



CEO confidence in Asia Pacific shaken but strong



800 business leaders with operations in APEC economies

- *Topline, margin pressure building*
- *Optimistic on free trade*
- *Digital transformation is accelerating*
- *Education is the route to inclusive prosperity*



Welcome



Doris Magsaysay Ho
Chairperson, APEC Business
Advisory Council
President and CEO,
A. Magsaysay Inc.



Tony Tan Caktiong
Chairman, APEC 2015
CEO Summit
Chairman, Jollibee
Foods Corporation



Jaime Augusto Zobel de Ayala
Member, APEC National
Organizing Council
Chairman and CEO,
Ayala Corporation

As the world becomes more complex with major shifts reshaping the economic and business landscape, the APEC Business Advisory Council, the APEC CEO Summit and the Philippine government widened the engagement with the private sector throughout the APEC 2015 hosting year.

High-level dialogues with APEC Ministers, enriched by background study and research from our knowledge partner PwC gave CEOs the opportunity to share their insights and recommendations on key sectoral issues. The summaries of these dialogues are available in a series of PwC reports.

For the fifth year, PwC is publishing this annual APEC CEO Survey, the results of views from CEOs about their confidence in the region's continuing economic strength. While confidence levels in growth prospects have fallen in the wake of recent volatility, the region continues to invest. CEOs also see great promise in new technologies and high-value manufacturing in creating and attracting new business to the region.

These reports offer us great insights as we gather during the APEC Leaders Meeting Week this November in Manila for the APEC CEO Summit with the theme, "Creating the Future: Better, Stronger, Together," and for the APEC SME Summit with the theme, "Innovation and Big Ideas: Pushing Boundaries."

The dialogues and survey results show how greatly interconnected and interdependent our APEC economies have become. This underscores the importance of having more inclusive business models and policies that will allow SMEs to enjoy increased business opportunities that free trade brings.

We close our ABAC 2015 hosting year with great hope that our focus on inclusive growth will bear fruit. Working together, business and governments have a unique opportunity to achieve inclusive prosperity.

We thank PwC and its management team from across the world for the tremendous work and effort they exerted to bring depth to our discussions and for the enthusiasm and energy they brought to the table.

About this report



Dennis Nally
PricewaterhouseCoopers
International Limited, Chairman

This past summer, 800 CEOs and industry leaders with operations in at least one of 21 APEC economies shared their perspectives on doing business in Asia Pacific. We're grateful for their time. Their insights are invaluable as we think about what the next five years may bring in Asia Pacific.

Our findings reflect a region in transition: while their confidence is tempered by rising uncertainties, CEOs remain eager to take advantage of new opportunities for growth. It's telling that the majority plan to increase investments in the APEC region over the next year. This is testament to the experience Asia Pacific CEOs have gained in managing short-term instability and how to balance this against the opportunities to generate business in the region.

Some of what we know as the usual course of business is going to change by 2020. CEOs expect the digital economy to expand at a fast clip. Many expect manufacturing will be transformed by advances like automation and 3D. Above all, they're optimistic that a free trade arena for Asia Pacific is taking shape.

These new directions are going to test the bonds that have developed over a generation of regional economic cooperation. In fact, a renewed focus on trust is perhaps the greatest challenge before us. Transparency will be at a premium as businesses, as well as investors and citizens navigate through the uncertainty and find their path to success in this rapidly evolving region.

We believe this report is an important indicator of things to come. We hope it will help facilitate further dialogue among the participants in this year's APEC CEO Summit.



Executive summary

Asia Pacific CEOs are used to balancing short-term upheavals in various markets against the promises across this region to generate new business. This year, that balancing act got tougher.

Just one in four business leaders (28%) is “very confident” in revenue growth during the next year, down from 46% a year ago. This is the lowest level since PwC began tracking 12-month confidence for APEC CEOs in 2012.

Slowing demand from China, the catalyst for intra-regional trade, is moderating expectations across industries and geographies. More broadly, growth risks continue to tilt towards emerging markets.

Thus uncertainties are rising. **The region’s adjustments to China’s economic transition are now as closely watched as China’s own internal economic adjustments.**

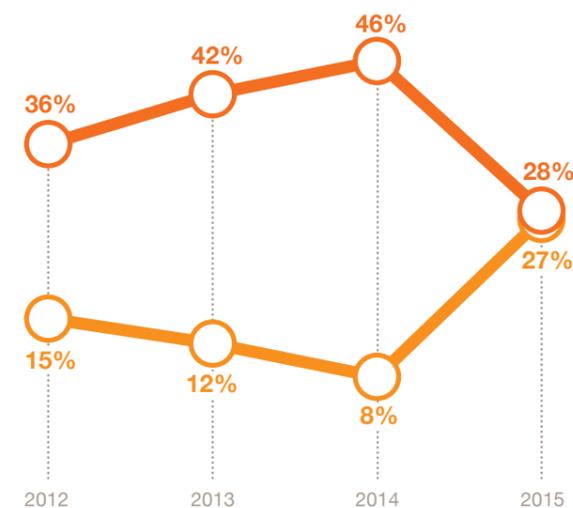
After a year of historic foreign direct investment into developing Asian economies, CEOs have become hypersensitive to financial market signals. PwC surveyed 800 business leaders with operations in APEC’s 21 member economies between June 23 and August 21.

“I think volatility to a certain extent will always be present, at the very least intermittently over the course of time. It also naturally comes with any change. I believe that it is not necessarily a bad thing, since at times it forces us to adapt or to effect needed healthy change.”

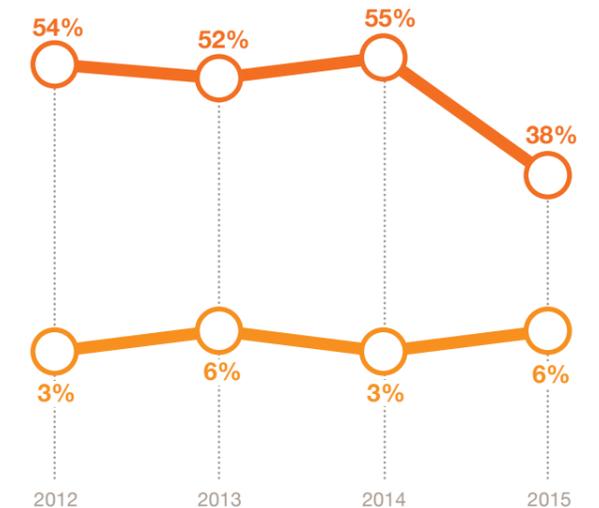
Tony Tan Caktiong, chairman, Jollibee Foods Corporation, The Philippines

Business growth prospects clouded for Asia Pacific CEOs

Confidence in revenue growth over the next 12 months



Confidence in revenue growth over the next 3-5 years



Very confident Not very confident

Q: 2015: How confident are you about your organisation’s prospects for revenue growth in your principal economy in APEC? Pre-2015: How confident are you about your organisation’s prospects for revenue growth...

Base: 2015: 800, 2014: 635, 2013: 478, 2012: 356 (includes don’t know responses)

Source: PwC 2015, 2014, 2013, 2012 APEC CEO Survey. www.pwc.com/apac

This was a time of exceptional volatility in the financial markets. Over this three-month period, as the US prepared to raise interest rates for the first time in nine years and China intervened repeatedly to stem a rout in stock prices, the CEO confidence level dropped by 23 percentage points.

US-China and the APEC ripple effect

Opportunities from regional economic integration — built on shared beliefs in freer trade and accelerating on the back of digital networks—have long been apparent. Today, CEOs are more mindful of the risks.

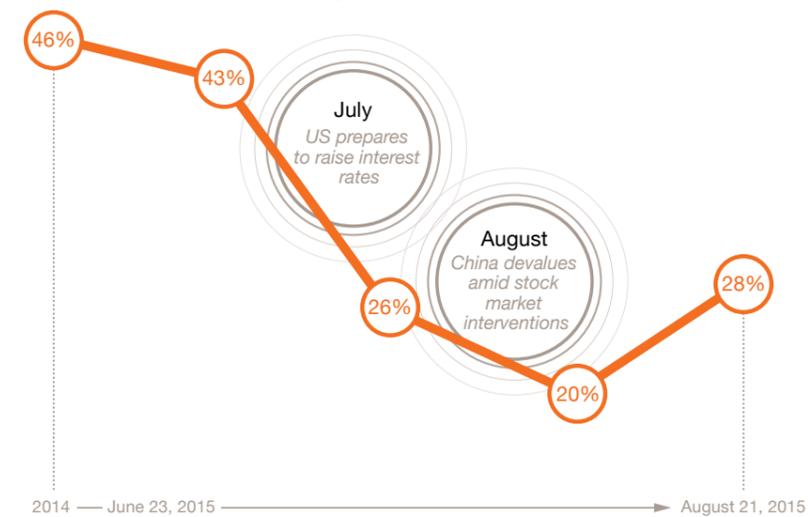
The US-China joint initiative on cybersecurity in September and the early October breakthrough on the Trans-Pacific Partnership (TPP) free trade project offer fresh signs that regional policymakers can make headway on the next generation of international trade barriers.

“When China slows down, everyone else slows down. If China is booming, suddenly everybody else is booming. That affects jobs and the stability of countries. Whether we like it or not, we are all relatives, we are all tied together, we are in the same family.”

