

# Asia corporate sentiment slips in Q3; India, China upbeat

**TOKYO/HONG Kong (Reuters):** Business sentiment at Asia's top companies fell in the third quarter, marking the first decline in six quarters, as growing concerns about the global economic outlook dented optimism.

The Reuters Asia Corporate Sentiment Index RACSI dropped to 69 in the quarter from 78 in the second quarter, which was the highest since Reuters began collecting data in the June quarter, 2009. Still, strong economic growth within Asia continues to underpin sentiment, and the index remains well above the 50 mark that divides a positive outlook from a negative one.

A shift towards a slightly more cautious outlook since June comes against a backdrop of mixed US economic data that has raised fears about a double-dip recession.

In addition, European countries are set to cut spending, China is taking steps to cool its economy and Japan has warned of risks to its economy from a strong yen and slowing overseas growth.

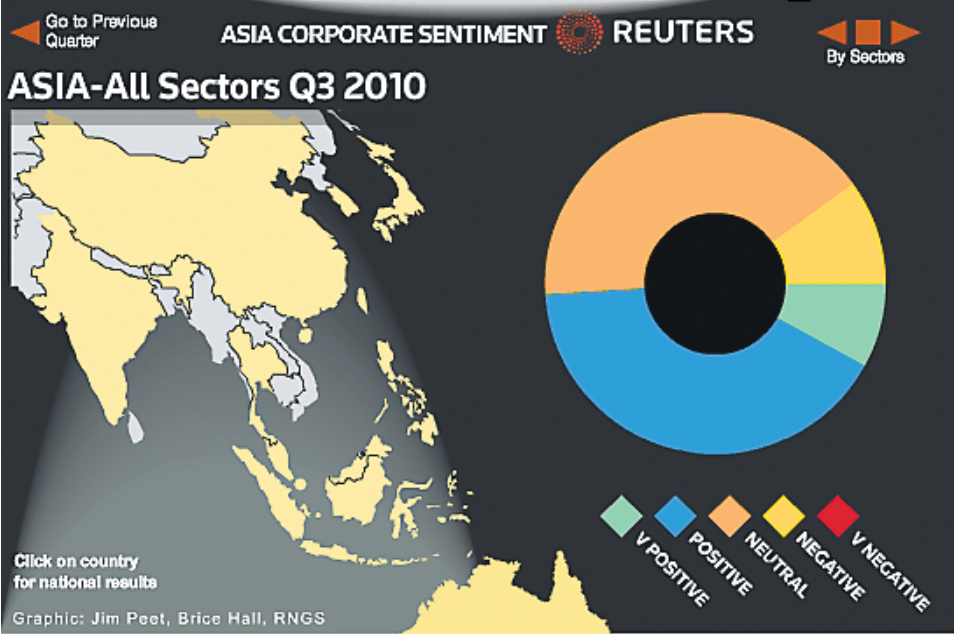
"The increased concern about a double-dip in the West, mainly the United States, coupled with a concern about how far Chinese policy makers will go with tightening measures are weighing on sentiment," said Kirby Daley, a senior strategist at Hong Kong brokerage Newedge Group.

The Reuters Asia Corporate Sentiment Index was compiled from a survey of top company executives between 7-13 September. Reuters polled 100 major firms in the following industries: airlines, autos, building, drugs, financial, food, property, resources, retail, shipping and technology.

Of the 59 companies in the survey, 24 view the six-month outlook for their business as 'positive' and five are 'very positive'. Twenty four firms are 'neutral', while six have a 'negative' outlook – double the number in June. The shift to a more cautious outlook was most marked in the tech sector, where respondents included India's Infosys Technologies, Japan's Canon and Taiwan's Acer.

Almost three quarters of the technology firms surveyed viewed the business outlook as 'neutral' compared with about a third in the June poll. Just three of the 13 technology companies respondents were 'positive'. Infosys and Wipro Ltd, India's No.2 and No.3 software services exporters, said on Monday that customers remain cautious about technology spending.

