APAC

BDO's Global Risk Landscape Report 2023 examines the 'risk multiplier' effect and how global businesses should be moving toward a more risk-welcoming approach.

APAC business leaders are becoming more risk-welcoming, but the move towards a more proactive approach is tempered by just over half (52%) of respondents describing themselves as being risk welcoming or risk taking "when necessary."

The majority (72%) agree that the global risk landscape is better characterised by the relationships between risks, rather than individual risks, and more than three-quarters (78%) believe risks are becoming more interconnected and complex.

FIGURE ONE:

72%

of business leaders from APAC agreed the Global Risk Landscape is better characterised by the relationships between risks rather than individual risks themselves

78%

of respondents from APAC believe risks are becoming more interconnected and complex

52%

of respondents from APAC described themselves as risk welcoming or risk taking when necessary

FOR MORE INFORMATION:

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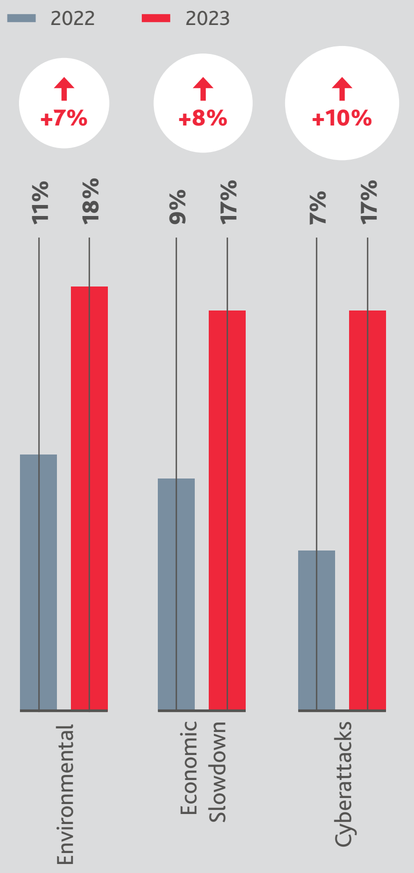
FIGURE TWO: TOP THREE RISKS YOUR ORGANISATION IS UNPREPARED FOR



There is an uptick in the top three risks that APAC organisations are unprepared for. Environmental risks topped the poll at 18%, up 7% from 2022, while economic slowdown and cyberattacks came a close equal second at 17%. Economic slowdown unpreparedness is up by 8%, while cyberattack unpreparedness is up by 10%.

The cyber-related questions gave an interesting mix of responses—39% of APAC respondents said their organisation struggles to handle the speed and sophistication of cyberattacks, which is below the overall average of 55%, and in contrast to 92% reported in the Americas. However, 30% see AI technology as a somewhat significant or significant business risk, six percentage points above the 24% overall score, and 65% scored highly on how far along their organisations are with digital transformation, sitting in the middle of the regional breakdown spectrum.

Forty-three percent of APAC respondents are unprepared for supply chain risks, a risk that has been exacerbated by reliance on China.

"Due to COVID-19, China has been locked down for almost three years and many major brands, such as mobile phone and sportswear brands, are moving out from China to the Asia-Pacific region," explains Ricky Cheng, Director and Head of Risk Advisory, BDO Hong Kong. "This is because they're finding supply alternatives to ensure business sustainability."

CHINA CONTINUES TO DRIVE RISK PRIORITIES IN ASIA PACIFIC

China, with all its economic might, remains an influential force in risk management across the APAC region, despite the impact of recent lockdowns. This is largely down to the country's geopolitical and economic power, and regulatory changes that make waves far beyond its borders.

Two of the main trends shaping the way risk is managed in APAC are ongoing tensions between the US and China, and the Chinese government's introduction of ESG reporting requirements for domestic enterprises.

GEOPOLITICAL RISKS

American sanctions on Chinese tech companies continue to have a knock-on effect across the region, as Washington and Beijing spar with the international community watching closely. In the survey, 38% of APAC respondents selected geopolitical tensions as the risk they are the least prepared for, second only to supply chains.

