Voice of Asia

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Insights

Our Voice of Asia series brings to life the challenges and opportunities facing the region today and tomorrow. Voice of Asia is the result of significant collaboration across the Deloitte Asia Pacific and Global Network.

Cover and chapter images: Hu, Olivia Yang

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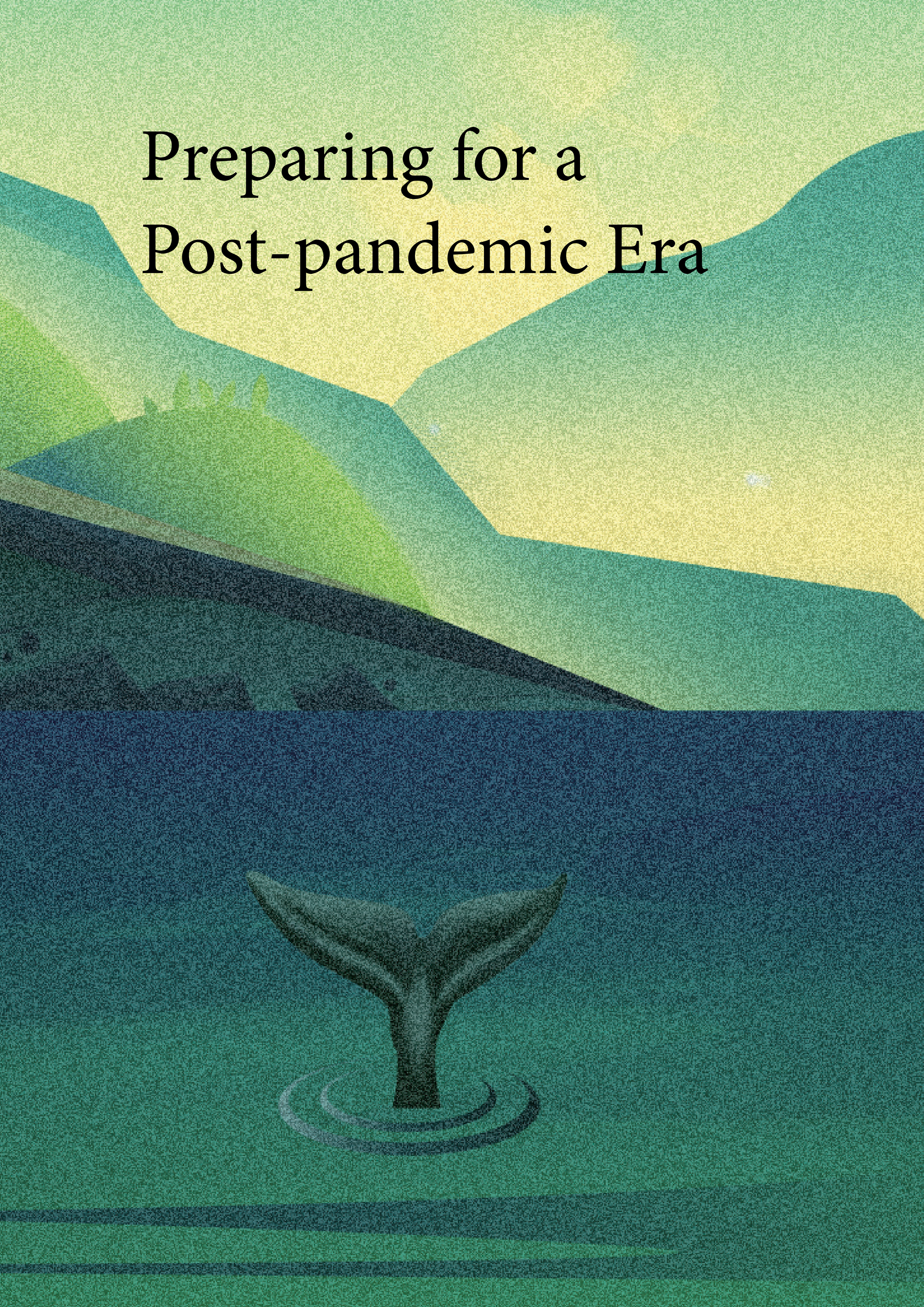
Preparing for a Post-pandemic Era



Summary

SEVERAL themes will be evident in economies across the Asia Pacific over the coming 12 months.

First, the global recovery is gathering strength: powerful stimulus policies and improving vaccine rollouts in large economies are combining with enhanced economic resilience to produce a more formidable recovery than expected.

Second, we're not out of the woods: downside risks that still need to be managed include new spikes of COVID-19 infections, dangerous new variants of the virus and financial market turbulence. Carefully calibrated policies can help contain these risks.

Third, it's time for reform: as confidence in the economic recovery strengthens, the focus of businesses and markets will shift to the shape of the post-pandemic landscape and how various geographies can "build back better." The geographies where governments carve out an appropriate role in supporting economic development and where the private sector adapts most effectively will be the ones that deliver superior long-term economic growth.

Summary of Geographic Views

Geography	Outlook
Australia	Cyclical rebound will get a huge boost from commodity boom
China	Export tailwinds will power industrial production and manufacturing investment Consumer spending reviving, albeit more slowly Fiscal consolidation will be gradual — risks from credit tightening are manageable given a backdrop of robust demand, especially in housing Reforms to boost domestic demand will take center stage
Hong Kong	Domestic demand remains weak, with tourism under water Financial services still a locomotive of growth Positive spillovers from external Chinese demand Diversion of certain financial activity to other hubs a clear negative More changes are looming, in the form of housing and anti-trust laws
India	Recent spike in infections cast doubt over India's recovery Strict mobility restrictions are being imposed and are likely to set back economic activity Calibrated restrictions to minimize supply chain and industry disruptions could ensure smaller impact than initial lockdown Surge in infections likely to result in modest growth but economic activity will pick up rapidly in the second half
Indonesia	Economy hit hard by the relentless spread of the virus Government support via transfers and infrastructure spending Mixed impact from rising commodity prices (e.g. coal, nickel, CPO vs. oil) Structural reform agenda – omnibus bill, negative investment list
Japan	Industrial output will support the economic recovery as demand from industrial digitalization accelerates Consumer spending will recover slowly at first but pent-up demand will later support the recovery alongside the vaccination rollout Japan will follow other developed economies with fiscal stimulus later this year but there is a risk this could fizzle out
Malaysia	New surge in COVID-19 infections prompted severe restrictions which will hurt near term growth Buoyant external demand helps to offset this setback Government support via transfers and infrastructure projects Rising commodity prices a positive for the economy New five-year plan will be released soon, prompting a rise in public investment

Geography	Outlook
New Zealand	The economy is benefiting from the commodity boom
Philippines	Economy hit hard by the relentless spread of the virus Infrastructure spending to firm up ahead of 2022 elections More stimulus and further reforms could be in the offing Remittances to surprise on the upside; business process outsourcing has coped well with work-from-home arrangements
Singapore	Export demand will be extremely robust, manufacturing exports and reexports are likely to do well. Regional demand to turn accretive for the entrepot hub Vaccination program well-advanced by mid-2021, paving the way for cautious and selective reopening to cross-border travel by 3Q21 Fixed asset investment commitments to resume in earnest by 4Q21, sustaining momentum into 2022
South Korea	New waves of infections have buffeted the economy More fiscal stimulus in the offing ahead of the 2022 elections New Deal to create more jobs in green economy and digital sphere Buoyant external demand, especially in electronics, is a powerful tailwind to growth
Taiwan	Cyclical upswing in Taiwan could be more potent than most regional economies due to its competitiveness in semiconductors 2021 could be a breakout year in terms of GDP growth (around 2%) compared with recent years The currency may even flirt with levels not seen since the Asian Financial Crisis in 1997
Thailand	New surge in COVID-19 infections will hurt domestic demand and further delay the recovery in tourism Exports and manufacturing can look forward to a better year as global demand broadens Some upside for private investment with political risks having declined somewhat Balance of risks tilted towards the downside – premature withdrawal of fiscal support, planned infrastructure projects failing to be promptly implemented, consumer fatigue
Vietnam	Poised for another year of outperforming growth owing to adept virus control and vaccination progress, as well as export tailwinds on resilient global tech demand Well positioned to capture more production relocating away from hitherto China-centric supply chains

