest growing in 2013). Laos' aspiration to use its massive hydropower capacity to become "the battery of Southeast Asia" is also an exciting natural resource story. Cambodia is being seen by many as an extension (or replacement) to the export manufacturing clusters of Thailand and Vietnam.

But it is really Myanmar that has captured the global business imagination this year. The huge geopolitical cloud of isolation hanging over the country hasn't completely dissipated. But substantial political reform coupled with endorsements from the likes of Barack Obama (following an historic trip there in 2012) mean that this country of nearly 60m has the potential to infuse ASEAN with a tremendous new consumer market opportunity, and a new source of competitive manufacturing labour.

However, while these new opportunity markets are on everyone's minds, most multinationals haven't yet committed resources to them. Only 5% of respondents say they are investing heavily in Mongolia and/or Myanmar, and little more than 10% say that they are investing moderately in any of these markets. (See chart 8.)

This may soon change, for while only between a quarter and a third of respondents say they are doing some sort of business in these markets, another third are watching closely and assessing the opportunity.

Chart 8
How interested is your company in the following frontier markets?
(%)



Source: *Economist Corporate Network ABOS 2013*

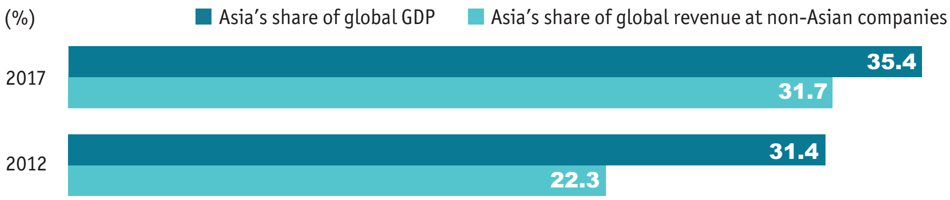
VIII. Unprecedented gravitational shift

The share of global revenues coming from Asia Pacific for multinational firms is rising at warp speed

As in years past, the share of revenues coming from Asia Pacific at non-Asian companies has again risen year-on-year. In 2011 the average ABOS respondent at a non-Asian company said the percentage of global revenue derived from the region was 19%. This year it was 22%.

However, as Chart 9 shows, Asia's share of global GDP is substantially higher than Asia's share of global revenues for non-Asian firms. However, in five years' time, respondents say they expect this gap to close. By 2017, executives expect Asia Pacific to contribute 32% of their global revenues (compared to the region's 35% share of the global economy).

Chart 9
What percentage of your global revenues came from Asia Pacific in 2012 and what will it be in 2017?

