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UOB survey finds Asian enterprises focused on the region's burgeoning middle class and lower-cost destinations in their expansion strategies

Nanning, China and Singapore, 15 September 2014 – Catering to Asia's burgeoning middle class and relocating to lower-cost markets are the major forces behind the regionalisation strategies of Asian enterprises, according to *United Overseas Bank's (UOB) Asian Enterprise Survey 2014*¹.

The *UOB Asian Enterprise Survey 2014* is the first survey of its kind on the impact of trade flows on the way Asian enterprises do business and expand regionally. It found that enterprises in the food and beverage, tourism, leisure and travel services sectors in particular are focused on capturing the increased spending power of Asia's middle class. According to Brookings Institution, by 2030, Asia is expected to account for two-thirds of the world's middle class consumers or about 3.2 billion people, a majority of whom will live in China².

Mr. Frederick Chin, Head of Group Wholesale Banking at UOB, said that the *UOB Asian Enterprise Survey 2014* reaffirmed that rising incomes create opportunities for those businesses that can cater to the higher expectations and consumption patterns that come with increased affluence.

"Companies that can create the services and products to meet the rising expectations of Asia's middle class have a unique opportunity to build sustainable and strong regional businesses. They will be able to tap into a closely-integrated and increasingly interconnected Asia for abundant and sustainable growth opportunities," Mr. Chin said.

The *UOB Asian Enterprise Survey 2014* also found that China, home to more than 1.3 billion people, is the top expansion destination (32 per cent) for Asian enterprises. Malaysia (27 per cent), Singapore (24 per cent), Vietnam (24 per cent) and Indonesia (19 per cent), which are seeing strong growth in middle class households, also feature among the top choices for regional expansion.

¹ This survey was conducted by UOB in February and March 2014 among 1,024 Asian enterprises to understand how they view challenges and opportunities in the region, as well as their plans for growth.

² Source: Brookings Institution, "The New Global Middle Class: A Cross-Over from West to East", March 2010

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Businesses search for profits in lower-cost locations and new markets

Even as opportunities to serve Asia's rising middle class abound, many Asian enterprises are grappling with the increasing cost of doing business in the region. Twenty-two per cent of the respondents cited rising costs as the main factor limiting their business growth while 15 per cent said their regionalisation plans were affected by labour shortage.

Enterprises in the manufacturing sector in particular say that they are looking to set up facilities in relatively less expensive markets such as Vietnam and Myanmar.

Mr. Suan Teck Kin, Senior Economist, UOB said, "Production and labour costs in developed cities in China and Singapore are inching upwards. As a result, Asian enterprises are now exploring lower-cost cities within China or are relocating their labour-intensive operations to less expensive Southeast Asian countries. This allows businesses to trim their costs and remain connected to Asia's large middle class consumer base."

Forty per cent of Chinese enterprises surveyed said they were considering moving from recent growth hotspots in the Pearl River Delta and the Yangtze River Delta to emerging consumer markets in lower-cost areas in Southwestern and Central China such as Nanning, Chongqing and Chengdu.

Relationships matter when selecting a new business location

In choosing their next regional expansion destination, Asian enterprises also tend to rely on opinions found in social networks and by word-of-mouth. The *UOB Asian Enterprise Survey 2014* found that almost half of the business leaders surveyed depend on the advice of personal and business contacts with a similar language or culture (24 per cent) or trade associations and financial advisers (20 per cent) when making decisions on when and how to expand regionally.

This 'network effect' has been a key factor driving the Memorandum of Understanding between UOB and the China Council for the Promotion of International Trade which is aimed at increasing foreign investment and trade between China and Southeast Asia.

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"As Asian enterprises spread their wings across the region, UOB's network and deep understanding of Asian economies put us in a good position to help our customers lay a strong foundation for their growth and expansion," Mr. Chin said.

The *UOB Asian Enterprise Reports 2014* can be downloaded from www.uobasianenterprises.com.

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About United Overseas Bank

United Overseas Bank Limited (UOB) is a leading bank in Asia with a global network of more than 500 offices in 19 countries and territories in Asia Pacific, Western Europe and North America. Since its incorporation in 1935, UOB has grown organically and through a series of strategic acquisitions. In Asia it operates through its branches and representative offices as well as banking subsidiaries in China, Indonesia, Malaysia, the Philippines, Singapore and Thailand.

UOB plays an active role in the community, focusing on the arts, education and children. It has, over more than three decades, held the longest-running art competition in Singapore, the UOB Painting of the Year. In recognition of its contributions to the arts, UOB was conferred the National Arts Council's Distinguished Patron of the Arts Award for the tenth consecutive year in 2014. UOB also encourages its employees across the region to be involved in its regular volunteer activities. This includes the annual UOB Heartbeat Run which is held in Singapore, Malaysia, Indonesia, Thailand and mainland China.

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