A recovery that exceeds expectations

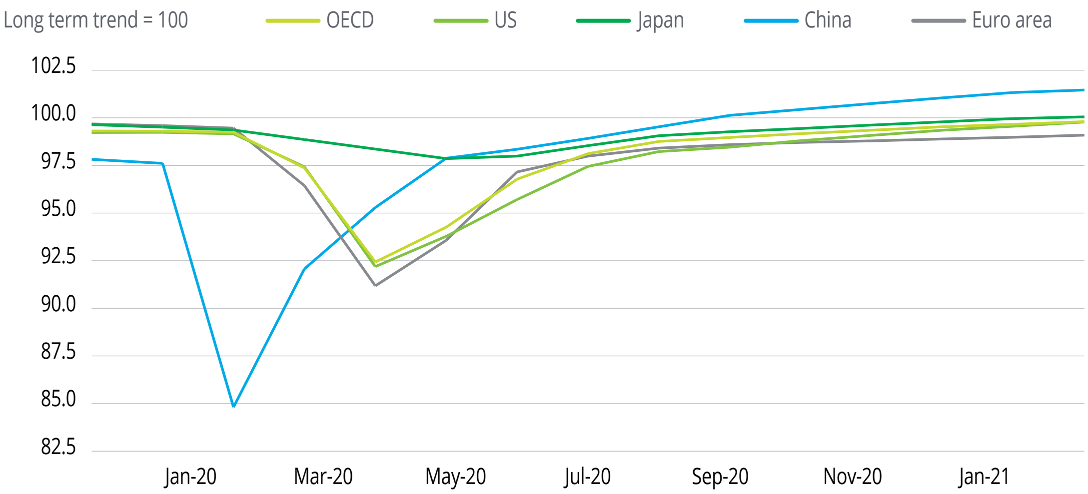
A RAPID upturn is beginning in the global economy which is likely to strengthen even further.

The world is recovering faster than many realize – and that's good news for the exporters of the Asia Pacific region.

China and Korea are sizeable exporters, and thus, the demand for their exports offers a good reflection of the underlying dynamics in world trade. Trends in their exports show a stronger rebound in global demand than anticipated. Chinese export strength isn't merely relative to last year's COVID-19 lows, but also to recovering global demand. Comparing Chinese exports in the first four months of 2021 against the same period in 2019, we find an expansion of about 31%. In fact, it appears as if global demand continued to firm up. In the first ten days of May, South Korean exports surged 81% on the previous year. Another useful indicator is that South Korea's export growth is broadening out beyond semiconductors to non-IT related goods such as automobiles and chemicals.

CHART 1

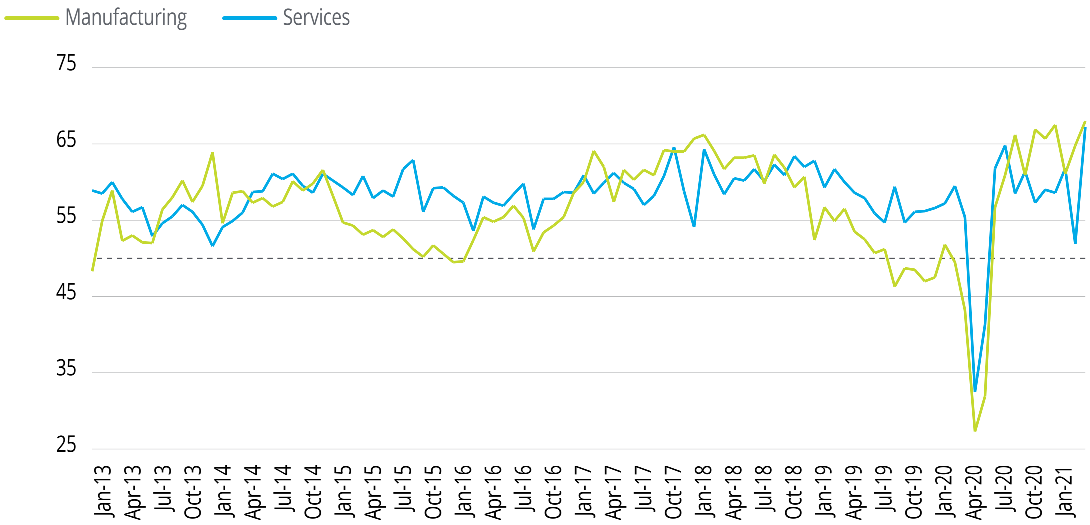
OECD Composite Lead Indicator (CLI)



Source: CEIC, Centennial Asia Advisors

CHART 2

US: ISM PMI New Orders Index



Source: CEIC, Centennial Asia Advisors

Moreover, there is evidence that this ongoing improvement in global demand is likely to be sustained. The OECD's composite lead indicators have been a reliable predictor of future economic activity. The fact that they are improving across the board is thus a propitious sign. This is in line with surveys of purchasing managers which show the pipeline of new orders expanding. In March, the indicator for new business received by American companies in both the manufacturing and non-manufacturing sectors reached almost record levels. Taiwan's new export orders are similarly trending at their highest level in over a decade. Trends in the New York Federal Reserve's Weekly Economic Index also suggest that second quarter growth in the US, still the single biggest engine of global demand, could accelerate rapidly.

The composition of trade is also congruent with the notion that the world economy is staging a substantial recovery. China's imports in April 2021 were up 22% on levels in April 2019. Strong growth in Chinese demand should spur Asia Pacific exports of commodities as well as components for electronics and related equipment, benefiting countries as wide-ranging as Japan, Australia, India and Indonesia. What this shows is that, as countries come to grips with the pandemic, an economic recovery also spurs growth in imports. In this way, a recovery in one geography spills over into others and pulls them along as well. For instance, China's rebound is clearly the driving force behind this commodity boom which has begun to broaden out.

The durability of this recovery is underpinned by a confluence of several forces

There's a lot to like about global prospects: vaccinations are working, policymakers remain committed to the recovery, while businesses and families are proving resilient.

Optimism towards a formidable recovery may seem misplaced given the unfortunate news around accelerating COVID-19 infections in India, Brazil and parts of Europe and the United States. This is particularly so when one considers the concerns over side effects which have plagued some of the new vaccines and are hindering the rollout of vaccines that many countries are depending on to bring an end to the pandemic.

Clearly, these threats to public health and a meaningful recovery should not be discounted. However, they need to be viewed within the context of other developments.

- First, economies appear to be developing greater resilience to new spikes in infections.

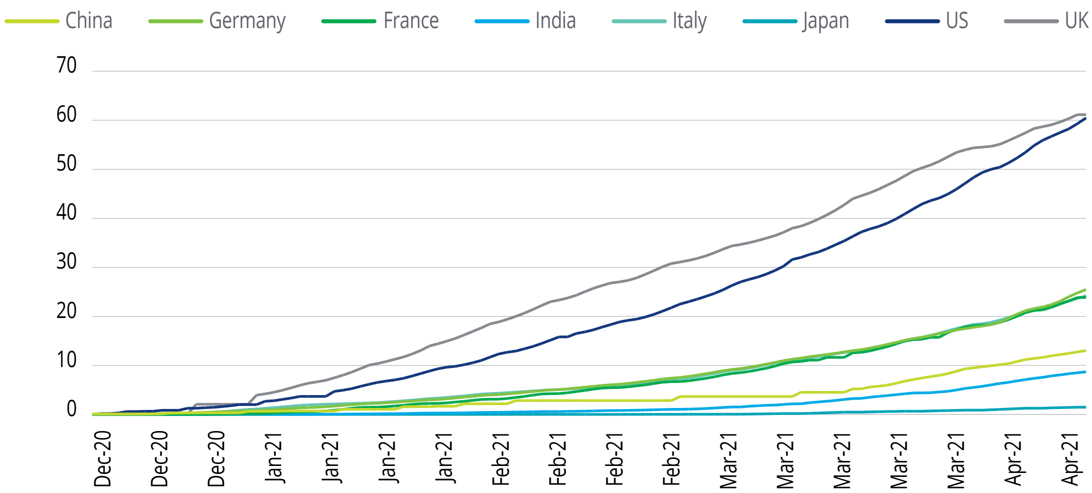
Public health policymakers, business leaders and ordinary consumers have adapted to the reality of the pandemic in ways that reduce the economic damage caused by these new waves of infections. Restrictions on activities in response to rising numbers of cases tend to be more targeted, so the drag on economic activity they cause tends to be less impactful than before. Businesses have also been creative in finding ways to minimize the hit to their operations, such as by utilizing virtual platforms to sell their products or conduct business operations. Ordinary citizens have equally learned to better cope with the fear of infections or restrictions on socializing, finding ways to sustain their consumption habits through different means. This helps to explain why activity in Europe seems to have held up better than expected during the early months of this year, despite the bad news surrounding new waves of infections and subsequent lockdowns.