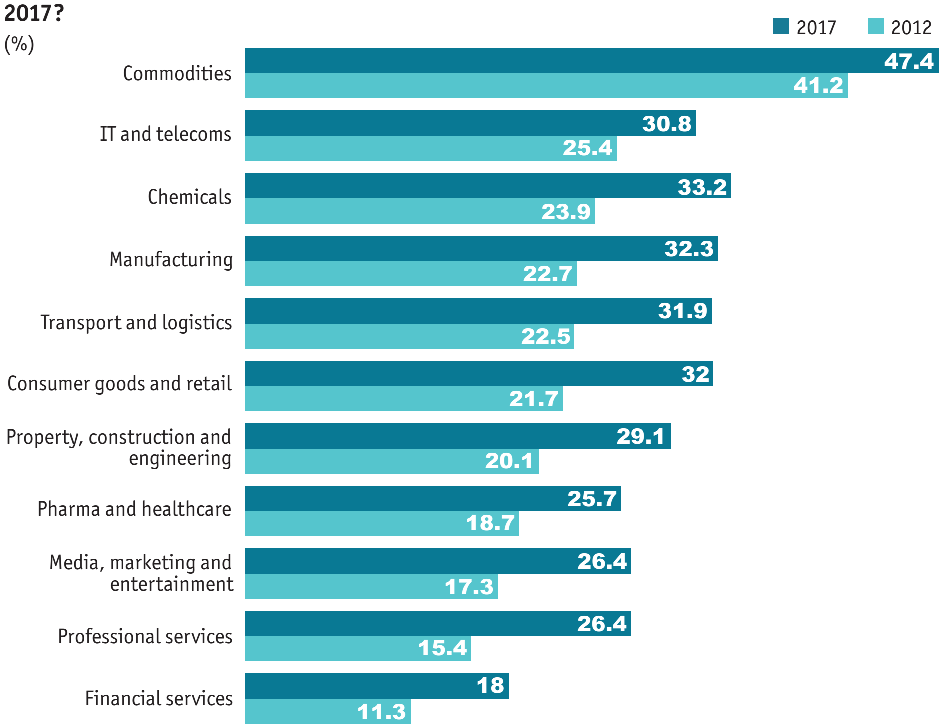


Note: Data is only for non-Asian companies
Source: *Economist Corporate Network ABOS 2013*

Never in economic history has one part of the world gained so much share of the global economic pie at such staggering speed. Non-Asian companies are clearly expecting not only to keep pace with Asia's rapid growth, but to grow even faster, and so close the gap between Asia's share of global GDP and Asia's share of their sales.

Sectorally, the firms that estimate the biggest future gains are those which demonstrate the future potential of a maturing Asian business landscape. (See chart 10.) Over the past few years, those industries that have benefitted from Asia's blistering growth have been those that traditionally fuel big developing economies: the commodities sector (respondents there estimate that over 40% of their global revenue already comes from Asia), telecoms, chemicals and of course manufacturing. But in five years' time, it is the professional services sector, media and pharmaceuticals which report the biggest estimated proportional jump in their Asian share of global business. Interestingly, the financial services sector reports the lowest share, both now (understandable given the gloomy current state of global finance) and in five years' time.

Chart 10
What percentage of your global revenues came from Asia Pacific in 2012 and what will it be in 2017?
(%)



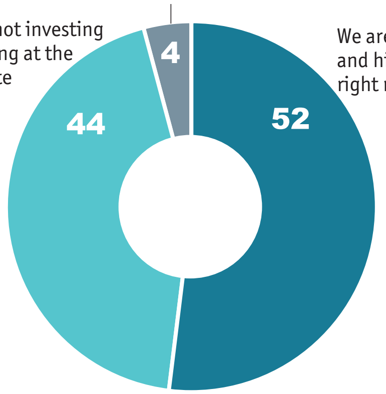
Note: Data is only for non-Asian companies
Source: *Economist Corporate Network ABOS 2013*

IX. Communication failure?

Executives at Western firms feel they are under-investing in Asia. Why is that?

Our survey reveals that executives at non-Asian firms feel they are under-investing in the region. Indeed, 44% of respondents say they are under-investing and under-hiring in order to capture the opportunity that Asia Pacific presents. (See chart 11.)

Chart 11
Is your company investing and hiring at the right rate to capture the opportunity in Asia Pacific?
(%)



Note: Data is only for non-Asian companies
Source: *Economist Corporate Network ABOS 2013*

Why is it that Western firms are not investing enough in Asia? There are certainly external constraints: investment climates remain murky in many markets, and mercurial regulations have a tendency to swing wildly from inviting to protectionist. Human capital is also hard to find and retain, particularly in key "hub" markets where regional strategy and direction is forged.

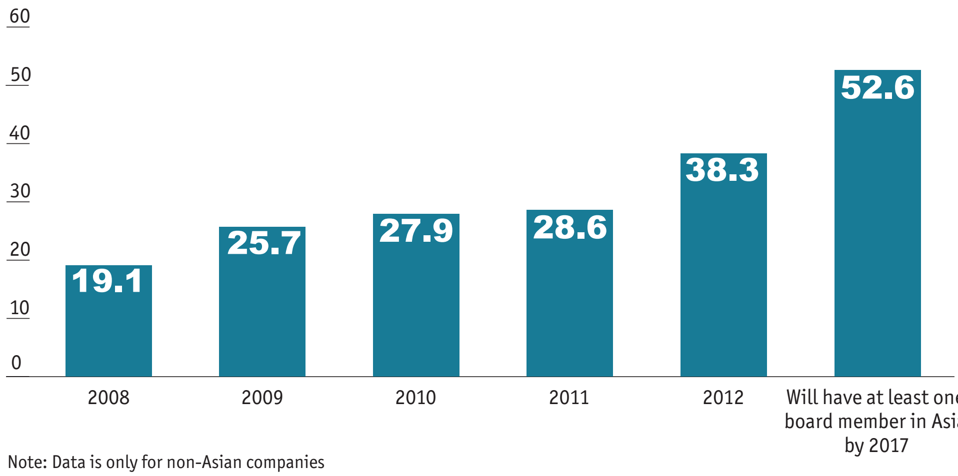
But respondents may also face constraints from within their firms. A common issue spoken of by Economist Corporate Network members is that weak economic conditions in the "home" market may dampen the appetite from HQ for expenditure and expansion everywhere else too. Many feel that global leadership teams have a tendency to regard the world through the lens of their home market, and thus fail to recognise that many parts of the world offer considerably brighter prospects.