Dr. Allan Zeman, chairman, Lan Kwai Fong Group, Hong Kong

Asia Pacific CEO confidence faltered as market volatility rose

CEOs ‘very confident’ in revenue growth



Q: How confident are you about your organisation's prospects for revenue growth in APEC over the next 12 months?
 2014: Q: How confident are you about your organisation's prospects for revenue growth over the next 12 months?
 Base: Pre July 10th: 181, between July 10th and August 9th: 356, post August 10th: 293 (includes don't know responses), 2014: 635
 Source: PwC 2015, 2014 APEC CEO Survey. www.pwc.com/apec

Nonetheless, CEOs are calibrating political as well as market risks to their businesses: 88% of respondents said an escalation of geopolitical tension in the region would adversely impact their business. To compare, 78% said the same for a sharper-than-forecast deceleration in China.

Five of 21 APEC member economies—The Philippines, Singapore, Thailand (tentative), US, Chinese Taipei, and Peru—are slated for changes in leadership during the next year, or within the last two months in the case of Singapore, Canada and Australia. Also next year, China will set out a new five-year economic development plan.

Given the economic and business uncertainties, any potential for new directions on regional economic ties from any of these events will draw attention.

APEC CEOs are distributing operations and expanding into new APEC geographies, based in part on long-held assumptions that intra-APEC trade will grow and that, on balance, trade barriers will recede rather than rise. This view is still intact. **CEOs expect deeper economic integration in Asia Pacific through 2020.**

On average, CEOs in PwC's 2015 APEC CEO Survey are business investors in 5.6 APEC economies other than their own.

There are bright spots.

Economies in this region are not moving in tandem: some are less dependent on China's economy or less vulnerable to today's heightened volatility, and some, like the ASEAN economies and Pacific Alliance, are pooling their strengths. Urbanisation is driving new demand for services expertise like logistics. Tokyo has set the trend in online-to-offline (O2O) deliveries that retailers across Asia Pacific city centres are racing to match.

Consumers remain a formidable source of economic dynamism. Households in many APEC geographies are becoming richer. For example, there will be an additional 4.6 million households with US\$5,000 - \$20,000 (2012 USD) annual income in the Philippines by 2020—an increase of 42% from 2010, according Oxford Economics projections. Households that earn in excess

“More and more trade deals will occur, but my assumption is that more and more countries will begin to understand the need to reduce their barriers without having to do so in a negotiation.”

Scott Price, chief administrative officer, Walmart International; president and CEO, Walmart Asia

of US\$5,000 generally start purchasing goods like automobiles. This in turn creates desires for infrastructure improvements ranging from more roads and airports to faster broadband and better healthcare delivery. Here's a case where creating investment conditions to meet that pent-up demand is the issue—not the demand itself. On balance, there is more capital today than infrastructure projects that are ready-to-go in developing Asia Pacific.

Finally, CEOs also see manifold opportunities to gain efficiencies and modernise. They see the possibilities in the application of digital technologies in manufacturing. They believe the “sharing economy,” as a proxy for new ways consumers and businesses can trade any number of assets over Internet platforms, has much more room to run.

How CEOs see this region evolving through 2020 is the subject of this report

Respondents represent a broad range of industries, and responses are drawn from each of APEC's 21 member economies. Their views on the forces shaping opportunities in this region, supplemented by interviews with executives and other specialists in the region, including those from PwC, form the basis for the analysis in this report.

“The TPP will be the largest economic bloc in the world. It's superior to the European Community and larger ... than China, and since the US is a member, it's a very, very substantial achievement.”

Juan Francisco Raffo, honorary chairman, Raffo Group, Peru

Top 10 findings

1.

Topline, bottom line pressures building

As business leaders adjust to macroeconomic disruptions, room to maneuver is shrinking. A third of CEOs (33%) are now less confident in margin improvement from domestic operations than they were a year ago. More see difficulties in forecasting compliance costs or tax liabilities. They're more optimistic in places where they can assert more control, such as finding the right partners to grow the business or in launching new products and services, where twice as many CEOs are 'more confident' (32%) rather than less.

2.

Diversification apparent

China, the US, and Indonesia remain the main draws, but CEOs are allocating new investment across the region. Each of APEC's 21 member economies is attracting at least one first-time business investor during the next year. Overall, CEOs say 68% of planned new investment will be allocated to APEC economies compared with 32% spread around the rest of the world.

3.

Geopolitical, disaster risks rising on the radar

From territorial disputes in the South China Sea to unrest in some APEC economies to scattered demonstrations against the Trans-Pacific Partnership (TPP), political as well as market risk calculations are moving to the forefront for CEOs: 14.5% said they would hold back investment to "a great extent" if tensions in the region escalate. The ever-expanding web of Asia Pacific supply chains has put more assets at risk from natural disasters as well. Fragmentation is not expected to stall: Most CEOs (61%) think high-value manufacturing will spread to more APEC economies during the next five years.

4.

Digital transformation is accelerating

Consumers and businesses alike are expected to accelerate technology investments: 63% of CEOs foresee a new wave of business spending to modernise operations by 2020. One in five (22%) think it "very likely" that manufacturing in the region will be transformed by the likes of robotics, connected sensors, and 3D printing during the same time. Digital access varies widely among the citizens of APEC's economies. This translates into tremendous opportunities for growth.

5.

Demand for IT, logistics, and risk services growing fastest

Services are becoming more important to APEC economies as global trade in goods falters. A third of CEOs (34%) see demand for technology design and integration in their organisation growing to "a great extent" during the next 3-5 years. This is where demand is growing the fastest, followed by logistics and supply chain services (29%) and risk reduction (24%).

6.

Innovation from more places

A majority of CEOs (57%) expect innovation leaders will rise from developing economies in the region during the next five years. This includes just under a third of CEOs with oversight for operations in either the US or China, who think it "very likely." The stage has been set for wider sources of innovation: As multinational corporations globalise R&D, Asia has become the number-one location worldwide for corporate R&D, surpassing both North America and Europe.

7.

Free trade across Asia Pacific is more likely than not by 2020

A majority (60%) think that APEC is on the right track and are optimistic about deeper economic integration in the region. In fact, one in four respondents (24%) believe a free trade arena in Asia Pacific is "very likely" to take shape by 2020, despite the fact that, while there has been some progress, this reality is still some ways off. Even today, in a region with over 100 free trade projects (FTAs), there remain gaps between what's on paper and what happens in practice, resulting in higher costs and uncertainties in international trade.

8.

Multiple paths for growth on Asia Pacific connectivity

Respondents are not pinning their hopes for greater access on just one trade arrangement. The ASEAN Economic Community (AEC) offers greater promise at the moment for 35% of CEOs. And 24% say the TPP, if fully implemented, will create more opportunities for their organisations than other regional trade projects. As one technology executive from New Zealand, one of the 12 TPP economies, put it, "the lower the tariffs, the more trade will increase."

9.

Free trade alone is not enough for small businesses

As healthy and expanding middle classes become much more important to APEC economic growth, CEOs recognize that policy prescriptions will adjust to better support small businesses—the engines of local employment and wealth. New approaches are called for. For CEOs in businesses that can be considered mid-sized (annual revenue from \$500 million to \$2.5 billion), 50% think lowering barriers to trade and foreign investment does more harm than good.

10.

High-quality education for high-quality national growth

Most CEOs recognize they have a stake in building the middle class in regions where they do business. And while no single measure can undo the effects of technology advances and global competition on incomes and demand for skills, there are ways to extend the benefits from growth and trade in the region's economies. Respondents believe expanding access to education at all levels and investing in infrastructure to unclog the region's congested roads, ports, and airports will enable more people on the margins of society to participate in economic growth. These are ranked one and two, respectively, as the two most effective policy levers at hand to foster inclusive prosperity.

An aerial photograph of a modern city, likely in Asia, showing a dense cluster of skyscrapers and a complex multi-level transit system with elevated walkways and green-roofed sections. The scene is bright and clear, with a mix of modern glass-fronted buildings and older structures.

Asia Pacific: More modern, more connected

Implications for business leaders

Prepare for volatility

Don't be distracted by short-term adjustments, but do understand how industrial policies will orient to spur global competitiveness and continual innovation from large state-owned enterprises to small- and medium-sized enterprises. Economies are nurturing the national champions of the future.

Modernize your business

Automation, 3D printing, and digital analytics herald long-sought productivity and efficiency gains that will free up resources for new adventures. Logistics, product development, customer relations, and sourcing are on the frontlines of this transformation.

Be a partner in development

There's so much more potential in large cities today and in smaller cities and rural areas from Indonesia to Indiana. Growth is being held back by fraying infrastructures and disjointed coordination. Private-public cooperation to build up the institutional capacity needed to unleash private sector investment will yield results.

Greater transparency builds trust

Volatility gives rise to a strategic dilemma: What are the bumps in the road and what is the "new normal"? It's difficult to set course with insufficient transparency. Trust gaps on cybersecurity are an example of what can hold back investment. Where to begin? There are many entry points. Here's one: Imagine what total transparency around importing/exporting rules would mean for a small business on the cusp of breaking through. This is the size of the prize at stake in Asia Pacific.

1. Topline, bottom line pressures building

Fewer CEOs expect either revenue or margin gains than did at this time last year

Much of the profit squeeze is happening in some of the developing APEC economies. There are more CEOs in China or ASEAN economies who are losing confidence in domestic margin expansion than those who are expecting improvements. It is the reverse for CEOs with oversight for US or Japan markets.