- Second, monetary and fiscal policies continue to provide considerable support to economies. Central banks in large developed economies around the world remain committed to a prolonged period of near-zero interest rates and high levels of quantitative easing. In the United States, the Biden Administration has followed up on its enormous US$1.9 trillion fiscal stimulus which is already being implemented with a US$2 trillion infrastructure plan that, if passed, will be phased in over the next eight years. This could in turn be followed by a further US$1 trillion package of social spending. This colossal amount of government expenditure will not only boost American economic growth this year and next, but will also trickle out into other economies through trade spillovers. Recent export data from China also suggest that the momentum of China's recovery may surprise on the upside in 2H of 2021.

- Third, vaccination campaigns in large developed economies are gaining traction. At its current vaccination rate of roughly 3.1 million a day, the United States is on course to reach herd immunity by July. Europe's vaccination program has been roundly criticized for delays but recent weeks have seen a ramp-up. As an increasingly higher proportion of people are getting vaccinated in the United States and Europe, as well as in large developing countries such as China and India, governments will be more willing to normalize economic activity and consumers will feel sufficiently confident in channelling their huge amounts of savings to fund increased consumption. Such a release of pent-up demand should also be evident in corporate capital spending, and if that unfolds, then the economic rebound will be even more potent.

CHART 3

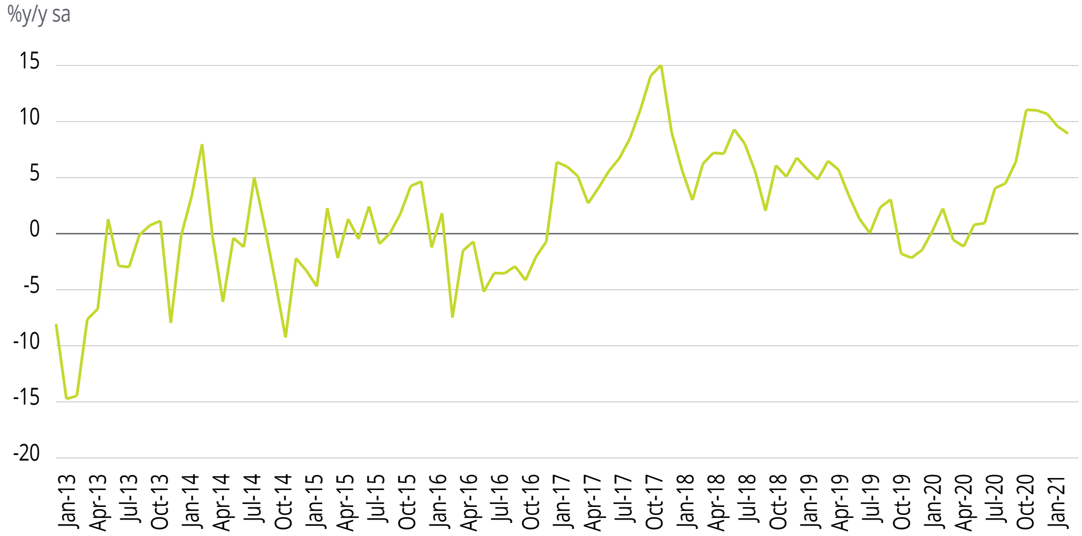
Vaccine Doses Per 100 People



Source: CEIC, Centennial Asia Advisors

CHART 4

US: Manufacturing New Orders (Electronics)



Source: CEIC, Centennial Asia Advisors

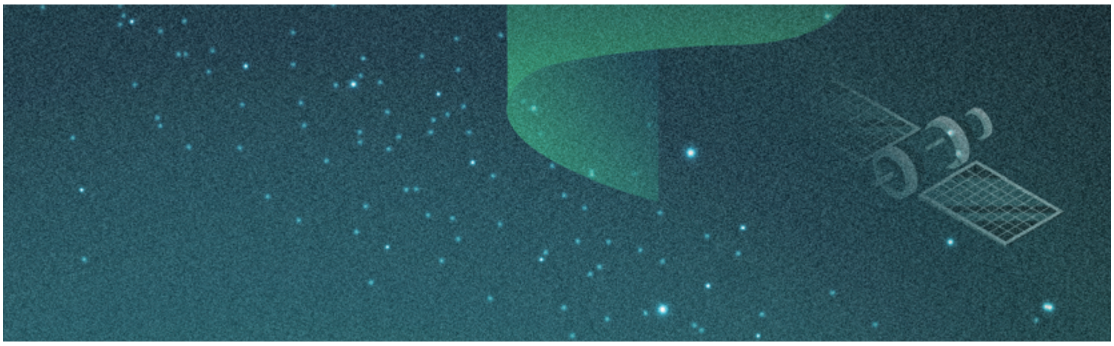
These factors are strongly supportive of Asia Pacific economies, with the tech cycle adding more vigor to the outlook

The global electronics sector is in the midst of a structural upturn driven by the proliferation of 5G networks, rising semiconductor content in 5G-capable smartphones, and the maturation of marquee next-generation technology applications such as machine learning, artificial intelligence, and the industrial Internet-of-Things.

Indeed, the major chip foundries are putting in train capital spending programs at an unprecedented scale. TSMC plans capital expenditure of US$100 billion over the next three years, while SK Hynix's US$106 billion plan to build a new semiconductor fabrication complex housing four fabs producing next-generation memory chips has just been approved by the authorities.

The mammoth scale of these recent investment commitments reflect the industry's expectations for future demand: a higher baseline level of demand for semiconductors going forward, over and above the incremental demand from one-off factors such as the shift to home working.

Asia is more exposed relative to other emerging economies to these favorable tailwinds. Several Asia Pacific economies are highly geared into the tech cycle and will benefit hugely from these trends, with Japan, South Korea, Taiwan, and Singapore likely to be sizable winners. Malaysia and the Philippines will also benefit, albeit to a lesser extent.



Well-crafted policies are needed to contain downside risks

THERE are any number of threats to the benign scenario described above but two in particular come to mind – the pandemic turning out to be worse than forecast and financial turbulence. In both cases, sound policy measures can alleviate the risks they pose.

New and more lethal waves of COVID-19 infections

After more than a year of dealing with the pandemic, the medical community is still discovering that there remains a lot they do not know. Because the virus mutates into variants such as the more infectious Brazilian and British ones, the pandemic has turned out to be a much more persistent threat than many observers had thought possible. Given the continuing and large-scale spread of the virus in populous countries such as India and Brazil, there is ample scope for even more variants to emerge, with one or more of them turning out to be even more lethal. It has also become evident that in many societies, people have limited tolerance for the stringent limitations on social interactions that public health experts believe are needed to quash the virus.

That said, 2021 will see a tug of war between vaccinations and mutations.

The only way to mitigate the risk of mutations is through policy measures, several of which are falling into place:

- First, it is vitally important to speed up and broaden vaccination processes. The good news is that more and more countries accept that no one is safe until everyone is safe. As richer countries become more confident that they can soon provide vaccinations for their own citizens, they will be more willing to underwrite vaccination campaigns in less developed countries. China and India have also been generous in supplying vaccines to poorer countries.

- Second, there should not be a premature withdrawal of monetary and fiscal measures to support spending. This will ensure that, even with occasional spikes in infections which bring about restrictions on economic activity, the damage to jobs and incomes can be alleviated and the economy will avoid plummeting. Indeed, policy signals from central bank meetings and other commentary by government officials suggest that Asia Pacific policymakers are fully cognizant of the need for nuanced policy management.

- Third, continued government support to expand research and development into vaccinations and medicines to treat the virus will help provide the range of medical responses that can help allay the health threats that the virus might pose.

Recent experience of infection spikes over the past few months tells us that a combination of these policy responses can help allay these downside risks.

Financial market turbulence – will inflation rear its head?

If the global economy does indeed roar back to life beating expectations, then two risks to financial markets present themselves.

First, now-dormant inflationary pressures could perk up, causing bond yields to rise and valuations of bonds, equities, real estate and start-ups to become stretched.