To overcome the over-caution that results from anchoring global business decisions in slow markets, many Western firms have decided to uproot senior decision making structures and base them where the growth is. For example, Schneider Electric and KPMG both have their global heads based in Hong Kong. The CEOs of "growth markets" globally for GE and IBM sit in Hong Kong and Shanghai respectively.

Our survey suggests that such trends are happening at an accelerating pace. For example, the number of non-Asian companies with a member of their main board of directors living and working in Asia continues to increase year-on-year. Back in 2008, just 19% of non-Asian companies had a board member based in Asia. But this year's

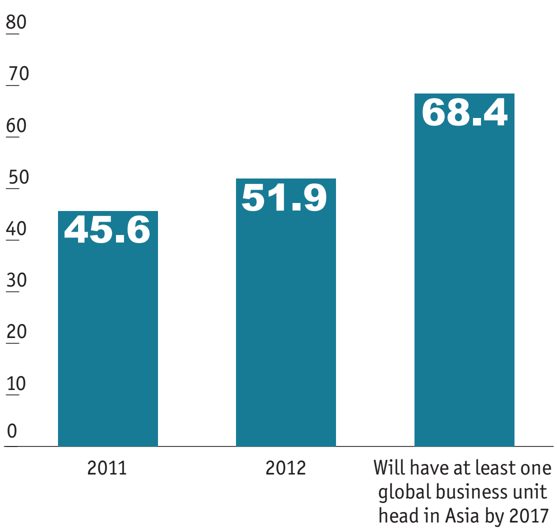
ABOS survey shows that figure has risen to 38%. By 2017, executives predict the number will increase still further, with 52% of companies expecting to have a board member in the region. (See chart 12.)

Chart 12
Are any members of your firm's main board of directors based in Asia?
(% of respondents answering yes)



Note: Data is only for non-Asian companies
Source: *Economist Corporate Network ABOS 2013*

Chart 13
Are any of your firm's global business unit heads based in Asia?
(% of respondents answering yes)



Note: Data is only for non-Asian companies
Source: Economist Corporate Network ABOS 2013

A similar pattern is clear in other types of senior role. For example, more and more companies are moving the global heads of individual business units out to Asia. In 2011, 46% of non-Asian companies said they had a global business unit head living and working in Asia. By 2012, that percentage had risen to 52%. And by 2017, companies expect it to be 68%. (See chart 13.)

Yet not all issues can be addressed by proximity, and it is impossible for a CEO to be on top of every growth market at once. Part of the solution lies with being better at communicating the Asian opportunity up the decision chain. Many members of the Economist Corporate Network do this through focusing on specific projects—a new country market, or a locally-developed product innovation—and finding champions who can communicate specific Asia-based success stories more broadly across the organisation. Asia's wide and diverse opportunity landscape requires local leaders to bring specific tangible success stories to light so global leadership can grasp the broader opportunity.