The US and Japan are currently growing at a modest pace while weaker commodities prices, volatility surrounding rate take-off by the Fed, and exposure to China are putting pressure on many emerging (as well as some mature) APEC economies.

Compared with responses from this time last year, profit growth outlooks are faltering across the map. This time last year, the outlook was improving for 51% of business leaders for China, and 48% for the US. This year,

26% and 40%, respectively, are “more confident” in domestic margin expansion. The sentiment change is stark for some CEOs with ASEAN operations: this year, 16% are more confident in domestic margin growth. Last year, 46% said margins looked to improve.

One of the pillars supporting the rise of the APEC region to 57% of global GDP is eroding. World trade growth is projected to rise 2.8% this year,¹ which means it may well underperform the growth rate of global GDP.² This reversal has happened just twice during the past 20 years.

At the moment, global demand is weak and cost advantages are shifting. Yet advances in industrial automation and 3D printing are also putting to rest expectations that business as usual will resume once demand recovers. What this region’s extensive, complex, and still-spreading supply chains are going to look like is surely one source of the uncertainties today.

Nonetheless, a crisis similar to the 1997 crisis is unlikely, according to PwC global economists.³ Most South East Asian economies have adequate fiscal and external buffers to manage a downturn. More crucially, most have moved to flexible exchange rate regimes, which have in turn responded to external pressures.

APEC economies’ resilience in the face of the more recent global crisis in 2008-09, “speaks volumes not only of their strength but of their resilience,” Tony Tan Caktiong, chairman of Jollibee Foods Corporation, told PwC.

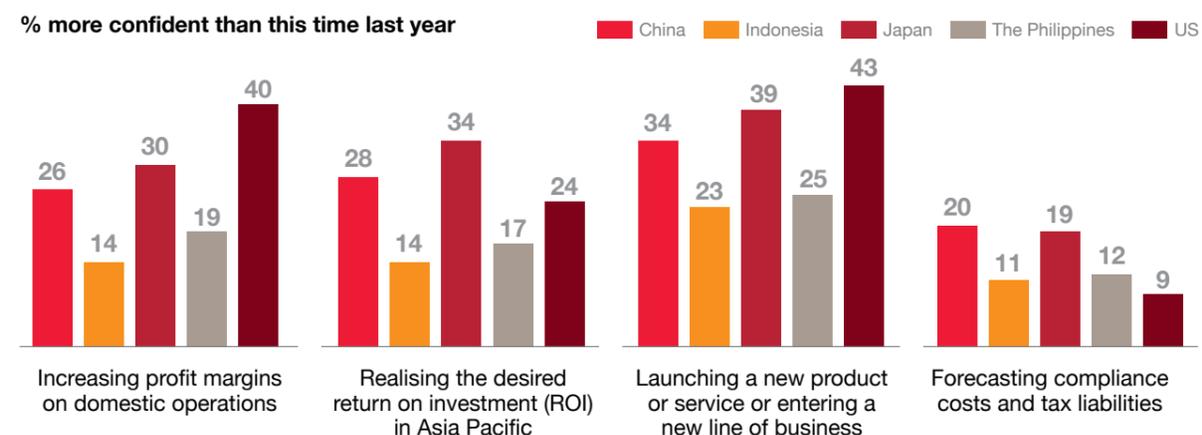
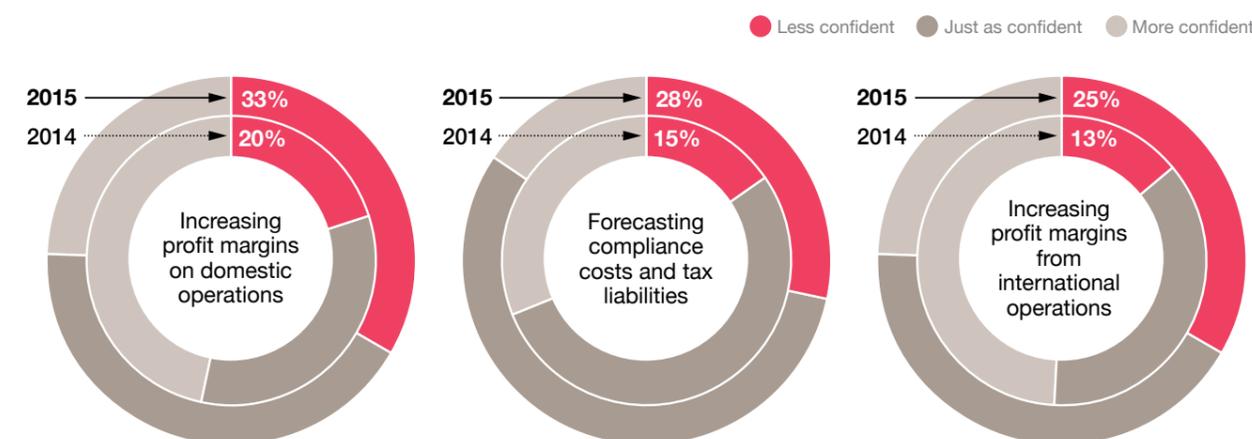
Just how other regional players will absorb the knock-on effects is in focus. For example, 51% of CEOs with oversight for the Philippines are ‘very confident’ in revenue growth next year. Interestingly, in the Philippines case, according to Oxford Economics analysis, the economy is relatively well-placed to weather today’s global market volatility.

“I speak to a lot of business people as I travel around the world, and there is some uncertainty now. And uncertainty in business is just as bad as negativity in many cases, and I think it’s that uncertainty that is making people a little bit nervous.”

Scott Price, chief administrative officer, Walmart International; president and CEO, Walmart Asia

¹ World Trade Organization, “Falling import demand, lower commodity prices push down trade growth prospects,” September 30, 2015.
² IMF, “Transcript of the World Economic Outlook Press Conference,” October 6, 2015.
³ PwC, “Global Economy Watch: How big a risk does the slowing Chinese economy pose?” October 2015. (<http://www.pwc.com/gx/en/issues/economy/global-economy-watch/assets/pdfs/global-economy-watch-october-2015.pdf>)

Profits under pressure Look for Asia Pacific CEOs to accelerate innovation



Q: Compared to a year ago, how has your confidence changed about achieving the following in your principal economy?
 Base: 2015: 800, 2014: 635, by economy, 2015: 113-44
 Source: PwC 2015, 2014 APEC CEO Survey. www.pwc.com/apec

2. Diversification apparent

On average, respondents are investors in 5.6 APEC economies

After historic FDI inflows in 2014 to developing Asia,⁴ some pullback could be expected. Yet our findings show that half of CEOs (53%) expect to raise investments during the next 12 months.

As was the case in 2014, most (68%) new investments are being allocated to APEC economies.

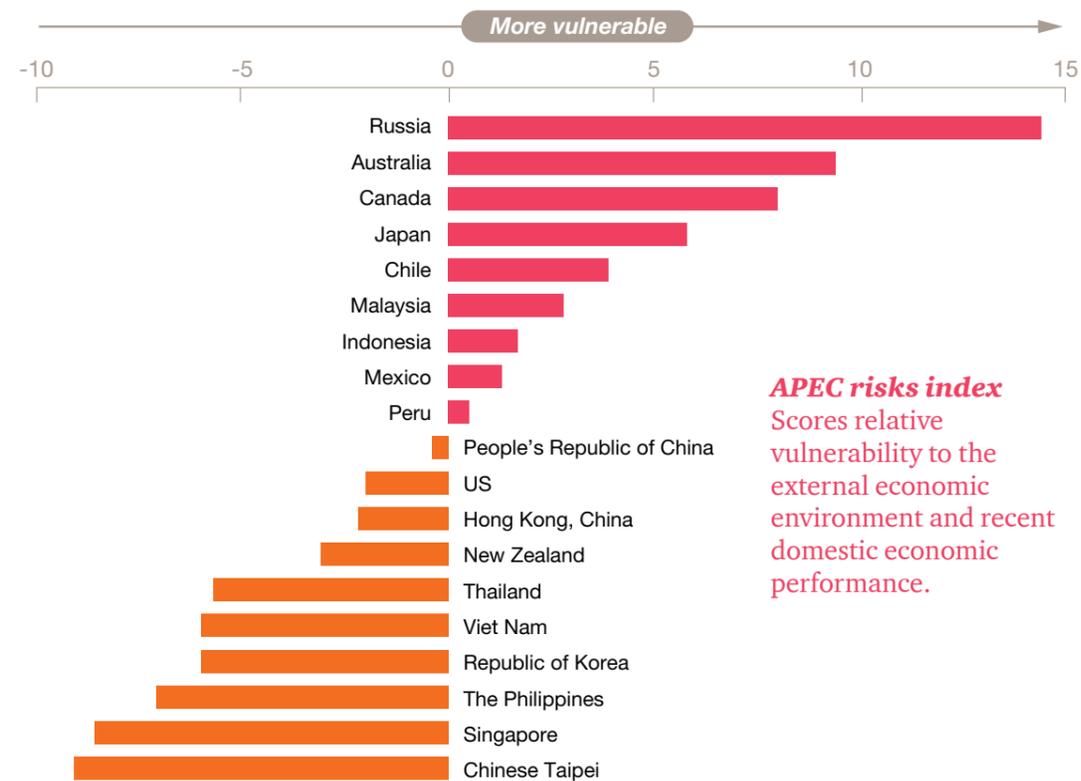
CEOs are entering new economies as well: Each of APEC's 21 member economies is attracting at least one first-time business investor during the next year. Few business leaders (8%) are decreasing their overall investment globally during the next 12 months.