Second, expectations could arise that the ultra-easy monetary policies we currently have might be withdrawn sooner than expected, causing abrupt dislocations in financial markets.

Indeed, as signs of economic recovery have grown in recent months, bond yields, equity prices and currency values have become more volatile, showing just how nervous financial investors have become that their expectations of a prolonged period of ultra-easy money might be upset.

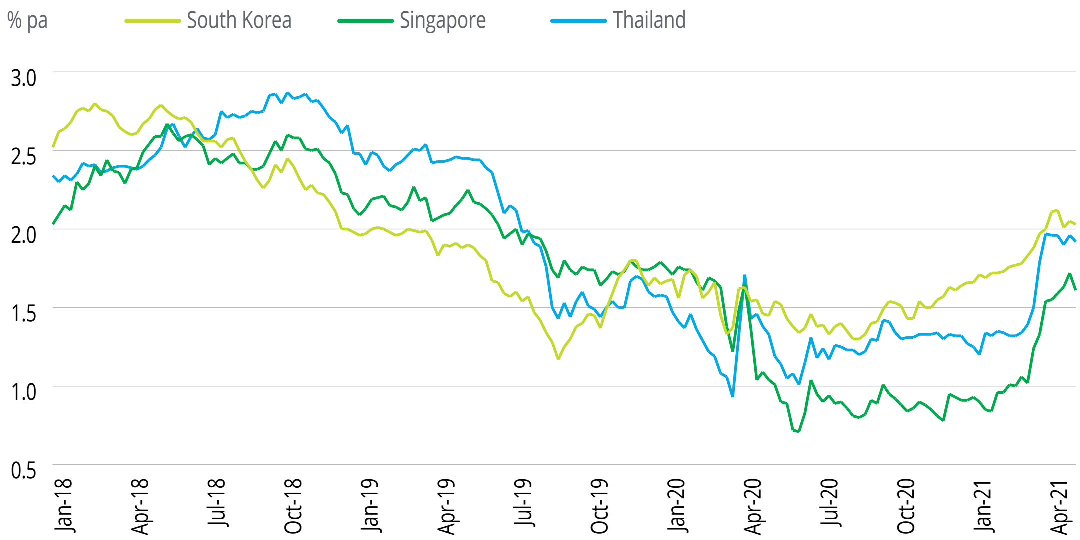
CHART 5

10Y Government Bond Yield

Source: Bloomberg, Centennial Asia Advisors

CHART 6

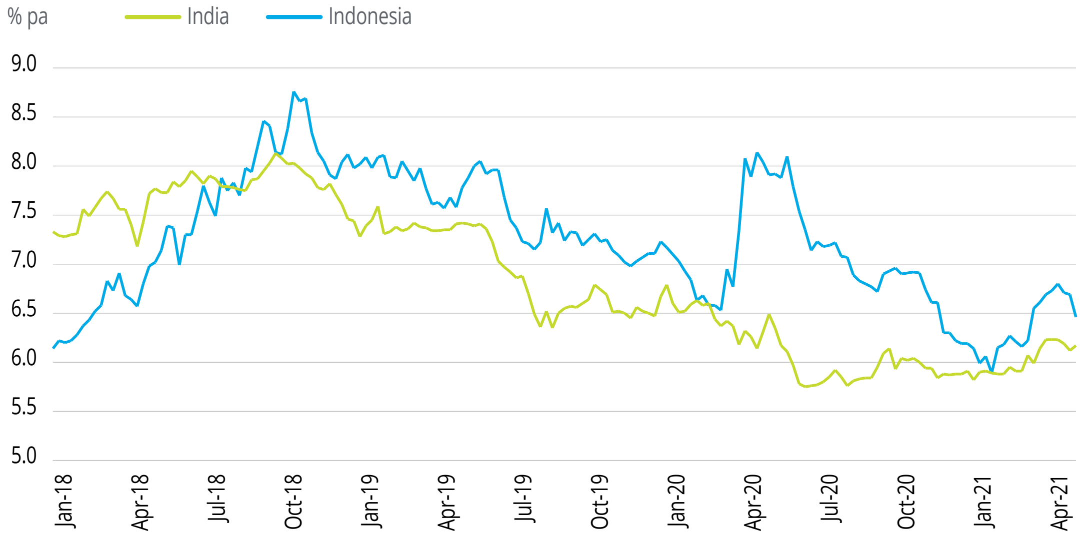
10Y Government Bond Yield



Source: Bloomberg, Centennial Asia Advisors

CHART 7

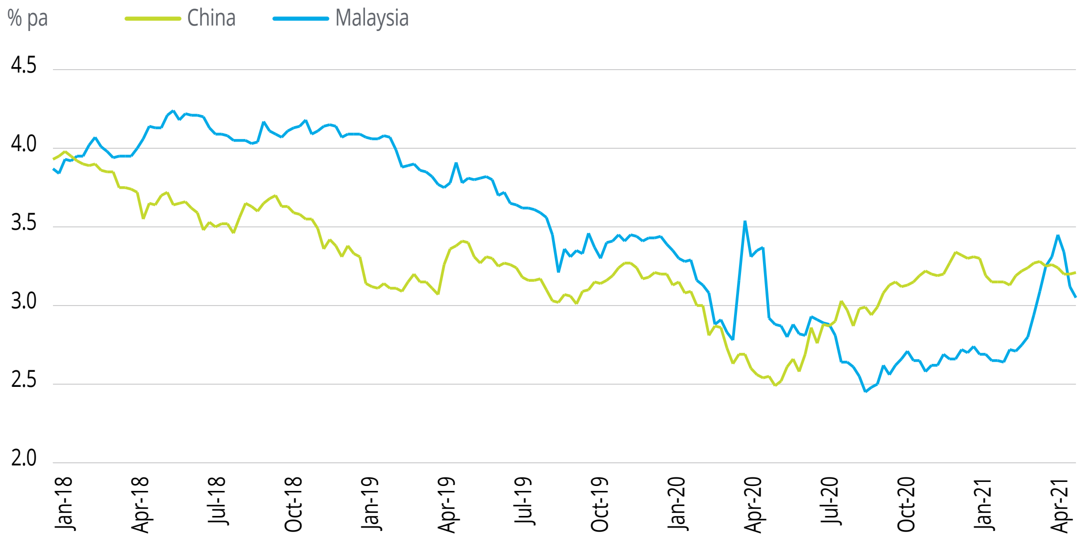
10Y Government Bond Yield



Source: Bloomberg, Centennial Asia Advisors

CHART 8

10Y Government Bond Yield



Source: Bloomberg, Centennial Asia Advisors

Then again, it is important to realize that rising inflationary threats are a symptom of the good news on the global economy – they are the bad news that accompanies a great deal of good news.

Besides, our view is that inflation will rise but not to rates that will cause undue dislocation. However, there are other risks associated with the recovery that will pose a risk.

If economies come back to life while policies are still highly expansionary, there could be excess demand and excess liquidity. That is what has prompted fears in some quarters that there could be a sharp spike in inflation.

However, historical experience tells us that these excesses could be vented through three basic channels:

- Excess demand for domestic goods and services, which would produce higher inflation;

OR

- Through a surge in imports which could lead to current account deficits;

OR

- Into financial assets or real estate which could produce asset price inflation.

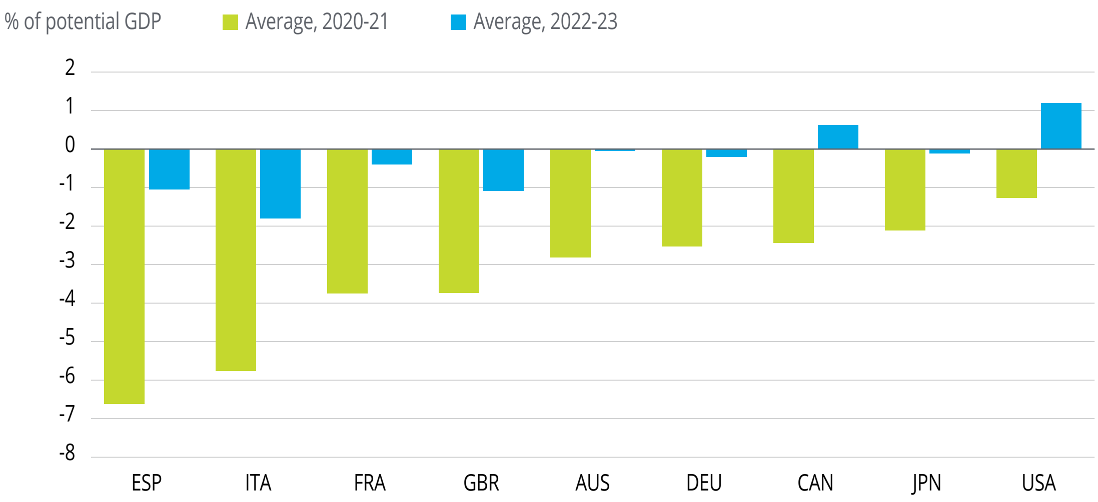
In other words, we should not focus only on the risk of a surge in inflation, as excesses could be vented in other ways that raise the risk of (a) worsening external accounts, or (b) overheated asset prices. This could spook financial markets or force central bankers and financial regulators to address these risks through policy tightening which would also upset financial markets.