Half the firms surveyed from the financial sector said the six-month outlook for their business was 'positive' to 'very positive', down slightly from



the previous quarter. Japanese firms, which were slightly more cautious than their Asian peers in the second quarter survey, remained so – 11 of the 18 companies said the six-month outlook for their business was 'neutral', while four said it was 'negative'. Companies in the poll included Mitsubishi UFJ Financial Group and Japan's No. 1 drugmaker Takeda Pharmaceuticals.

"Japan is an outlier in Asia, as it has had a much more subdued recovery from the trough in early 2009, and it still has a lot of excess capacity, and is suffering from deflation," said Richard Jerram, Head of Economics at Macquarie Securities in Tokyo. "Policy inertia and political turmoil does not help either. As a result, it is unsurprising that Japanese firms are much more cautious than elsewhere."

In Australia, more than half the companies surveyed were 'neutral' about the business outlook, while in South Korea two of the five companies polled held a 'negative' outlook, with one shifting from a 'positive' stance in June.

**China going strong**

Corporates in Southeast Asia, China and India remained the most upbeat in Asia. India, Malaysia and the Philippines were the only countries where some companies were 'very positive'. Of the eight Chinese companies in the survey, three-quarters were 'positive' about the outlook.

That sentiment appears to be backed up by the latest economic numbers out of Beijing. Chinese factories ramped up

production in August and money growth easily topped expectations, showing that the economy remained buoyant despite government efforts to clamp down on bank lending and property speculation.

"The Chinese economy still continues to grow at a relatively fast pace," said Ben Kwong, Chief Operating Officer at KGI Asia in Hong Kong. "Even though it's started to slow, the growth rate is high compared to most Western economies. The emerging market is still a bright spot for investors."

**Resources, airlines**  
Expectations of strong demand from

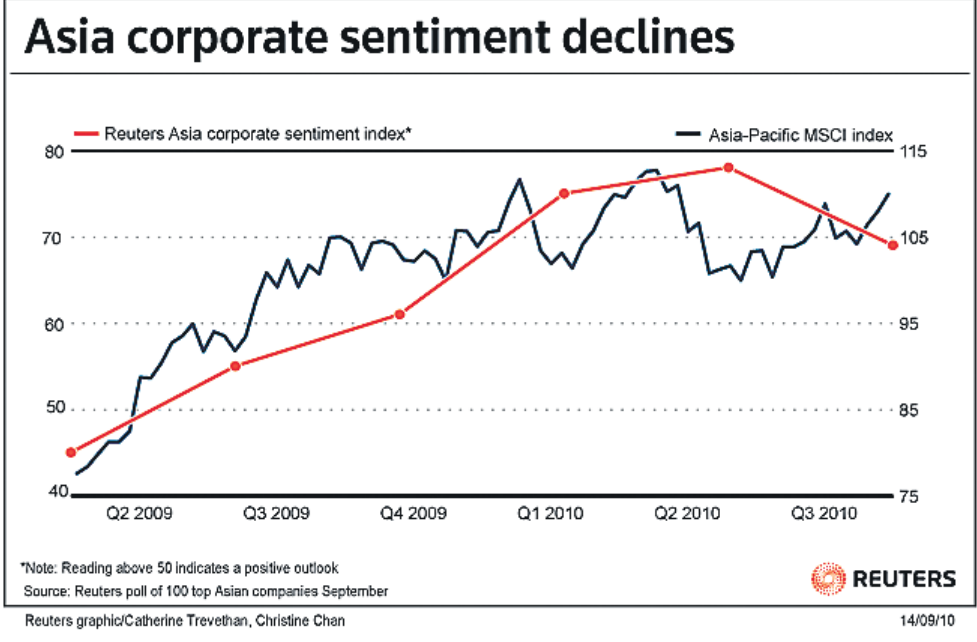
China may help explain why most resource firms in Asia are optimistic. Of the six resource firms in the poll, which includes mining giant Rio Tinto, four viewed the six-month outlook as 'positive', while one was neutral and the other negative. In the second quarter poll, of the five resource firms that responded, two were 'positive'.