In February 2023, six more companies were added to the list of Chinese tech companies on which the US has imposed sanctions, following high altitude objects being shot down by US authorities after it was suspected they had been sent by China for espionage purposes. Meanwhile, US tariffs on China that were imposed during Donald Trump's presidency, ranging from 7.5% on many consumer goods to 25% on industrial components, semiconductors, vehicles, and selected electronics, have remained in place under President Joe Biden. Despite ongoing trade talks between the two countries, these tariffs are not expected to be lifted soon.

With tariffs and sanctions making it expensive for China to export goods to the US, many Chinese businesses have moved some operations to countries such as Vietnam and South Korea. The financial risk for countries where China is present include a decline in profits for local companies that are finding it harder to compete, along with workforce risks—the resulting decline in available jobs for Vietnamese and South Korean employees puts pressure on labour markets.

Against this backdrop, the political relationship between Australia and China has also deteriorated, yet Australian businesses have managed to mitigate the economic risk this created for domestic exporters to China.

"From May 2020 China blocked the import of about a dozen Australian goods—everything from grain, timber, seafood, wine—for which China was the major market," says Marita Corbett, National Leader, Risk Advisory, Australia. Additionally, China is buying Australian coal in much smaller quantities than before the pandemic.

However, she adds that most Australian exporters quickly found new markets for blocked goods, while other exports to China remained steady in 2020 and achieved some growth in 2021 and 2022, such as iron ore, natural gas and lithium, which China cannot readily source from elsewhere.

APAC businesses seeking to mitigate the impact of geopolitical risks, which create financial and potentially reputational risks, can use a range of strategies. These include diversifying supply chains and relocating manufacturing away from China; working closely with Chinese partners and using expert consultants to better understand and navigate Chinese markets and regulatory requirements; and staying up to date on the latest geopolitical and regulatory developments.

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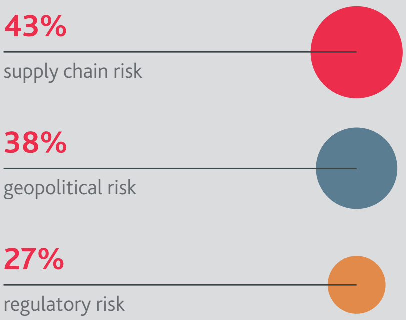
MARITA CORBETT

National Leader, Risk Advisory Services, BDO Australia

FIGURE THREE: AMONG THE TOP FIVE RISKS, BUSINESS LEADERS IN APAC ORGANISATIONS ARE MOST UNPREPARED FOR



ESG AND REGULATORY RISKS

China's introduction of ESG reporting requirements for domestic enterprises is reflected in 27% of APAC survey respondents citing regulatory risk as one of the top risks they are unprepared for, and 66% of respondents saying regulatory changes posed a somewhat significant or significant threat to their organisation. Additionally, the 2021 Chinese Personal Information Protection Law affects companies dealing with private data from China.

Companies operating in China will find it difficult without disclosing their own ESG performance. Partners will be keen to compare the ESG performance of Chinese companies with those outside China. Increased shareholder and investor pressure on companies to improve ESG performance will make ESG performance a key factor in remaining competitive.

FIGURE FOUR:

66%

of business leaders in APAC said regulatory changes posed a somewhat significant or significant threat to their organisation

However, Cheng points out that the pressure to invest in green technologies, improve supply chain sustainability, and strengthen ESG policies and procedures is not unique to companies with operations in China.

"Many regulators [worldwide] are now focusing on climate change disclosure requirements," he emphasises. "In the coming one to two years, many companies will have to compete for resources and to build capacity to fulfil that kind of disclosure."

"[Business people] may not have that kind of insight and knowledge of climate science—if they are going to do climate scenario analysis and calculations of the scope of emissions, they don't have the expertise," Cheng continues. "So, they have to rely on external support, including consultants, to fulfil regulatory requirements—this is happening all around the world."

Mitigating the regulatory risks created by more stringent ESG requirements is something businesses globally have to manage. For APAC businesses seeking to work with China, it is imperative to keep up with the latest regulations, proactively mitigate the risks with the help of experts, and operate sustainably as part of a bigger regional and global commitment to meeting ESG responsibilities.