Will inflation surprise so strongly on the upside in the coming year or two to the extent that we could see financial dislocations? We are skeptical about the likelihood of this scenario for the following reasons.

First, even with a strong rebound, there will be sufficient slack in the global economy to limit pricing power, as shown in the charts below. Therefore, even if commodity prices rise, these costs may not be fully passed on.

CHART 9

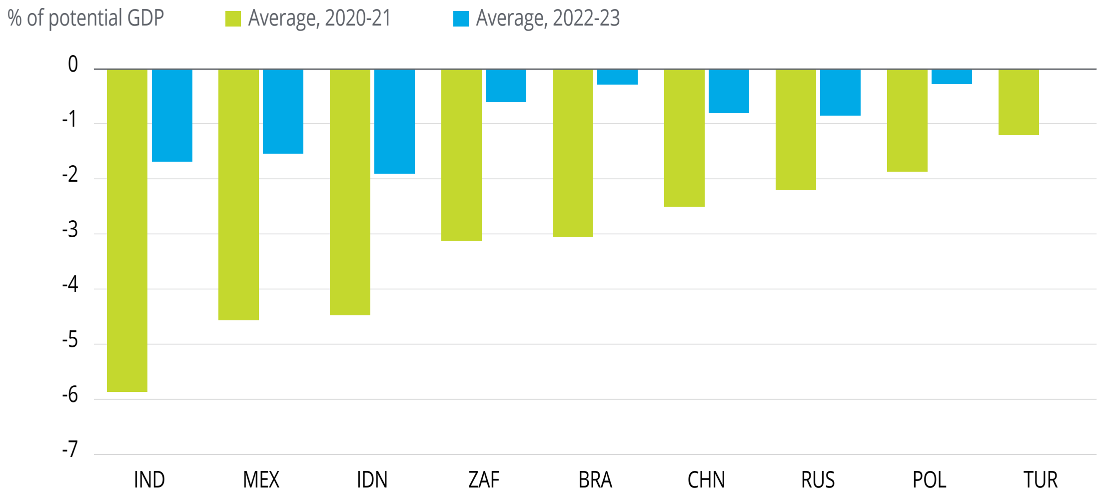
Advanced Economies: Output Gap Projections



Source: IMF World Economic Outlook April 2021, Centennial Asia Advisors

CHART 10

Emerging Economies: Output Gap Projections



Source: IMF World Economic Outlook April 2021, Centennial Asia Advisors

Second, inflation rarely accelerates sharply unless wage pressures become formidable. Given the current pace of job recovery, we believe that employment rates will not return to pre-pandemic levels until 2023.

Thus, the risks we anticipate are as follows:

- Inflation is likely to gather momentum in developed economies but remain below rates that would prompt an abrupt tightening in monetary policy. The major central banks such as the US Federal Reserve and the European Central Bank have emphasized that they will be wary of tightening policies. However, we do anticipate that financial markets will remain nervous and that there is a high chance of episodes of market turbulence due to bouts of market inflation fears. This could be in response to occasional data releases, for example, which might indicate a rise in underlying inflationary pressures.

- With the recovery unevenly spread across major economies, as the US economy surges strongly in 2021 and 2022, there is a likelihood of the US current account deficit surprising on the upside. That could spur policy concern in the US which might trigger renewed calls for protectionism, which could in turn hurt Asian exporting nations. As a recent US Treasury report on currency manipulation showed, allegations of unfair management of Asian currencies could be used to justify trade measures against Asian exports.

Central banks thus have a great responsibility to manage financial market expectations prudently so that movements in asset prices are not disorderly. For the highly influential central banks such as the US Federal Reserve, the People's Bank of China, the European Central Bank, the Bank of Japan and the Bank of England, it will become vital that they communicate policy intentions with great sensitivity. Knowing that financial markets can be unforgiving to emerging economies in such times of uncertainty, their central banks need to carefully calibrate their actual policy moves and the statements they issue.

The challenge: how to "build back better" in the post-pandemic world that is emerging?

CERTAIN technological trends that had been emerging before the outbreak of COVID-19 have accelerated sharply during the pandemic. For example, technological solutions for remote working and digitalization trends such as online payments and e-commerce were evident before the crisis but have taken off as a result.

In the same way, other changes that were gestating pre-pandemic may also have been sped up. The following are the dominant forces we expect will shape the landscape for Asia Pacific economies, and which governments and companies will have to find ways to accommodate.

Fundamental shift in policy frameworks

The so-called Reagan-Thatcher revolution up-ended the then existing economic policy framework from 1979 onwards. Now, the orthodoxy and policy tool kits that were ushered in by Reagan and Thatcher are themselves being overthrown. This is apparent in monetary policy where a single-minded focus on controlling inflation has been cast aside, with central banks prepared to use aggressive quantitative easing measures that were unthinkable before. Similarly, there is a return to the more active use of fiscal policy to manage economic cycles and pursue social goals.

New areas of policy focus will also emerge. Tackling climate change will become a much greater focus of policy formulation.

Other shifts include the increased willingness to employ industrial policies even in the United States, the disillusionment with free trade and the subsequent readiness to employ protectionist tools and adopt a more cautious approach to immigration, especially of the unskilled variety.

In both developed and emerging economies, we are therefore likely to see a greater inclination to experiment with policies and higher levels of state intervention in the pursuit of economic development and a more equitable society.

Accelerated technological change offers opportunities but also potential dislocations

As mentioned above, the IT-telecommunications revolution has been accelerated by the pandemic, particularly in the areas of artificial intelligence, robotics, big data, cloud computing, 5G networks and blockchain technology. These are important but we should also not forget other transformational technological advances in renewable energy, the development of new materials, advanced manufacturing processes such as 3D printing, and a whole plethora of advances in the biomedical sciences.

The implications are wide-ranging. There will be dislocations in the job market as some occupations are made redundant while new ones emerge. Some goods and services will become obsolete and shrink while others will grow rapidly. Companies may be left with stranded assets.

Changes in the structure of competitiveness

The pandemic has refocused the attention of company managers and governments on the resilience of critical links within global supply chains. As the factory of the world, rising costs in China and the costs associated with the trade war have brought about a reconfiguration of supply chains. Some interpret this as denoting a relocation of production facilities out of China, but the picture is more complex than that. Successful developing economies, where costs and currencies have risen, will continue to move up the value chain. This will involve lower-value activities relocating to other regions so as to release resources for the higher value segments of the value chain in which these countries will gain a competitive edge as they develop. This will be apparent not only in China but also in other countries such as Thailand and Singapore too.

Gearing up to tackle climate change

The COVID-19 pandemic has also focused policy attention on how human interaction with nature could result in unintended risks. Together with recent natural disasters that suggest a higher frequency of extreme weather events, public consciousness of the need to more vigorously address climate change has increased. The forthcoming 2021 United Nations Climate Change Conference (COP26), scheduled to be held in November, should help to encourage more climate-oriented policy changes.

Implications

A detailed assessment of the implications of these trends is beyond the scope of this report. But what we want to sketch out is the two broad directions along which countries in the Asia Pacific region will need to take so as to ensure that their economies flexibly and effectively adapt to these mega trends.