Some of this investment diversification may reflect an adjustment to a "new normal" in China. For example, some

New Zealand consumer-oriented businesses are taking a more diversified approach to their investments and the markets that they serve in Asia Pacific, said Katherine Rich, CEO of New Zealand Food & Grocery Council. The spread of investments across APEC economies reflects our 2014 findings. It suggests a resilience in Asia Pacific, at least in terms of the region's diversity in economic development and assets.

Evolution of APEC risks

Comparing key indicators of economic health over the past 12 months

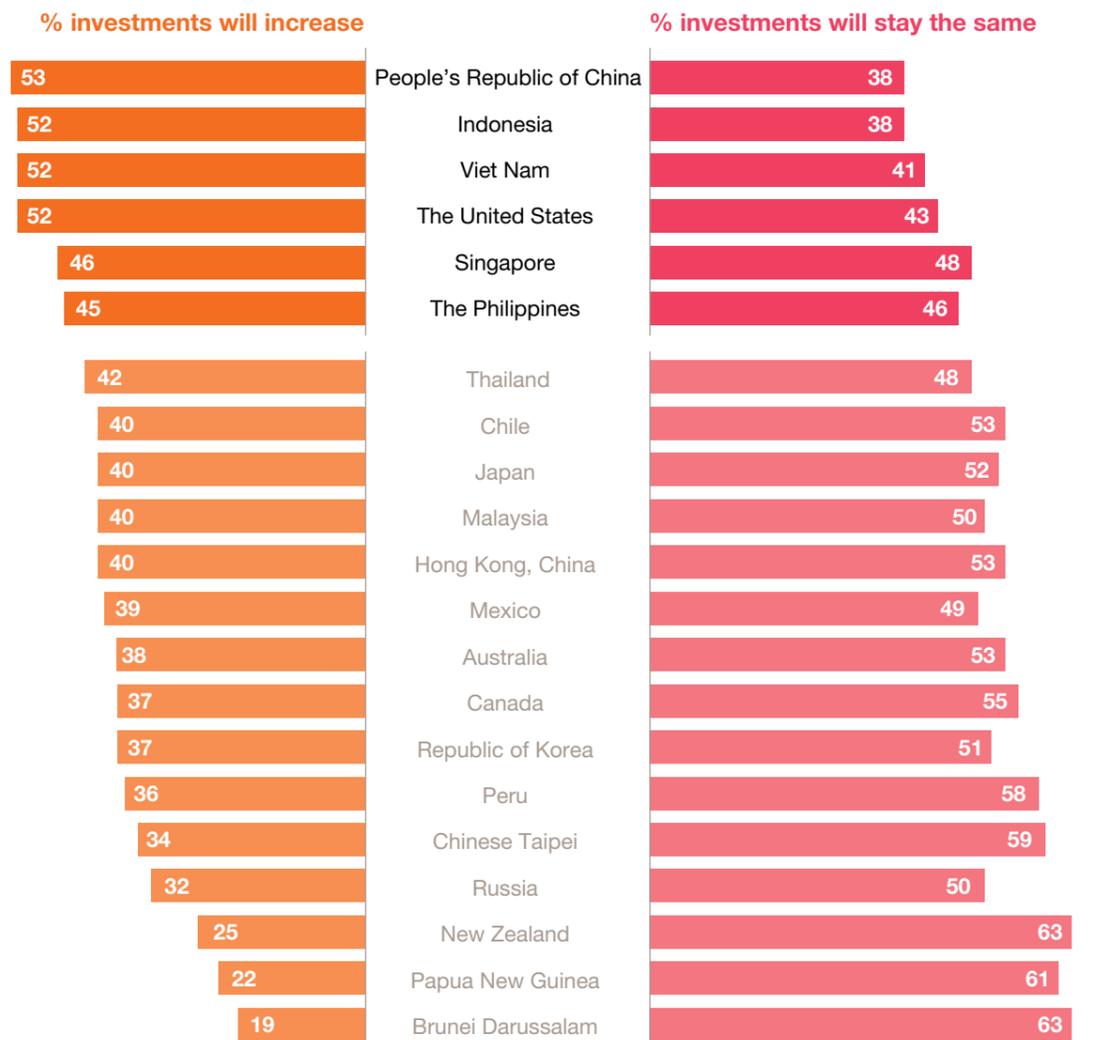


The APEC risks index takes recent changes in core indicators for each economy, and then scores these relative to other economies to determine overall vulnerability to global macroeconomic events. The indicators include: capital flows, debt and deficit, as well as credit profiles; and inflation, growth and currency movements.
Source: Analysis for PwC by Oxford Economics

Diversification within APEC apparent for 2016

On average, CEOs in PwC's 2015 APEC CEO Survey are investing in 5.6 other Asia Pacific economies

Over the next 12 months...



Q: Now thinking of your footprint in APEC economies, will your business investments increase, stay the same or decrease over the next 12 months?
Base: 2015: 77-282. Rebased to calculate percentages for respondents with a footprint in each relevant economy only. Those investing in their own principal economy are excluded. Not showing planned decreases.
Source: PwC 2015 APEC CEO Survey. www.pwc.com/apac

⁴ United Nations Conference on Trade and Development, "World Investment Report 2015: Reforming International Investment Governance."

3. Geopolitical risks, disaster threats rising on the radar

Political as well as market risk calculations are moving to the forefront

For a region accustomed to economic interests asserting due influence over policy, changes in the perception of political risk can have an outsized impact on CEO investment decisions. Some 14.5% of CEOs say they would curb investment in the region to a “great extent” as a result of escalating geopolitical tensions.

These concerns are not misplaced. “Politics wields significant influence on economic development,” Joseph N.C. Huang, president of E.Sun Financial Holding Company Ltd., told PwC. “As countries are slowly trying to better themselves on a global stage, their ultimate goal should be to create peace and harmony in the region.”

“Asia Pacific leaders are all committed to raising the quality of life for their people... We believe that sometimes things may slip here and there, but overall, the direction is the right one, and things will get done.”

Lim Siong Guan, group president of the investment fund GIC Private Limited, Singapore

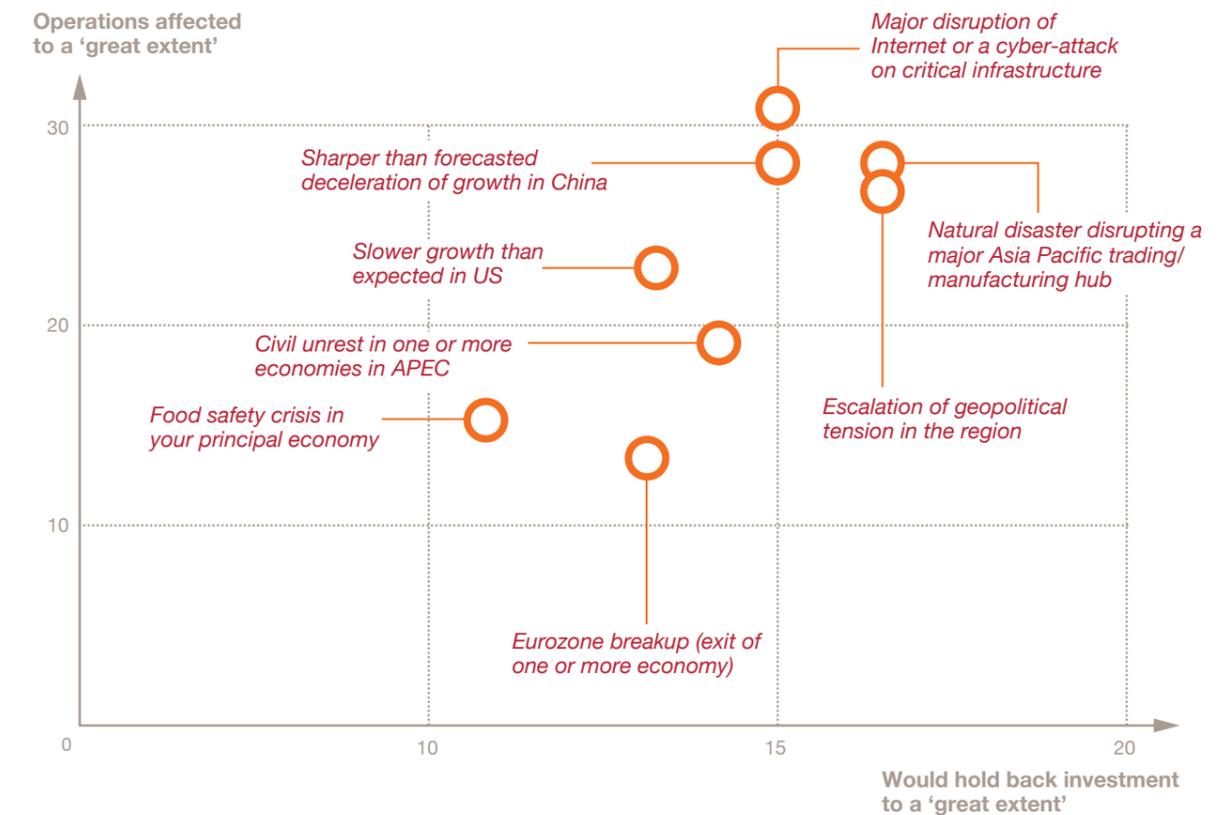
Five APEC member economies—the Philippines, Thailand (tentative), US, Chinese Taipei, and Peru—are slated for changes in leadership during the next year, in addition to Singapore, Canada and Australia within the last two months. Next year, China will set out a new five-year economic development plan. In any of these events, any potential for new directions on regional economic ties will draw attention.