X. Asia gets too big to manage

Western firms change the way they organise themselves in Asia

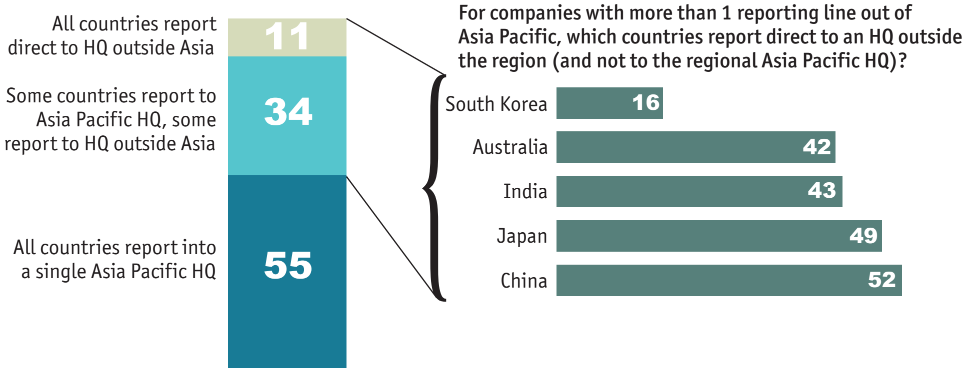
For a large multinational company, it makes sense to divide up the world into smaller chunks for the purposes of management and reporting. Often that means grouping together countries that are geographically close to each other into a distinct management unit. Some companies prefer to group their markets by other criteria, such as the level of economic development.

In Asia Pacific, the challenge of deciding how to carve up the region into meaningful units is especially hard. For one, the region is huge. The area from Pakistan in the west to Australia in the east represents more than a third of the global economy and more than half of its population. For another, Asia is incredibly diverse. What works in China doesn't work in India.

In the recent past, many firms ran the region as one single management unit. But today this is changing. As the Asia Pacific region grows, and becomes an ever bigger part of the global economy, so companies are starting to break up their Asia Pacific management units into smaller more manageable blocks.

Our survey suggests that 55% of Western firms still run the Asia Pacific region as one territory, with all countries reporting to a regional hub that in turn reports to a global

Chart 14
Organisational structures for Western firms operating in Asia Pacific
(% of respondents)



Note: Data includes only respondents at companies with a global HQ outside Asia Pacific
Source: *Economist Corporate Network ABOS 2013*

HQ in Europe or North America. However, 45% of companies have decided to subdivide the region, and now have more than one reporting line out of Asia. (See chart 14.)

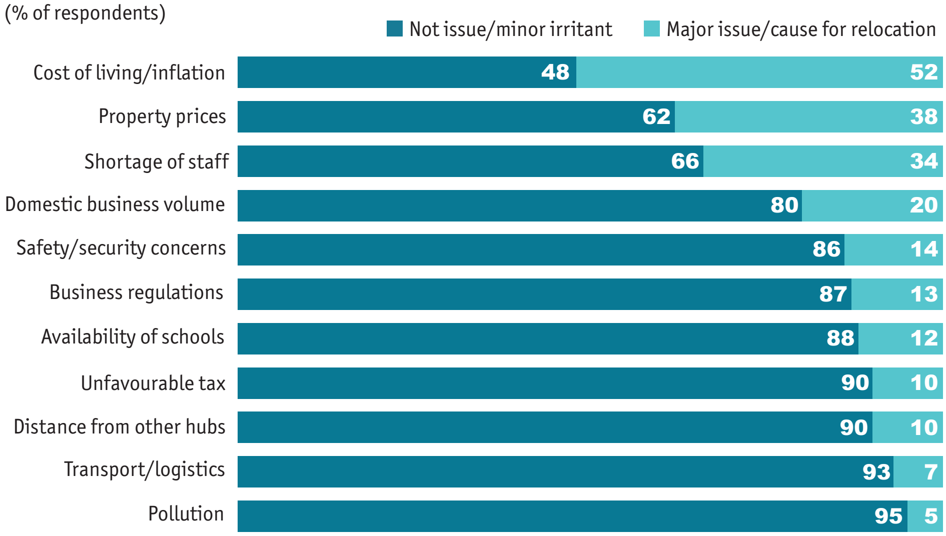
In cases where companies have carved certain markets out of their pan-Asia management hub, which ones are now standing alone and reporting direct to an HQ outside the region? The most popular choice is China. For many firms, China has reached a critical mass where it needs an independent management team that is separate from managing the rest of Asia. In second place is Japan.