The first is the top-down policy interventions needed to ensure necessary economic flexibility. Governments need to provide key public goods such as modern physical infrastructure, education systems including life-long learning to facilitate the reskilling of older workers, funding for research and development, specialized institutions to promote small- and medium-sized enterprises and offering support to start-ups. Macroeconomic policies need to be put in place so that the economy is capable of spontaneously adjusting to challenges. Australia, for example, is an economy which has succeeded in building in this capacity for adaptation which explains its track record of long economic expansions. ***We look at the implications for climate change in more detail in the deep dive section that follows.***

The second is the corporate sector's capacity to respond. In most cases, so long as there is an enabling business ecosystem, profit-making enterprises will have the incentive and the means of making these adjustments.

Table 1

Economic Forecasts for the Region

		GDP growth (%)	Inflation (%)	Current account balance/ GDP (%)	Policy rate (%)	Currency vs US$
Australia	2020	-2.4	0.8	2.5	0.4	0.674
	2021	4.9	1.6	1.0	0.1	0.759
	2022	3.3	1.5	-0.8	0.1	0.746
China	2020	2.3	2.5	2.3	2.25	6.55
	2021	8.0	1.2	2.0	2.25	6.75
	2022	5.0	0.9	1.8	2.25	6.80
Hong Kong	2020	-6.1	0.3	4.2	-	7.75
	2021	4.5	1.6	3.6	-	7.75
	2022	5.9	1.9	3.1	-	7.75
India	2020	-6.9	6.2	0.5	4.40	72.5
	2021	9.1	5.2	-1.0	4.00	74.5
	2022	8.1	6.2	-1.8	4.35	75.5
Indonesia	2020	-2.1	1.7	-0.4	3.75	14,050
	2021	5.8	2.5	-1.5	3.75	14,500
	2022	6.0	2.8	-3.0	3.75	14,200
Japan	2020	-4.8	0.0	3.2	-0.1	103
	2021	1.8	0.3	3.2	-0.1	110
	2022	2.3	0.6	3.0	-0.1	110
Malaysia	2020	-5.6	-1.4	4.4	1.75	4.02
	2021	6.2	1.6	3.6	1.75	4.10
	2022	5.8	2.1	3.2	2.00	3.90

		GDP growth (%)	Inflation (%)	Current account balance/ GDP (%)	Policy rate (%)	Currency vs US$
New Zealand	2020	0.7	1.7	-2.8	1.2	0.65
	2021	4.8	1.7	-1.3	0.3	0.71
	2022	2.8	1.6	-2.3	-	0.72
Philippines	2020	-9.5	3.5	3.6	2.00	48.0
	2021	5.5	4.4	2.1	2.00	49.0
	2022	6.5	3.6	0.5	2.50	50.0
Singapore	2020	-5.4	-0.2	16.7	0.0	1.32
	2021	7.8	0.9	16.8	0.0	1.30
	2022	3.6	1.0	16.3	0.5	1.28
South Korea	2020	-1.0	0.5	4.6	0.50	1,090
	2021	4.0	1.6	4.2	0.50	1,115
	2022	3.2	1.3	4.1	0.75	1,040
Taiwan	2020	3.1	-0.2	13.8	1.13	27.5
	2021	6.5	1.5	13.4	1.13	27.5
	2022	2.7	1.1	12.7	1.25	27.5
Thailand	2020	-6.1	-0.8	3.3	0.50	30.0
	2021	2.3	1.1	2.0	0.50	29.1
	2022	5.2	1.3	4.6	0.50	30.5
Vietnam	2020	2.8	3.2	4.5	4.00	23,130
	2021	8.0	3.2	4.2	4.00	23,280
	2022	7.0	3.0	3.5	4.00	23,150

Source: Centennial Asia Advisors

Notes: In the case of Singapore, policy rate corresponds to the slope of the S$NEER policy band; we use the 7-day repo rate for China; we use the refinancing rate for Vietnam

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In need of a booster shot: Asia's green recovery after the pandemic

ALONG with rising levels of wealth and prosperity across the region, Asia's economic transformation in recent decades has also brought with it a monumental rise in greenhouse gas (GHG) emissions. The effects of global warming are already beginning to create lasting impacts on the world's climate system and people's livelihoods. Asia is the world's most populous continent and home to some of the countries most vulnerable to the effects of climate change, giving policymakers and business executives the necessary impetus to tackle the issue head on. After all, the actions taken in Asia could well determine the future fate of our planet.

Deloitte China, along with the Boao Forum for Asia and the Central Asia Regional Economic Cooperation Institute jointly conducted a survey of around 70 businesses operating across Asia, gauging their views on the global economic recovery after COVID-19 and what measures they are taking in accordance with the United Nations Sustainable Development Goals (SDGs). The survey reveals that while most businesses in the region are aware of the pressing need to act, they are not taking bold enough steps to make a meaningful difference. Difficulties in quantifying the impact of their actions in realizing the SDGs is proving to be the largest obstacle holding businesses back. Furthermore, when examining the current sources of energy used by businesses, it is clear that there is still much more work to be done by both the public and private sectors to replace fossil fuels with renewable energy.

Tackling climate change and advancing the SDGs requires a joint effort by businesses and governments. An environment designed to foster business engagement in sustainability through supportive policies and more extensive infrastructure, coupled with more proactive steps taken by companies to leverage their strengths and find synergies with governments, will help to accelerate the green transition.

COVID-19: The great wakeup call

The outbreak of COVID-19 not only interrupted the days of business-as-usual, but also served as a stark wakeup call to governments and corporations on the need to attach sufficient importance to the challenge of sustainable development and to take decisive action accordingly.

While much of Asia has returned to normalcy, the latest outbreak in India, which has seen record levels of daily new infections, has reminded us that many national healthcare systems across the region, for example, remain fragile and vulnerable to large scale crises. This renewed rise in infections has heightened the need for closer regional and global cooperation in distributing desperately-needed medical resources and vaccines to those countries in need, while also underscoring the reality that no one single country is safe until every country has the virus under control.

Our elevated awareness of sustainability during the pandemic has been particularly acute around the issue of climate change. As COVID-19 swept through the continent, containment measures imposed by governments in Asia led to a temporary lapse in GHGs. The closing of borders, restrictions on the movement of people, and shifts in energy demand all led to a reduction of transportation and consumption, and with it, a sharp drop in carbon emissions. This was especially noticeable in the region's largest economies. Between January and April 2020, China's emissions fell by more than 10% compared to the same period the previous year. Stringent measures taken by the likes of India and Japan to confine the movement and activities of respective populations during the pandemic equally resulted in a rapid decline in emissions.

Much to the relief of the international community, 2020 saw some of Asia's largest economies announcing their own national climate pledges. On September 22, Chinese President Xi Jinping announced to the United Nations General Assembly that China will peak carbon emissions before 2030 and achieve carbon neutrality by 2060. Despite tensions running high, recent signs of greater cooperation between China and the United States on the climate front are also indicative of the importance both governments attach to the issue and their commitment to curbing global warming.

On October 26, little more than a month later, Japanese Prime Minister Yoshihide Suga laid out a bold scheme that called for Japan to become carbon neutral by 2050 and to triple the share of renewables in Japan's energy mix to at least 50%. South Korea followed just two days later. As part of a Korean New Deal, President Moon Jae-in pledged that the country would reach net-zero emissions by 2050, driven by a switch from coal to renewables, and the creation of new markets, industries, and jobs.

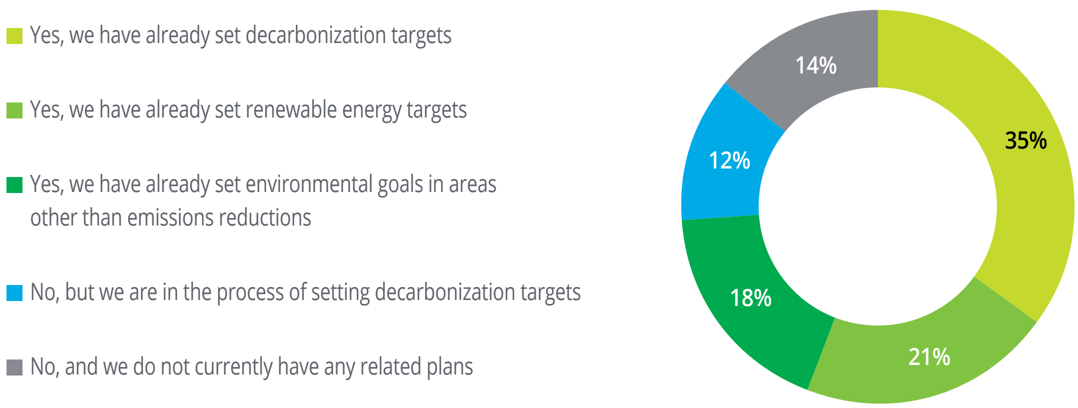
While these high-level announcements were welcomed by international environmental organizations, such grandiose statements alone will not get us to net-zero. Coordinated action by businesses and governments will be necessary to win the battle against climate change, and this will involve addressing many of the lingering challenges that constrain more audacious actions.