"The Chinese situation seems to be a freight train economy running along. They'll be needing more and more commodities as they go forward," said James Wilson, Resources Analyst at Australian stockbroker DJ Carmichael. "At least in the short to medium term you'd have to be somewhat bullish on the outlook for commodities."

Airlines were also among the more upbeat companies in the region, with all three airlines in the survey viewing the six-month outlook for their business as 'positive' -- one of those shifted from a 'neutral' view in the June poll. Aviation fell into a nosedive after the global financial crisis but airlines are growing more confident as economic recovery takes hold, with expectations of profitability rising.

"General passenger demand is stronger than other regions. Premium passengers are coming back and that's why premier airlines, such as Cathay Pacific, are outperforming peers," said Jay J.H. Ryu an analyst at Mirae Asset Securities.

"The third quarter is a typical strong season for passengers, so general earnings and environment should be better than the first half, but cargo business could be a bit slower."



# South-south trade and GSTP

SOUTH-SOUTH trade and investment are on the increase giving rise to the term 'new geography of international trade.' South-south trade enables the diversion of trade from the saturated, recession hit markets of the West by providing new markets in emerging and developing markets with substantial and growing purchasing power.

In this context, the Global System of Tariff Preferences (GSTP) has potential to play an important supportive role in expanding south-south trade. GSTP is a lesser known preferential tariff scheme which was established in 1989. It provides a framework for preferential tariff concessions and other measures of cooperation to stimulate trade between developing countries.

GSTP member countries, through a technical cooperation agreement with UNCTAD, draw on UNCTAD's trade and administrative experience and expertise in negotiating and implementing the GSTP. The system was first articulated in 1976 when the Group of 77 discussed a preferential tariff among themselves.

The current round of negotiations known as the Sao Paulo Round was launched at the meeting held in Brazil in 2004. Although intentions were to conclude this round by September 2009, like with most negotiations, negotiations are still ongoing.

At present, the scheme covers 43 member countries of which some of the more important members are Argentina, Brazil, Chile, Egypt, India, Indonesia, Iran, Korea, Malaysia, Mexico and Vietnam. It provides a platform for exports to move at preferential tariff rates whereby products could be



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introduced to hitherto untapped markets.

At the time GSTP was launched, south-south trade and preferential market access may not have been very attractive to the members of the scheme as it was felt that all members being in developing stage could not offer substantial markets due to the level of economic development and the complementarity of products.

With the burgeoning wealth in these countries rapidly overtaking the West, now is the time to take another serious look at the GSTP scheme to explore new markets for our products.

The scheme which also allows preferential tariff rates when raw material

to the value of-not less than 60% of its fob value is sourced from member countries, paves the way for more south-south investments and backward linkages and methods to turn competitiveness into complementarities.

The importance of GSTP in expanding south-south trade is that it enables building bridges across countries and continents which otherwise may not have been connected through trade.

In the late eighties, when the idea of a south-south agreement of this nature was first envisaged and in the early nineties when the negotiations under GSTP were initially launched, south-south cooperation in trade and economic matters may not have been of major importance to the world as the world leaders in these areas were the developed countries of the West.

However, the world today is not the world that witnessed the establishment

My View

International Trade

By Manel de Silva

of the GSTP scheme.

Markets today in the West are becoming increasingly saturated due to financial crisis, recession and other economic woes which have reduced the importance of most of the developed countries while some of the developing countries have made major strides in their economies so as to be considered the emerging economies instead of mere developing countries.

The comparative advantages that such countries hold have made the multinationals and other large companies in the West turn to investing in the newly emerging economies and other developing economies.

UNCTAD's first Secretary General Raoul Prebisch had said that his goal was for the south to take centre stage in world trade instead of being in the periphery. Today, this goal is being progressively achieved and Sri Lanka should be actively involved in the negotiations.

(Manel de Silva holds an Honours Degree in Political Science from the University of Ceylon, Peradeniya and has engaged in professional training in Commercial Diplomacy at ITC and GATT. She served in Sri Lanka Missions in Moscow, Bonn, Washington, Singapore, Mumbai and Karachi as a Trade Diplomat and was the first female Head of the Department of Commerce as Director General of Commerce.)