XI. Overheating hubs

Are Singapore and Hong Kong burning up?

As companies focus ever more heavily on Asia for growth, they are committing more and more resources to the region. A lot of that investment finds its way into Singapore and Hong Kong as the traditional centres for running regional management hubs. Yet, both places are now struggling with serious inflation, cost of living issues, soaring property prices, scarce school places, and shortages of staff. In this year's survey, we asked Economist Corporate Network members to assess whether these issues where material constraints on their ability to operate—and whether they were serious enough to cause managers to consider decamping to other locations. (See charts 15 and 16.)

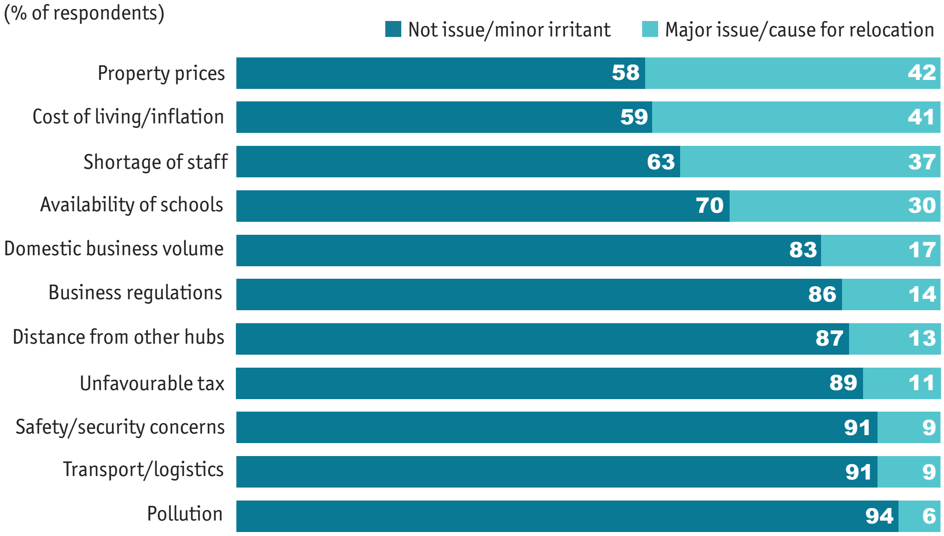
Chart 15
For companies with a regional HQ in Singapore, are any of these issues impacting the business operations, or the location, of your Asia HQ?
(% of respondents)



Source: *Economist Corporate Network ABOS 2013*

In the main, issues such as expensive property and the soaring living costs suggest strong demand by companies to be in these centres—meaning that both Singapore and Hong Kong remain attractive places to create platforms for managing regional business. And, as discussed above, enough global firms are posting leaders with global

Chart 16
For companies with a regional HQ in Hong Kong, are any of these issues impacting the business operations, or the location, of your Asia HQ?
(% of respondents)



Source: *Economist Corporate Network ABOS 2013*

roles to Asia to conclude that hubs will continue to retain important roles in company organisational charts for some time to come.

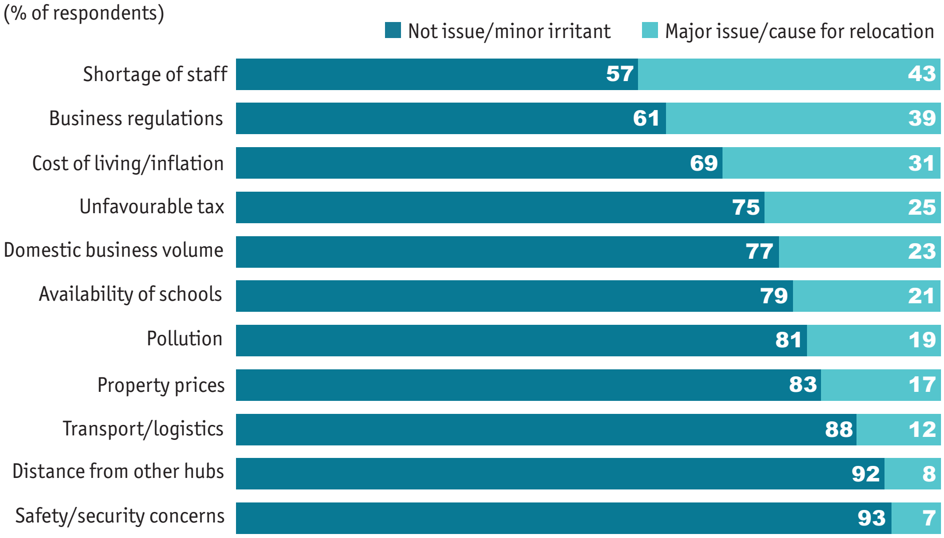
But in Singapore specifically, more than half of respondents based there consider rising costs to be either a major constraint or a reason to relocate—and nearly 40% consider property prices as having the same impact. The problem is almost as acute in Hong Kong, perhaps only mitigated by the fact that costs have long been so high there that firms have already recalibrated their expectations, while Singapore's rising costs are a more recent shock.