Addressing the challenge of impact assessment is essential to encouraging more sustainable business practices

According to our survey findings, more than 80% of businesses are aware of the main messaging behind the Paris Climate Accords and the pledges made by the world's major economies. More stringent environmental legislation and increasing public expectations are also pushing companies to proactively work to address climate change and pursue sustainable development. Yet, how they will measure the impact of their positive climate actions remains a key challenge inhibiting businesses from taking bold enough measures to implement the SDGs.

CHART 11

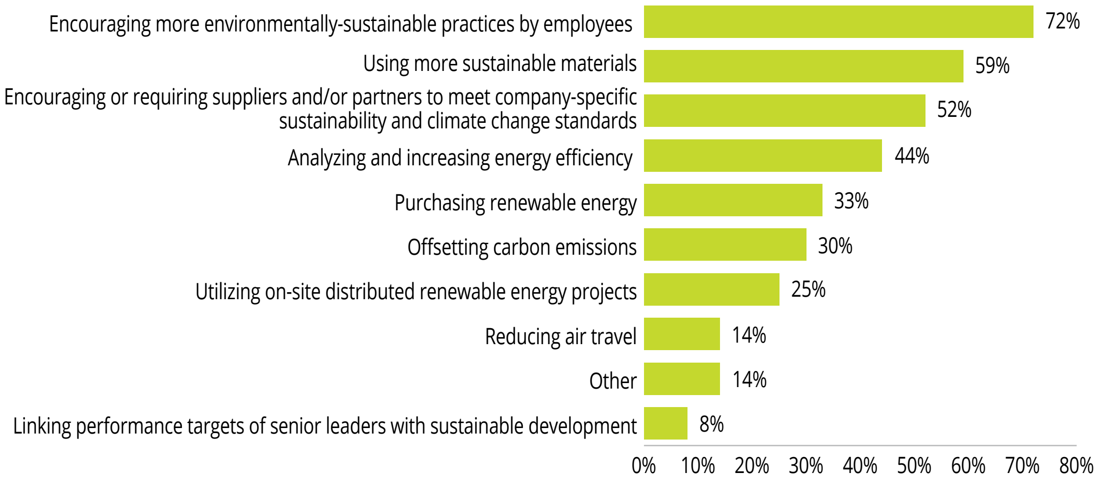
Does your business have sustainability and climate change goals or targets in place?



While the survey shows that more than half of businesses have already set their own decarbonization targets (Chart 11), most businesses are only taking convenient and modest action (Chart 12). By and large, this has been in the form of encouraging staff to lead a more sustainable lifestyle (72%) and using eco-friendly materials in the workplace (59%). More far-reaching measures that would have a greater impact on the broader ecosystem, such as purchasing renewable energy (33%), have seen much less uptake by businesses.

CHART 12

What actions is your organization taking as part of its current sustainability and climate change efforts?

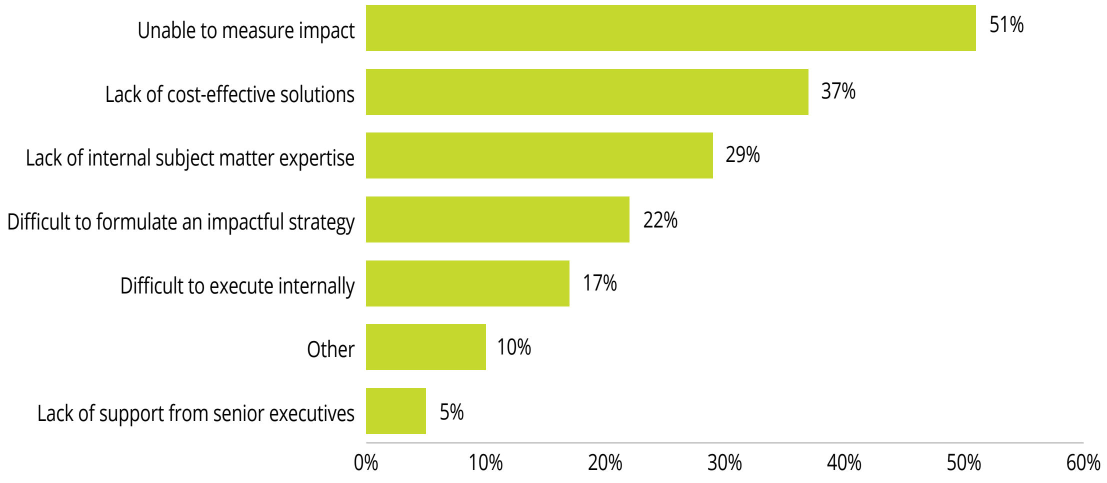


In understanding the reasons behind this, the survey findings are clear. More than half of respondents report that the inability to measure the impact of their actions has prevented them from adopting business models more in line with the SDGs (Chart 13). This has knock-on consequences that further constrain their propensity for climate action. Since companies are unable to measure their impact on global sustainable development, they will be less likely to conduct a clear and definitive cost-benefit analysis on their sustainability solutions (37% lack such solutions), and will then be even less likely to staff the company with the qualified talent needed to devise sustainable business strategies (29% lack relevant personnel).

Governments must therefore do what they can to ease the pressure on businesses and encourage them to adopt more sustainable practices. Tax incentives, carbon pricing, subsidies and risk-sharing mechanisms will help to spur innovation and reduce the financial burden businesses face in the clean transition. Frequent dialogue between policymakers and company executives will also contribute to more informed business decisions around sustainability. The international exchange of best practice and lessons learned could also offer a blueprint for businesses to accelerate their sustainable transition.

CHART 13

What are the key challenges preventing your organization from taking more concrete sustainability and climate change-related measures?



On April 21, 2021, the day before the Leaders Summit on Climate, both China and the European Union delivered updates on their respective sustainable financing standards. With the exclusion of fossil fuels from China's green bond catalogue, the desire by both the two major economies to converge their financing standards for SDGs has become apparent. This could serve as a valuable example of governments offering consistent and harmonized standards in defining sustainable practices for businesses, and could further facilitate impact measurement and reporting across not only the two territories but in countries along the Belt and Road as well.

The lack of incentives and infrastructure is hindering the transition by businesses towards renewables

Energy is the spark that underpins our modern civilization and enables our continued economic advancements. The burning of fossil fuels, however, continues to account for a substantial portion of GHG emissions, despite the transition towards clean energy already being underway across Asia. While utilizing clean energy appears to be a simple solution for businesses to reduce their carbon footprint and advance their sustainability targets, the survey finds that the transition is taking place at a slower rate than expected due to a lack of incentives and access to infrastructure.