My View

Social Media Onramp

By Angelo Fernando

Listen up! The blogosphere may be saying something

HAVE you looked out of the window while your flight waited for takeoff and seen a small truck, barely the size of an airplane engine, pushing a huge 767 into position? It looks so ridiculous. But this small vehicle has the capacity to move a massive hunk of metal carrying hundreds of people and thousands of gallons of fuel. Not to mention luggage!

Sometimes it's a bit like this in our world of communications. Social media humbles us when it demonstrates the power to give a big behemoth a bit of 'pushback.' And yes, there's an airplane involved in this story – the Boeing Company. Here's how it unfolded in three steps:

Harry draws lots of pictures of airplanes. Harry sends one of his drawings to Boeing. Boeing Corporate office sends him a letter saying it does not accept unsolicited 'designs,' and also adds that it has destroyed the picture.

Cruel? Dumb? A typical legal response? This could be a teachable moment as to why legal departments should not influence the public facing communications of a company. But it goes beyond that and has a social media twist.

It began with the father of Harry Windsor, writing a blog post ('Is Your Customer Service Ready for the New World of Openness?') about how his son was treated by Boeing. But instead of just venting, he pulled in his readers, a small community of people who typically follow an individual's blog. He asked his readers what they would do.

"Do I show the letter to Harry and kill his dream of being an airplane designer or throw it away and tell him I didn't receive anything so he keeps his artistic passion alive?"

But as blogs often do, the story got linked, and passed along. People came up with creative answers (including one that suggested writing the kind of letter that Boeing should have sent his son!). In a few days this private dilemma became public story, and Boeing was being ridiculed online. Before long it could no longer ignore what had gone on and was forced to join the conversation.

Listen up! In hindsight, we could draw out many lessons. The first is about the validity of a canned (and genuine) response. This sort of thing worked in the pre networked era. If people talked it would only go so far.

The second thing is whether Boeing actually did the right thing. Because of patent lawsuits, companies used to never solicit or acknowledge "ideas" from you and me, however good they may seem. If Boeing did the right thing –and I bet other companies do it all the time – it probably didn't do it the right way.

The third lesson is that any piece of communication today has to take into account the power of communities. Corporations such as Boeing may have a huge 'fan' base and teams of communicators but communities in the blogosphere can out manoeuvre the best-equipped outfit. They often form spontaneously and fast!

Not listening is a common malady in many media savvy organisations. It's easy to fire up the communication tools that generate column inches and click-throughs. But it's not so sexy to do due diligence, which involves checking the pulse of conversations that could have an impact on everything from your brand, to your product design, your sales strategy, packaging, competitors and customer service. Like Boeing, companies have been caught off guard by failing to listen to customers who complain about the service, or a product flaw.

Remember the famous Intel chip flaw in the eighties? The company was caught off guard when a professor posted a comment in a forum that the chip made mathematical errors. It took weeks before Intel recalled the PCs with those chips, and it paid a huge price in reputation. That was before Google and social networks. There is no excuse today for not listening, and not continually checking the pulse of your market.

But to get back to Boeing, the story does have a happy ending. Boeing Corporate responded – with aplomb. They thanked everyone for 'supporting' Harry, the child artist and budding airplane designer. In short, it decided – albeit a tad late – that it needed to loosen up.

The larger lesson in all this is that it is critical to build a strategy into your PR and Marcom that involves listening to the blogosphere, even in times when there is no hint of a crisis. You may be going about doing your job, producing marvellous products or rolling out great services that would make you the hero of any story. But there are tools you could use that would enable you to be more proactive, adjust your communication, or join a conversation before you experience a rude pushback.

(Angelo, an US-based, award-winning writer on the intersection of marketing, journalism, PR and technology, is a podcaster, public speaker, and manages a variety of blogs on PR, employee communication and new media. Angelo has a Bachelor's Degree in English literature and a Masters in Communication from Leicester, UK. His blog, Hoipolloi Report can be found at <http://hoipolloireport.com>. Email: [angelo@publicradius.com](mailto:angelo@publicradius.com).)