Will this cause companies to look at other places to put their regional management hubs? In all likelihood not. It is still vitally important to have a critical mass of management in places where travel is convenient and the financial system works well. However, that doesn't mean that firms are doing nothing. Anecdotally, some firms are moving parts of their operations that don't need to be in their regional hubs into less expensive cities in other countries. Other firms are exploring more distributed management models, spreading their senior team across several markets, rather than putting them all in one place.

One factor that might be critical in locating key talent is the issue of school placements in Hong Kong. Singapore is also a tight market for international schools, but with typically adroit planning, the city-state has worked at reducing this bottleneck. In Hong Kong, where international school waiting lists run into the thousands of places, some 30% of respondents indicate that it is a major impediment, perhaps worthy of a relocation decision. Interestingly, one traditional complaint in Hong Kong is that pollution is a serious issue for multinational companies, and yet 94% of Hong Kong-based managers in our survey said it was at worst a minor irritant.

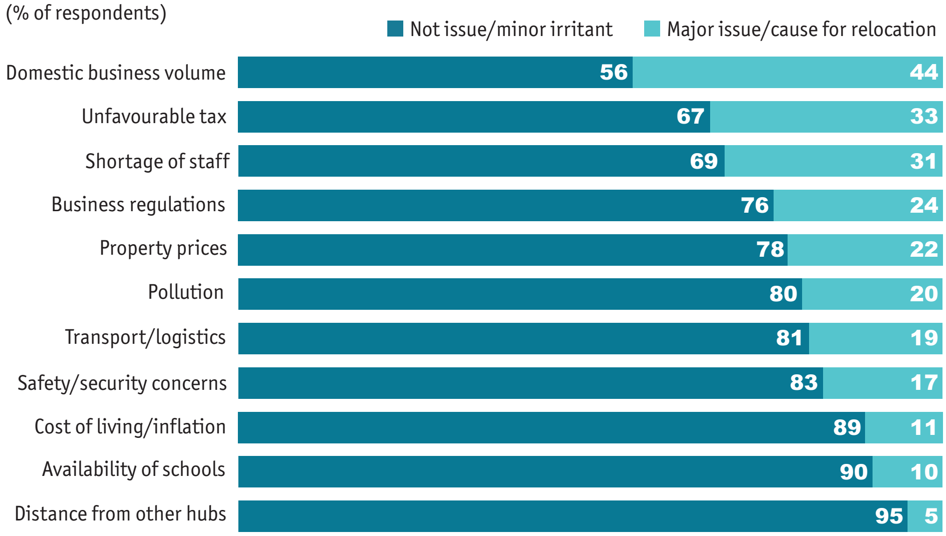
For companies that are considering a new location for their management team, how do other centres stack up? In our survey, we also asked about Shanghai, Tokyo and Kuala Lumpur. No city is perfect, but these other places do offer alternatives. (See charts 17, 18 and 19.)