If regional integration is driving business growth across Asia, it’s also increasing the value of assets at risk. Most CEOs (82%) expect a natural disaster disrupting a major Asia Pacific trading or manufacturing hub would affect their organisation, and 28% say to “great extent.”

Physical losses from natural disasters are mounting around the world, but in Asia they are outpacing GDP growth. From 1970-2010, Asia accounted for more than half of all natural disasters, leading to 1.7 million deaths and an average annual cost of \$53.8 billion.⁵ Ironically, Asia’s economic dynamism may be increasing its vulnerabilities; trends such as rapid urbanization, population density, and resource scarcity are combining with geographic factors to create the “perfect storm” of natural disaster conditions in the region.

Indeed, according to Lloyd’s City Risk Index 2015-2025 analysis, \$1.3 billion of Ho Chi Minh City’s projected GDP over the next 10 years is at risk from flooding. And \$29 billion of densely populated Tokyo’s projected GDP is at risk from wind storms.⁶

How risks influence investment decisions in Asia Pacific



Q9: In your opinion, if the following scenarios happened in the next 12 months, to what extent would your organisation be adversely affected?
 vs Q10: You indicated that your organisation would be adversely affected if the following scenario(s) happened in the next 12 months. For this/each scenario, to what extent is your organisation holding back investment in APEC economies as a result?
 Base: 406-744 (includes don't know responses).
 Source: PwC 2015 APEC CEO Survey. www.pwc.com/apac

⁵ PwC, "Rebuilding for resilience," 2013. (<http://www.pwc.com/gx/en/industries/capital-projects-infrastructure/disaster-resilience.html>)
⁶ Lloyd's City Risk Index: 2015-2025.

4. Digital transformation is accelerating

CEOs foresee a wave of spending to modernise operations and believe the “sharing economy” has more room to run

APEC is still a region of digital “haves” and “have nots.” And in general, the “haves” are in a much better position to succeed economically. But digital opportunity is spreading—the development of wireless and the cloud has meant that less physical infrastructure is now required to connect people. Unburdened by legacy infrastructures, developing APEC economies can power ahead, given the right conditions.

There is much optimism about the transformational promise of expanded Internet access. Consider that access is outpacing the growth of disposable incomes. For example, to compare two APEC economies: In Malaysia, 69 in 100 people regularly use the Internet, according to the World Bank, as average household personal disposable income reached US\$ 28,015.6 in 2012. Meanwhile in Mexico, 46 in 100 people are Internet users, with average disposable income of US\$30,512.8.

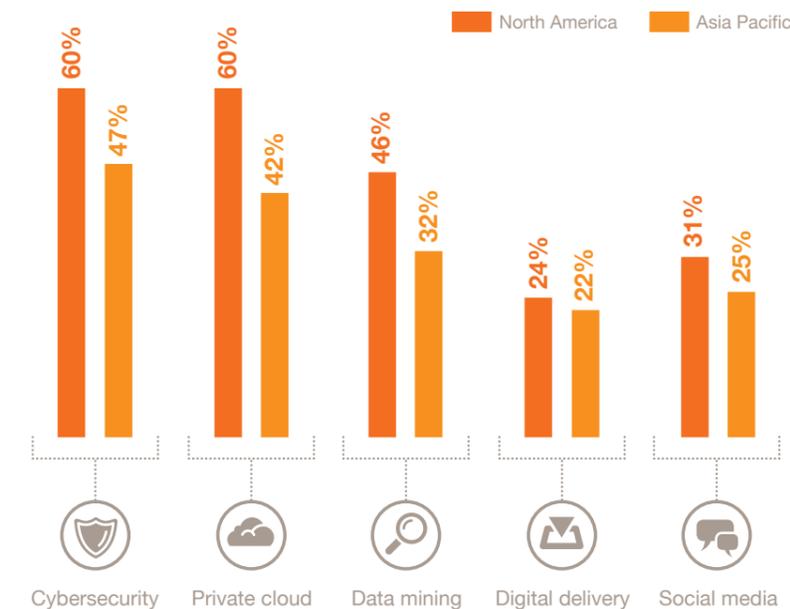
A majority of CEOs expect more businesses and people to participate in the sharing economy—a rapidly growing phenomenon fully dependent on trustworthy Internet connectivity.

Opting to rent—rather than to own—has already made considerable inroads into Asia Pacific. In fact, Nielsen notes that Asia Pacific consumers are among the most receptive globally to these emerging virtual marketplaces. A recent Nielsen consumer report placed China, Indonesia, the Philippines, and Thailand among the top markets globally that are prepared to participate in the sharing economy.⁷

New businesses that rely on the strength of these platforms are

proliferating, from US\$ billions raised through crowd funding to ordering meals in a cook’s home. For example, Triip.me in Viet Nam allows budding entrepreneurs to create tourism packages and market them online. In Hong Kong, you can rent someone’s suitcase. Investors are taking notice of this phenomenon: Tujia.com, the so-called “Airbnb” of China, just raised \$300 million in funding at a \$1 billion valuation.⁸

Top digital technologies investment



Q: What are your investment plans for 2015?
Base: 149, 200 executives, showing ‘will invest more’
Source: PwC, Digital IQ: Three surprising digital bets, January 2015.

⁷ Nielsen, “Asia Pacific consumers embrace the share economy,” May 28, 2014.

⁸ Reuters, “China’s Airbnb-like Tujia raises \$300 mln to expand overseas,” August 3, 2015.

What will Asia Pacific look like in 2020?

CEOs expect:

Manufacturing transformed
by new technologies like robotics, connected devices and 3D printing

44% likely

22% very likely

Digitally driven

As more people and businesses hook into the sharing economy

48% likely

12% very likely

More modern

A new wave of business spending to modernize operations

41% likely

22% very likely

Q: Consider the following statements about the business environment in APEC economies in 2020. For each statement, indicate the likelihood of each scenario occurring.

Base: 685-690

Source: PwC 2015 APEC CEO Survey. www.pwc.com/apec

“Technology is not just for rich countries. If we talk in terms of technology making life a bit more comfortable, everyone has benefited. The wealthier countries do have a certain advantage because of the cost, but creativity and innovation can enact change anywhere.”

Lim Siong Guan, group president of the investment fund GIC Private Limited, Singapore

5. Demand for IT, logistics, and risk services growing fastest

Services are becoming more important to APEC economies as global trade in goods falters

A third of CEOs (34%) see demand in their organisations growing “to a great extent” for technology design and integration. This is where services demand is growing the fastest, followed by logistics and supply chain and risk reduction services. And demand is strongest amongst mid-sized businesses, some of which are likely building the expertise required to break through in global markets.

CEOs we spoke to are especially cognizant of the potential of emerging technologies to transform manufacturing during the next five years. Digital technology is already streamlining manufacturing in some APEC economies by

enabling manufacturers to operate “command centers” through which they can manage global processes. The expectation is that wired factories will be able to respond more quickly to unanticipated market changes by using 3D printing technologies and refining prototypes on the spot.

3DP has the potential to shrink supply chains, save product development times, and increase customization offerings for customers who now expect products to be tailored to their needs. In fact, they want a hand in designing the product, too. 3DP has arrived on the factory floor and into R&D. According to a recent PwC survey of US manufacturers,⁹ two out of three companies are already adopting 3DP in some way—from experimenting with the technology to making final products.

The implications for logistics and sourcing are clear. Global manufacturing is now a possibility for many more businesses, including those outside the traditional industrial manufacturing sectors.

“Typically energy companies are mega-sized organizations. They are huge, they are state-owned, they are monopolies. But when you start promoting renewable projects, a small renewable company can build a small solar farm or mini hydro plant on its own. A lot of alternative energy players are SMEs. I believe that by pushing renewable energy, we can help inject growth into these SMEs. Right now, there are about several hundred SME renewable energy developers in this country alone.”