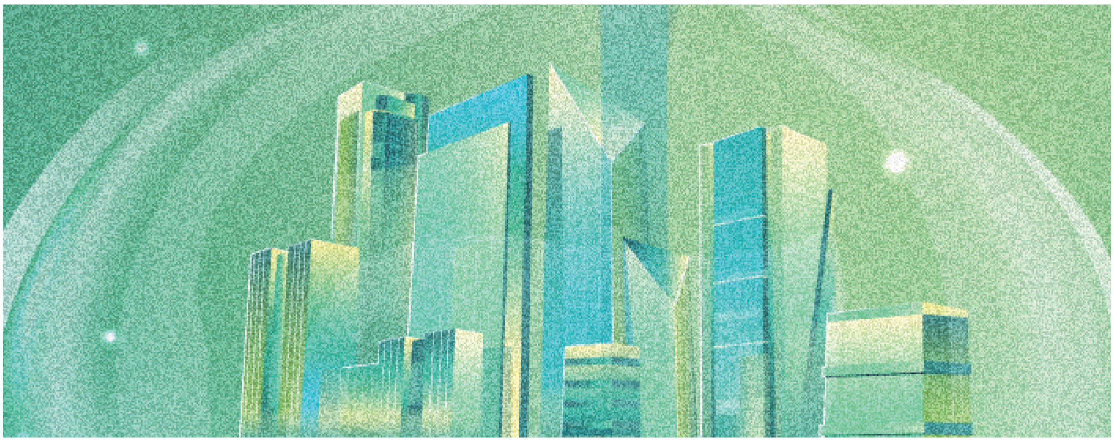
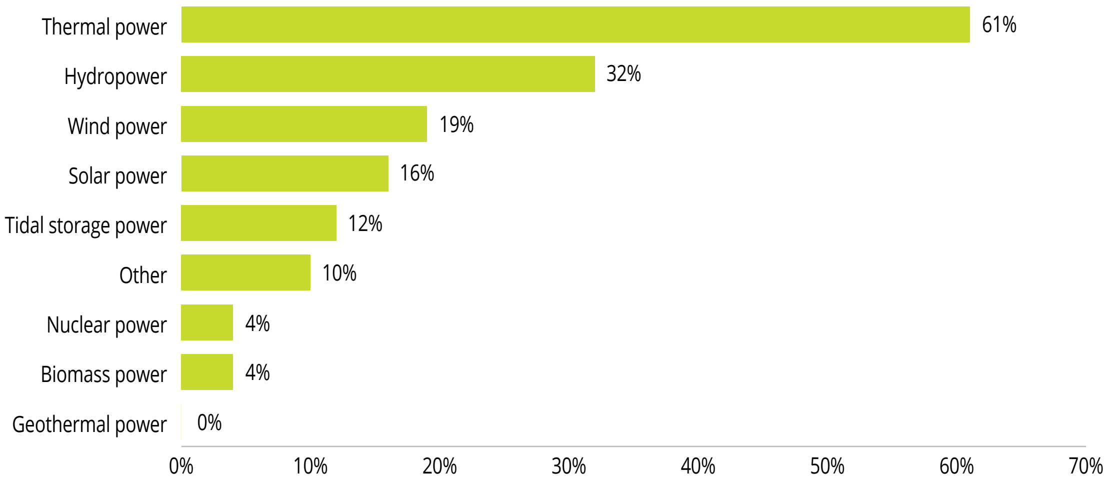


CHART 14

What are the main sources of energy powering your organization's electricity consumption?



Even as clean energy has accounted for a growing share of global primary energy consumption over the past decade, more than half of surveyed businesses report that their predominant supply of electricity stills comes from traditional sources such as thermal power (Chart 14). China is the largest investor in clean energy in the world, yet access to clean energy for businesses is insufficient, limited mainly to the Renewable Energy Certificate and self-installed projects. Other approaches such as direct purchasing agreements or direct investments are still being piloted in China.

Besides from replacing fossil fuels with clean energy, increasing the efficiency of energy usage is a feasible option for many companies that are not yet in a position to utilize alternative energy sources. As major consumers of energy, even simple actions by businesses to optimize or reduce their energy use could significantly influence overall emissions as well as their own business performance. Most organizations have already begun to develop and implement varying measures to manage and conserve energy, but this has been largely motivated by concerns around profitability and business performance rather than sustainability reasons.

The lack of infrastructure across many Asia Pacific countries is regarded by respondents as one of the biggest constraints on their adoption of sustainable business practices. Possibly the clearest example of this missing link is the new energy vehicle (NEV) sector. Despite the impressive strides made in improving long-standing issues around safety, cost and battery performance, nearly a quarter of organizations report not having yet employed NEVs (Chart 15). Furthermore, only 10% of companies have a vehicle fleet comprising more than 20% NEVs. As with regular consumers, concerns around insufficient charging infrastructure have been the biggest hindrance to greater adoption of NEVs by businesses in Asia (Chart 16).

CHART 15

What is the total proportion of new energy vehicles used by your organization as a share of all vehicles?

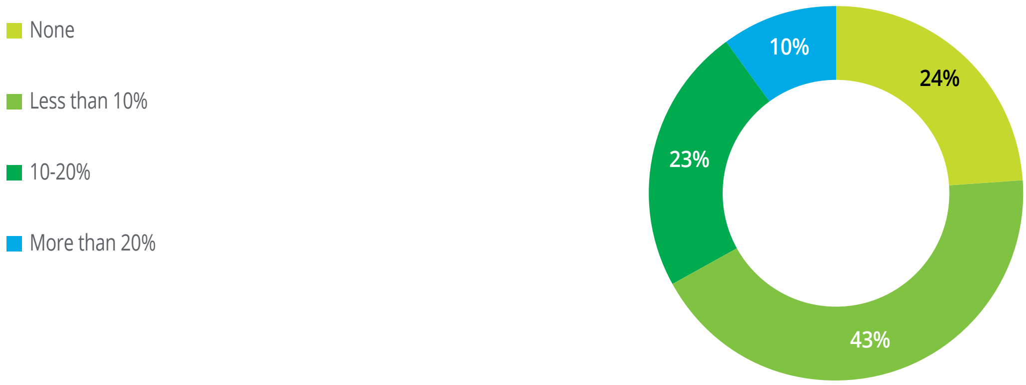
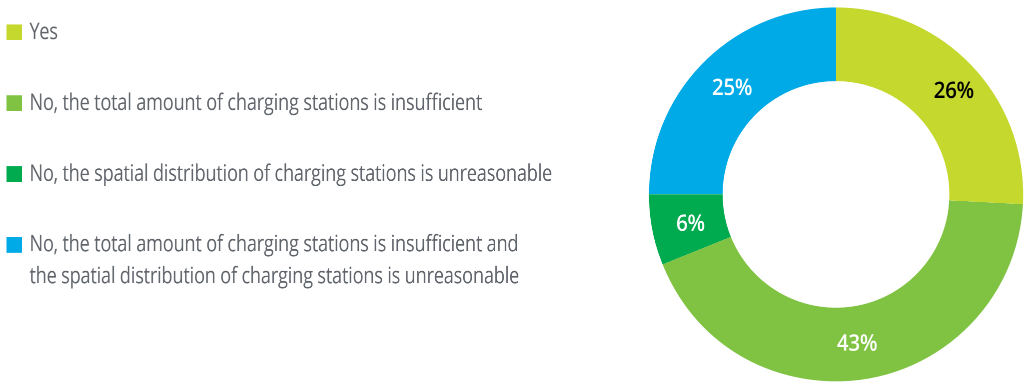


CHART 16

Is the scale of new energy vehicle charging infrastructure sufficient in your organization's host country?



Governments should go beyond working to enhance organizational awareness on the importance of energy sustainability goals to taking decisive action to improve the scale of available infrastructure for clean energy. Doing so will be the impetus businesses need to shift to a cleaner form of mobility and transform their energy consumption. Governments can also help to raise the importance of climate goals in the minds of business leaders, while also educating them on sustainable practices and helping them to see where the value lies from more sustainable business models.

Much work remains to be done to advance the sustainable agenda

While the Asia Pacific region is showing signs of a formidable economic recovery following the COVID-19 pandemic, the region still has a long way to go in terms of curbing climate change and meeting the SDGs. Closer collaboration and joint efforts by businesses and governments will be essential.

Firstly, governments should provide timely information and guidance on new policies and convene dialogues with different stakeholders in order to reduce information asymmetries and offer certainty for companies to invest in sustainable business solutions. Businesses can also do their part to reduce the knowledge deficit by deepening their understanding of climate change and sustainability, allowing them to effectively formulate and implement more informed sustainability strategies.

Next, the expansion of sustainable infrastructure depends on government investment. More policy incentives should be provided to foster technological innovation. By lowering the cost of renewable energy and investment in relevant infrastructure, the obstacles that get in the way of businesses accessing and utilizing new energies will be removed. For companies, identifying how their operations supplement global and regional sustainability goals is also key to taking more targeted and coordinated action.

The financial burden associated with the clean transition that businesses face can also be significantly eased by government support. Risk sharing mechanisms between governments and enterprises such as subsidies, funds and other incentives would alleviate the pressure on businesses and give them more confidence to act. In doing so, businesses could respond with more ambitious emissions reduction targets and take more meaningful steps in contributing to climate solutions.

Lastly, international exchange can play a pivotal role in both regional and global sustainability strategies. Given the borderless nature of GHGs, coordinating joint action between countries will be essential to tackling climate change. A system that is practical and grounded in science which allows companies to measure the impact of their business activities on wider sustainability efforts would be highly conducive to the establishment of more effective regional partnerships within and across sectors.

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