Chart 17
For companies with a regional HQ in Shanghai, are any of these issues impacting the business operations, or the location, of your Asia HQ?
(% of respondents)



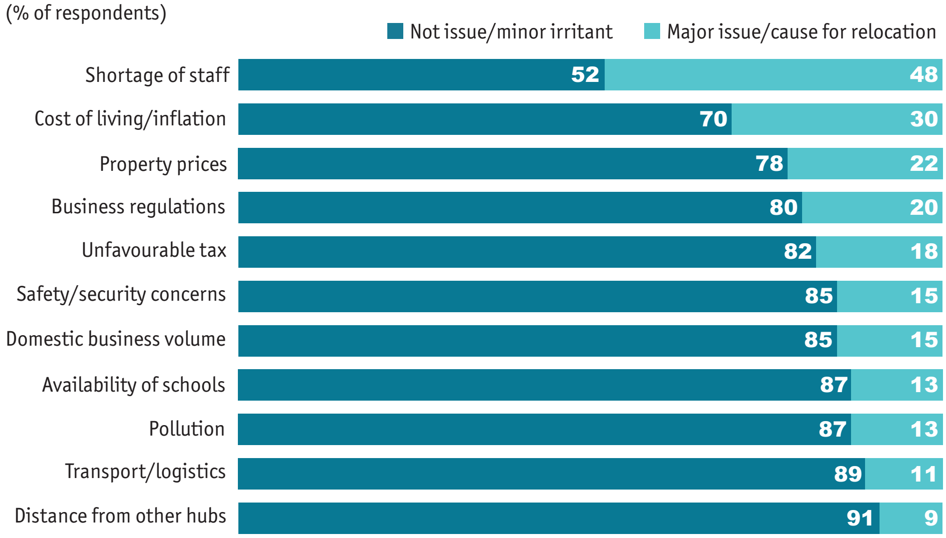
Source: *Economist Corporate Network ABOS 2013*

Chart 18
For companies with a regional HQ in Tokyo, are any of these issues impacting the business operations, or the location, of your Asia HQ?
(% of respondents)



Source: *Economist Corporate Network ABOS 2013*

Chart 19
For companies with a regional HQ in Kuala Lumpur, are any of these issues impacting the business operations, or the location, of your Asia HQ?
(% of respondents)



Source: *Economist Corporate Network ABOS 2013*

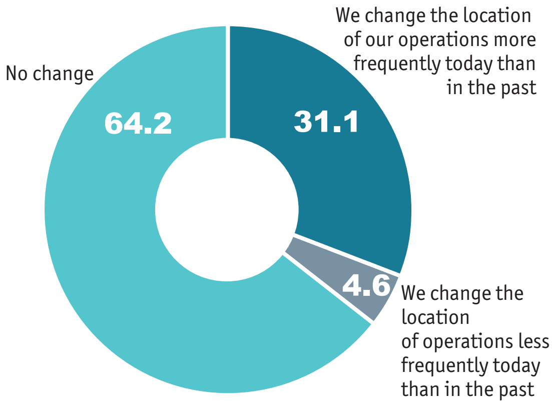
XII. Operational insight: Footloose and fancy-free

Companies are relocating their operations more frequently today than in the past

In high-growth markets such as those in Asia, business conditions and the investment landscape often change at breakneck speed. Labour costs can rise rapidly. Government policies and rules around foreign investment can swiftly reverse course or suddenly improve. New markets open up, currencies rise and fall, trade deals proliferate, and trade routes change course.

Given this dynamic backdrop, it's no surprise that our survey shows companies are changing the location of their operations in Asia Pacific more frequently today than in the past. Indeed, 31% of respondents say they change the location of their operations more frequently today than in the past, while only 4.6% say they change them less frequently. (See chart 20.)

Chart 20
Do you move the location of operations more or less frequently today compared to the past?
(%)



Source: *Economist Corporate Network ABOS 2013*

Of course, the ability to pack up and relocate operations quickly depends on the sector that a business is in. Commodities and real-estate companies, for example, often incur heavy start-up costs, so are much more tied down. Firms in the services sector, however, invest much less on the ground, and so relocating to a new market is much less of a hassle.