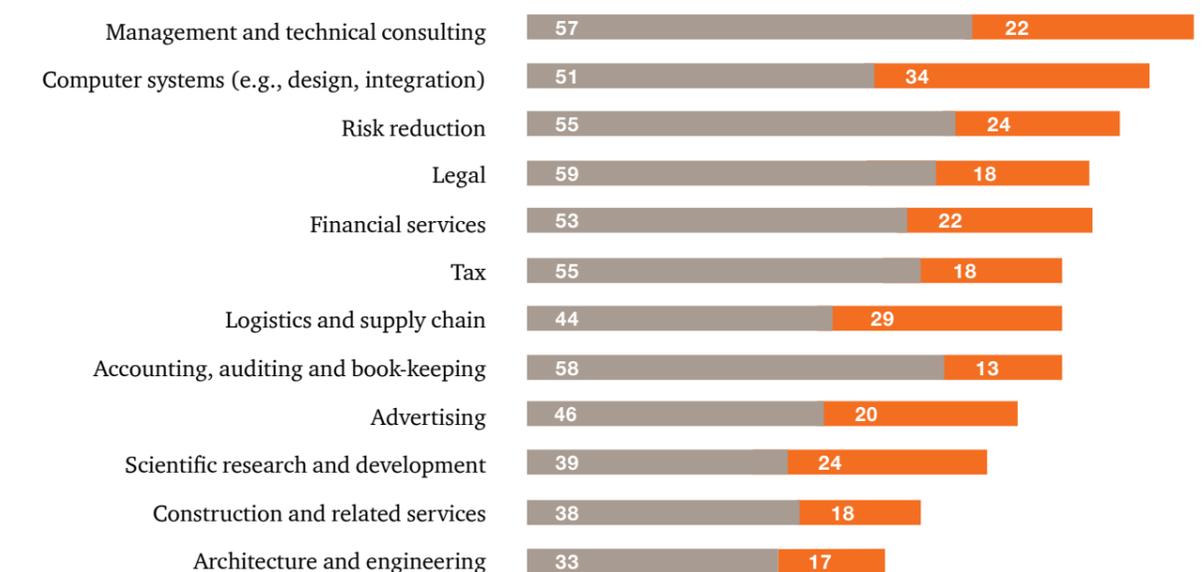
Vincent S. Pérez, founder and CEO, Alternergy, The Philippines

“Recent financial development has been tied closely to technology advancement. In many countries, while the financial sector may not be as advanced, many of the young people own cell phones—and even smart phones. We believe that inclusive finance can be achieved through cell phone [use]. We can offer better services to people using the power of technology.”

Joseph N.C. Huang, president, E.Sun Financial Holding Company Ltd., Chinese Taipei

Services becoming more important to Asia Pacific as global trade in goods falters

How CEOs see services demand for their business growing... ■ % to some extent ■ % to a great extent



Top three services in demand for businesses with annual revenue US\$500mln - \$1bln



Q: How do you expect demand in your organisation for the following services will grow over the next 3-5 years?

Base: 751-753, excludes 'not at all' and 'don't know' responses

Source: PwC 2015 APEC CEO Survey. www.pwc.com/apec

“A year ago ... we were struggling to find workers, and we did hire some temporary foreign workers to work for our company. ... It would have been a lot easier for us if we had had the ability to understand that, for example, when I hire an engineer in one country, the designation is equivalent in Canada or the US, and that I would not have to go through a lot of additional costs and time to put someone to productive work.”

Deborah Close, president, Production Services Division, Tervita Corporation, Canada

⁹ PwC, “3D printing and the new shape of industrial manufacturing,” June 2014. (<http://www.pwc.com/us/en/industrial-products/3d-printing.html>)

6. Innovation from more places

As global businesses shift R&D to Asia, the stage is set for disruptive innovation

Just under a third of CEOs with China or US market oversight believe it “very likely” that more innovation leaders will rise from developing economies in the region during the next five years.

Part of this rise will be fueled by the increase of corporate R&D for Asian market demand as well as the manufacturing industry. In 2015, Asia, including India, became the number-one location worldwide for corporate R&D, according to an analysis on R&D trends by Strategy&. ¹⁰ Asia accounted for 35% of R&D for 207 of the largest multinational spenders, surpassing both North America (33%) and Europe (28%).

“After 11 consecutive years of increase in domestic supply, the rising production cost of agricultural products in China has prompted policy-makers to rethink their self-sufficiency strategy and look outward to secure food imports from other APEC economies and beyond. For this reason, we recently invested overseas to help build a global food supply network and channel. We want to be able to tap into the expanded productivity and cost advantage that an international market could bring.”

Frank Gaoning Ning, chairman of the food processing company COFCO Corporation in China

This represents a dramatic shift: Today, China is the second-largest location for global business R&D spending, surpassing Japan and Germany. And as Chinese firms set up their own global innovation centres, China has begun exporting R&D as well. Within China, the 12 companies in the country that are among the 207 global innovators included in the Strategy& analysis spent \$10 billion domestically of the \$55 billion in-country total.

The stage has been set for innovation from more places, adding to what’s already underway in the consumer and digital marketplaces. For example, judging by the intensity of patent activity, China and Chinese Taipei were in the top three economies for developing technologies related to digital data and lighting in 2010-2012, according to an analysis by the OECD. ¹¹

China signaled its continued cultivation of web-based entrepreneurship with its March 2015 announcement of the government-funded “Internet Plus” initiative, which aims to further integrate the Internet with the

country’s economic and social sectors. According to China’s Premier of the State Council Li Keqiang, the government hopes its investment will lead to “new industrial modes, including mass entrepreneurship and innovation, manufacturing, agriculture, energy, finance, public services, logistics, e-commerce, traffic, biology, and artificial intelligence.” ¹²

Yet when it comes to digital investments, recent PwC research found that companies are not investing in technology to disrupt their own or other industries. Rather they are almost entirely focused on applying digital to grow their existing business models. ¹³

That said, there is plenty of disruption taking place inside of organisations. Leadership’s desire to capitalise on digital technology is so strong that it’s disrupting enterprise operating models. Thus businesses are investing in technologies that span all areas of the business—not just IT. Regionally, executives in Southeast Asia (40%) are most likely to be investing more than 15% of revenue. ¹⁴

¹⁰ Strategy&, “The 2015 Innovation 1000: Innovation’s New World Order,” October, 2015. (<http://www.strategy-business.com/feature/00370>).

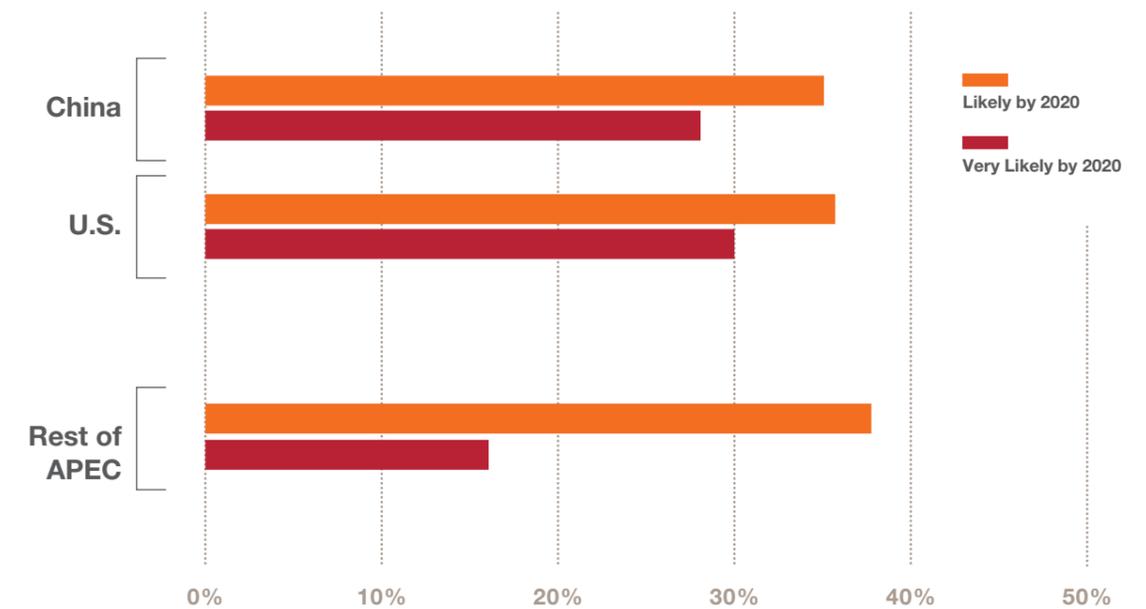
¹¹ OECD, “Science, Technology and Industry Scoreboard 2015”, October, 2015. (http://www.oecd-ilibrary.org/science-and-technology/oecd-science-technology-and-industry-scoreboard-2015_sti_scoreboard-2015-en)

¹² Wheatley, Mike, “China plans a Big Data revolution with Internet Plus initiative,” siliconANGLE, July 6, 2015.

¹³ PwC, “2015 Global Digital IQ Survey.” (<http://www.pwc.com/gx/en/services/advisory/2015-global-digital-iq-survey.html>)

¹⁴ ibid

US, China CEOs agree: Innovation leaders from developing Asia Pacific economies to rise



Q: Consider the likelihood for the business environment in APEC economies in 2020: Leaders in innovation rise from developing economies in the region.

Base: 538, rest of APEC; 50-99, US, China (including 'neither/nor' and 'not likely' responses).

Source: PwC 2015 APEC CEO Survey.

“Investment in infrastructure is crucial. We believe the demand for infrastructure will be in excess of \$1 trillion over the next ten years in the region. This needs to be invested wisely and efficiently. We are advocates for development banks in the APEC economies which have already made considerable progress in investing in infrastructure. The creation of the Asian Infrastructure Investment Bank, with operating capital of \$100 billion, is key to facilitating greater investment in the debt and equity of infrastructure projects.”

Kirill Dmitriev, CEO of the Russian Direct Investment Fund and Co-CEO of the Russia-China Investment Fund

7. “Free trade” across Asia Pacific is more likely than not by 2020

Intra-APEC trade projected to outpace global trade in 2016

CEOs think that APEC is on the right track and are optimistic about deeper economic integration in the region. In fact, one in four respondents (24%) believe a free trade area for Asia Pacific (FTAAP) is “very likely” to take shape by 2020, despite moderate progress towards the goal thus far.

Regardless of trade pacts, projected growth in demand for goods and services in the region is impelling businesses to look beyond their own geographies for new growth. Intra-APEC trade is forecast to outpace world trade in 2016 due in part to an improving outlook for key economies. For example, import demand in China is likely to improve as consumer spending continues to outpace GDP, and Japan’s economy is expected to accelerate after a soft start in the first half of 2015, according to analysis by Oxford Economics.

“Talent is the number one challenge that we have. Due to the fact that a lot of start-up companies would like to head-hunt, we have to spend a lot of time trying to keep the culture [positive] ... to retain our talent.”

John Lo, chief financial officer and senior vice president of Chinese Internet service portal Tencent

Barriers to skills mobility to drop more slowly

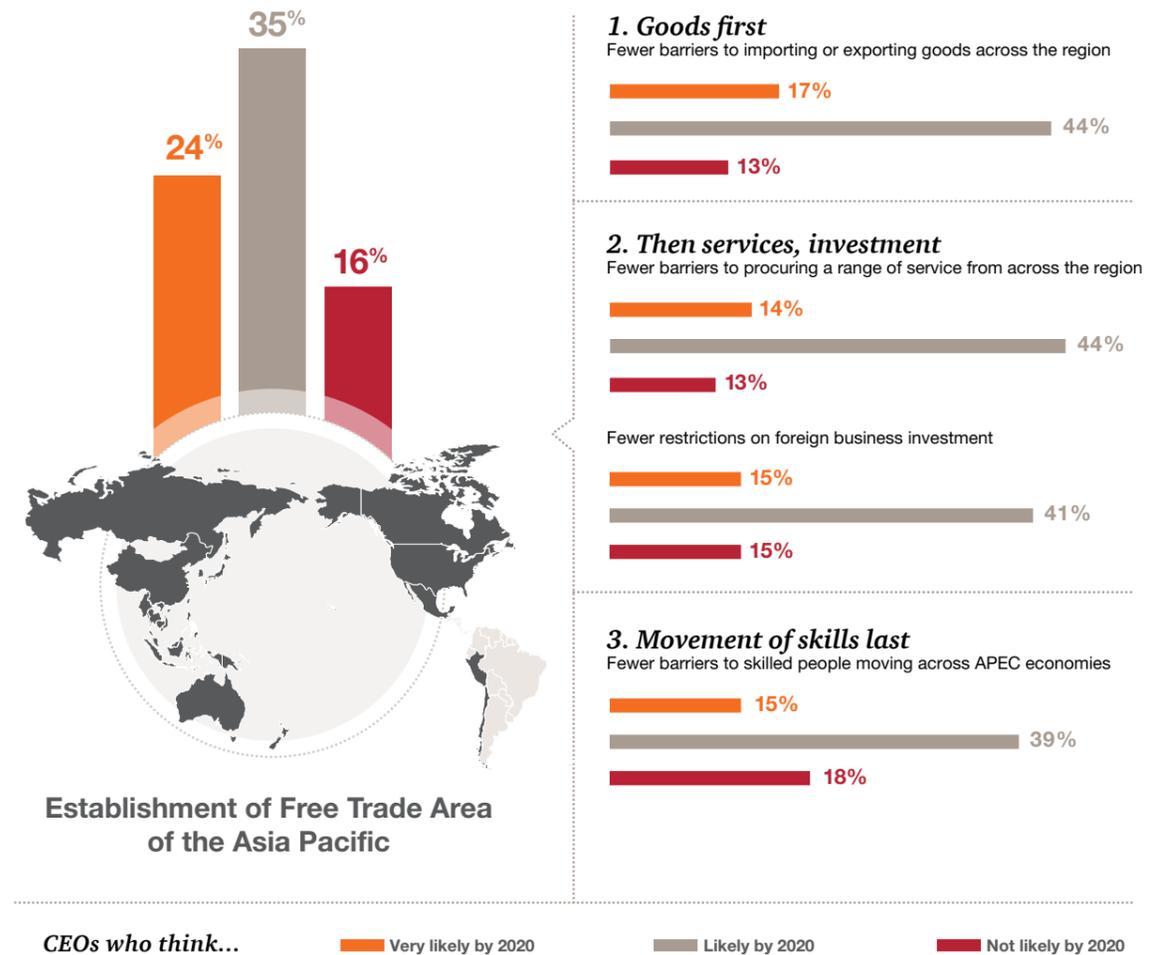
Employment-driven migration is one of the more politically charged issues for APEC trade negotiators, but there are some forces driving change. For one, workforces are aging in more places. This is happening the fastest in Japan, where 25% of the population was 65 and older in 2013 compared with 4% in The Philippines, according to APEC.org data. As workers retire, competition to replace them with younger workers from other geographies will heat up.

Corporations are another force for change on skills mobility. CEOs value a regional mindset and capabilities. When asked what advice they would give today to a promising young executive in their organisation, respondents emphasized again and again the vital importance of traveling throughout the region, saying there is no substitute for the experience of seeing for oneself different cultures and markets in action.

While the number of employees on the move across borders is rising, corporate mobility programs are not able to meet demand on their own. When CEOs were asked how they felt about securing the talent and skills they need to operate globally, only 20% said “more confident” compared with this time last year.

Even in economies that are more open to importing skilled workers, there are gaps in practice that can leave businesses struggling to meet their needs. Deborah Close, president of the Production Services Division at environmental solutions provider Tervita Corporation in Canada, recounted a recent experience in which her company needed to hire some temporary foreign workers for seasonal work. Her company identified workers from Mexico and Poland, but the process of bringing them to the worksite was fraught with complications: “It would have been a lot easier for us if we had had the ability to understand that, for example, when I hire an engineer in one country, the designation is equivalent in Canada or the US, and that I would not have to go through a lot of additional costs and time to put someone to productive work.”

Asia Pacific regional economic integration will proceed on several fronts



Q: Consider the following statements about the business environment in APEC economies in 2020. For each statement, indicate the likelihood of each scenario occurring.
 Base: 690-695, excludes 'neither/nor' and 'don't know' responses.
 Source: PwC 2015 APEC CEO Survey, www.pwc.com/apec

“I think regional trade agreements, when they’re successfully delivered and they’re comprehensive, make it easy for everyone to trade, including big companies. But it’s true for small companies as well. And often in part because ... the rules of engagement are more uniform across different countries. So there are lots of reasons why good multilateral trade agreements matter. It’s delivering them that’s the hard part.”

Sir Rod Eddington, AO, chairman (Australia and New Zealand), J.P.Morgan

8. Multiple paths for growth on Asia Pacific connectivity

CEOs see many paths to growth for their organisations from regional connectivity

Whether it's driven by trade arrangements, new infrastructure development, or broadband networks. When asked to consider an array of trade pacts, more CEOs (35%) say the ASEAN Economic Community (AEC) offers greater promise. And 24% say the TPP, if

fully implemented, will create more opportunities for their organisations than other regional trade projects.

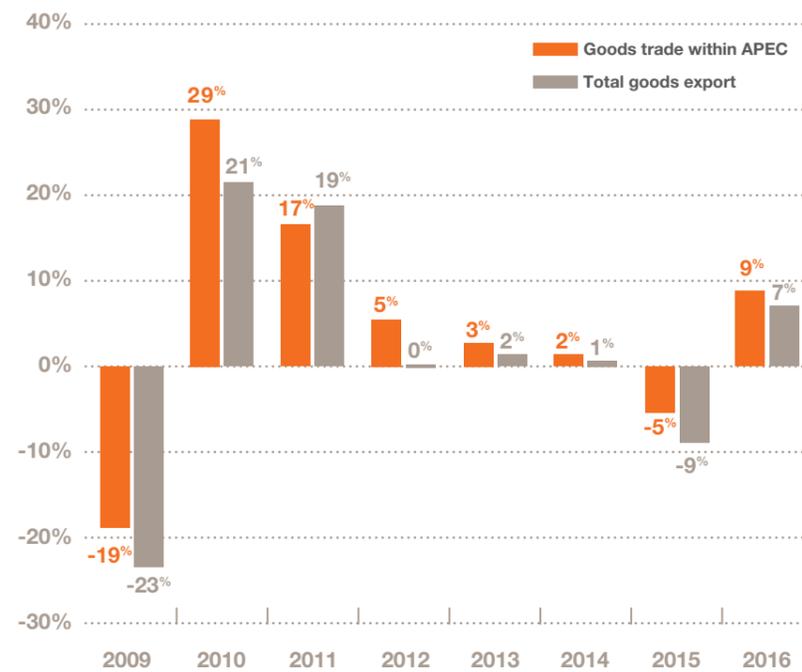
Still, while tariffs have fallen in APEC, variation in both tariff and non-tariff barriers remains high. There are gaps between APEC agreements and practices that stifle growth and/or profitability in the region for global and small businesses

alike. Thus it is not surprising that more business leaders see opportunities in the wider adoption and implementation of the WTO Trade Facilitation Agreement (TFA), which is meant to ease the flow of goods across borders.

"It's a little bit difficult for us to find the so-called 'bankable' infrastructure projects. However, the development of infrastructure in the region will bring a lot of benefits, and will improve the cash flow from the projects. I think the government and the public sector are more suited to do this."