XIII. Operational insight: Human capital

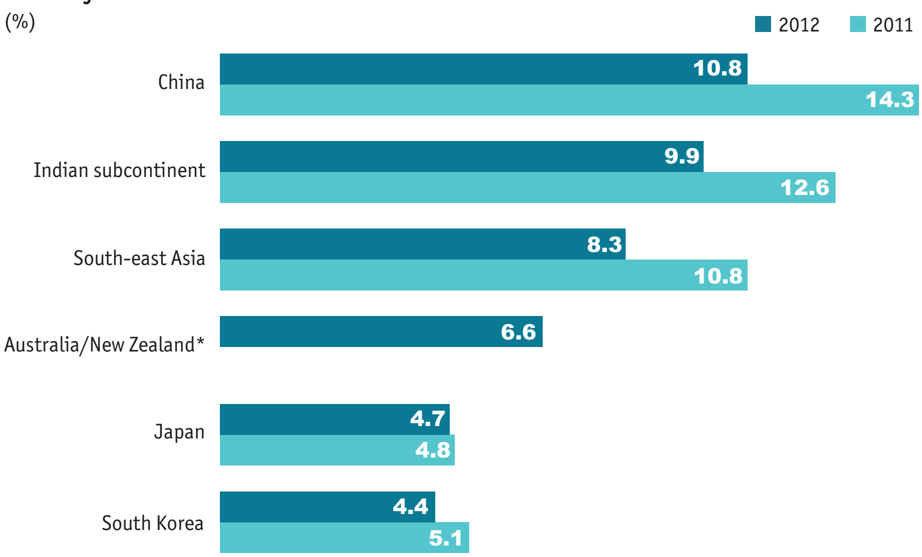
Staff turnover rates improved in 2012. But for how long?

Finding and retaining staff remains a perennial headache for managers in Asia. The shortage of workers with the right skills and experience has resulted in stiff competition for talent. The manpower challenge is greatest in the highest-growth markets such as China, India and South-east Asia, where poaching among rival firms is commonplace.

In the past year, however, it seems that the jobs market hasn't been quite so volatile. Comparing the results from our ABOS surveys in 2011 and 2012, executives report that staff turnover has come down in all markets across Asia. (See chart 21.) In China, for example, staff turnover in 2012 averaged 10.8%, far below the 14.3% reported in 2011. In India and South-east Asia, firms also experienced significantly lower staff turnover rates in 2012 compared to the previous year.

One reason for the lower churn in 2012 might be the weaker economy. Given the uncertainty surrounding the health of the global economy, firms have been less willing to offer high-pay packages to lure talent from rival companies, and workers have

Chart 21
What is your staff turnover in these territories?
(%)



* No data for Australia and New Zealand for 2011
Source: *Economist Corporate Network ABOS 2013*

prioritised the security of their existing jobs rather than seeking out new opportunities.

Of course, another reason might be that companies have generally got better at engaging their workforces and improving their loyalty. But we aren't holding our breath. As the economy improves in 2013, we expect to see staff turnover rates edge back up again.

XIV. Appendix: Survey firmographics

The 2013 Asia Business Outlook Survey was completed by some 207 senior executives with management responsibility for businesses across Asia. They operate in a wide spread of industries, reflecting the Economist Corporate Network's diverse client base, from financial services to manufacturing to retail to healthcare.

As in previous years, the respondents mainly represent large companies; three quarters had more than US$1bn in global revenue, and 35% of respondents oversaw operations in firms with revenues of US$10bn or more. The survey respondents largely reflect the views of the Western multinational in Asia, as the vast majority have headquarters either in North America (35%) or in Europe (41%). Of the remaining 24% of respondents, most worked at Asian companies, with a smattering coming from Australia and South America.

About Economist Corporate Network

Economist Corporate Network is The Economist Group's advisory service for senior executives seeking insight into economic and business trends in their key growth markets.

Independent and thought-provoking, Economist Corporate Network provides clients with the information, insight and interaction they need to succeed. It is led by experts who share a profound knowledge and understanding of business issues. It has regional business groups across Asia Pacific, Central and Eastern Europe, the Middle East and Africa.

Through its tailored blend of interactive meetings, high-calibre research, and private client briefings, Economist Corporate Network delivers country-by-country, regional, global and industry-focused analysis on both current and forecast conditions.

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