Hiroyuki Suzuki, director and member of the board, Nomura Holdings, Inc., Japan

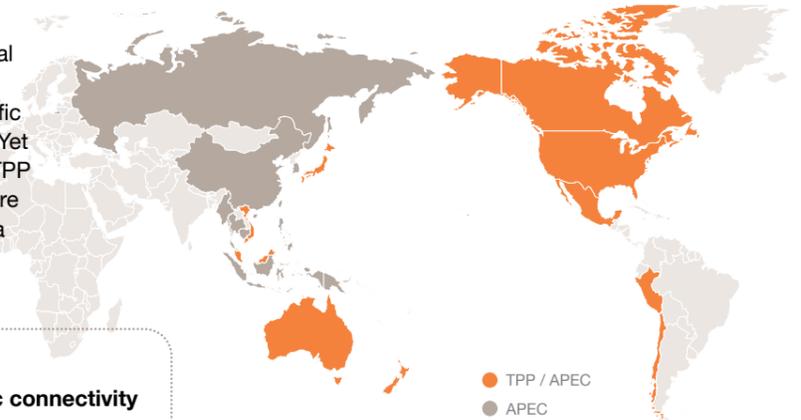
Annual trade growth within APEC vs. total APEC exports



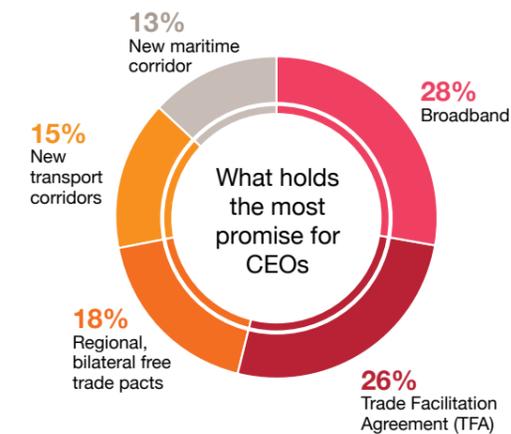
Source: Oxford Economics projections

High hopes on TPP to boost exports in Asia Pacific

The Trans-Pacific Partnership (TPP) is hailed as the most ambitious trade deal in a generation. If ratified, expect the US, Japan, Viet Nam and 9 other Pacific Rim economies to sync more closely. Yet how much more opportunity can the TPP create for businesses, considering there are over 100 free trade projects in Asia Pacific today?

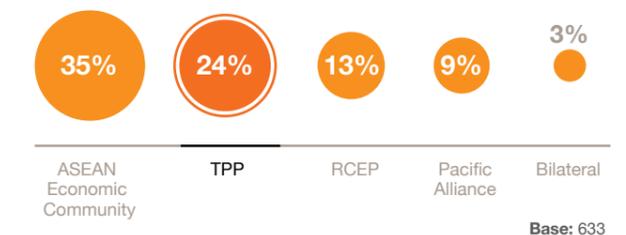


Many ways to grow with Asia Pacific connectivity



But TPP can unlock new growth

CEOs rate regional trade pacts by "greatest opportunity" if fully implemented



Who needs TPP the most?

CEO views, TPP vs. ASEAN Economic Community

Offers "greatest opportunity"	TPP (%)	AEC (%)
US	54%	15%
Japan	49%	12%
Peru	48%	0%
China*	19%	20%
Singapore	14%	55%
The Philippines*	6%	70%

*China and The Philippines are not in TPP.

Base: 42-96

Q: Please rank the following initiatives to foster regional connectivity from 1-5.

Q: Which regional or bilateral trade agreements could provide the greatest opportunity to your organisation, if fully implemented?

Base: 647 (excludes don't know responses).

Source: PwC 2015 APEC CEO Survey, www.pwc.com/apec

Why? in their own words...

The lower the tariffs, the more our trade increases
- New Zealand

Open up Japan for more food imports
- US

More manufacturing in APEC countries
- China

Access to new markets
- Peru

Increase foreign investment in TPP countries
- Singapore

Greater movement of people; this is our chance
- Viet Nam

More competitive opportunities in Japan and elsewhere
- Japan

Sets a level playing field among all Asia Pacific manufacturers
- The Philippines

9. “Free trade” alone is not enough for small businesses

New approaches are called for

As active and growing micro, small, and medium-sized enterprise (MSMEs) become more important to APEC’s growth, CEOs recognize that policies will adjust to better support these engines of local employment and wealth.

Among CEOs in businesses that can be considered mid-sized (annual revenue from \$500 million to \$2.5 billion), 50% think lowering barriers to trade and foreign investment does more harm than good. The issue is clearly complex: It’s not enough to lower barriers and walk away. On the other hand, it’s increasingly difficult to wall off small businesses from global competition, too.

“When countries open their borders to free trade, small businesses face new competition. They need to respond by enhancing and ensuring the quality of their goods and services and joining forces with other small businesses to strengthen their market power.”

Dr. Somyos Anantaprayoon, president and CEO of property development company WHA Corporation Public Company Ltd. in Thailand

Healthy regional and global value chains (GVCs) provide a model of sustainable and inclusive growth as policymakers and businesses gear up for the future in Asia Pacific. MSMEs will play a significant role in this maturation as major regional employers. Their share of GDP in APEC’s 21 economies ranges from 20% to 50%. But, for now, they only account for 35% or less of direct exports.

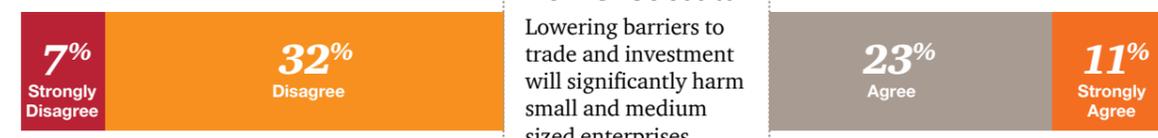
At an ABAC-sponsored CEO-Ministers Responsible for Trade gathering in May in Cebu, The Philippines, business leaders offered their views on what makes a value chain thrive. For many smaller businesses, this is about transitioning from a low-cost supplier to becoming a fully integrated partner to a multinational, able to contribute distinct and specialised value. For others, it means navigating international trade rules among other factors in order to directly compete in global markets.

In both cases, helping SMEs build the management capacity and expertise to meet these requirements is key to boosting participation in GVCs. In turn, making market access easy for global companies means they become possible customers, partners and knowledge providers for small businesses.

“97% of the companies in Viet Nam are SMEs, and they ... have to ... compete with the foreign companies, and that is the biggest challenge. And to increase their capacity to survive domestically and internationally is the biggest challenge for the Vietnamese company.”

Hoang Van Dung, chairman, APEC Business Advisory Council, Viet Nam

Benefits of free trade not so easy to assess when it comes to small business



How CEOs see it.

Lowering barriers to trade and investment will significantly harm small and medium sized enterprises

Q: Regarding inclusive growth in APEC economies, please indicate to what extent you agree or disagree with the following statements.
Base: 709. [excludes 'don't know' and 'neither/nor' responses].
Source: PwC 2015 APEC CEO Survey. www.pwc.com/apec

Boosting small business success in APEC

The journey to full partnership in Global Value Chains

Transparency

Clarify the rules and processes for importing and re-exporting. Take out the surprises in receiving and delivering with basic transport infrastructure upgrades.



Business clusters

Allow small businesses to leverage the advantages of scale in logistics, business services and technology support. Clusters can also accelerate specialization.



Augment knowledge transfer

Support the talent MSMEs need to compete directly in global markets or to meet MNC specifications. Forcing local requirements well above global market rates only serve to stunt the growth of a healthy export sector.



Build trust with MNCs

MNCs look for stability and sustainability in potential partners. These factors surface as MNCs weigh reputational and operational risks. Helping SMEs build that capacity is key to boosting participation in GVCs.



“The best thing you can do for SMEs is to remove trade restrictions. The more we can trade, the more companies benefit. ... When you think about what the free trade agreements give each country, it's a fantastic stimulus to the economy.”

Mike Smith, CEO of Australia and New Zealand Banking Group Limited

Source: PwC 2015 APEC CEO Survey. www.pwc.com/apec

10. High-quality education for high-quality national growth

When it comes to prosperity in Asia Pacific, there is much to celebrate

No other region has seen greater gains against eliminating extreme poverty during the past 15 years (defined by the UN as living under US\$1.25/day). Yet there are some troubling signs of increasing inequality in some places, too.

What's behind the concerns? Globalisation and technology are transforming the skills businesses need to grow in a marketplace that's become that much more competitive. Some skills have become highly valued, others are experiencing a glut and still other tasks are being automated. The result is a new vulnerability which, for a region that has seen such leaps in progress in prosperity, is a significant challenge.

"The good news is that we are seeing the re-emergence of the Asian tigers. In places like Malaysia, Viet Nam, and here in the Philippines, we are going to see growth rates during the next few years that will be anywhere between 5% to 6.5% — growth rates that anybody would be happy to see. And so I think we are seeing a much more dynamic region re-emerging, and I think that can only be good news for Asia Pacific trade."

Karen Reddington, president, FedEx Express Asia Pacific

How can we move forward? Lifting the poor into the middle class is an essential part of closing the economic inequality gap. Most CEOs recognize they have a stake in building the middle class in regions where they do business: 86% say businesses have significant influence on enlarging the middle class, of which 29% 'strongly agree.'

They believe the most direct route to increasing the ranks of the middle class—and by doing so, reducing inequality—is improving education at all levels. Other high-ranking levers include: improved transport links, incentivizing savings, expanded access to healthcare, and more reliable delivery of power and electricity.

The great success against poverty is emboldening people to do more. UN members this fall ratified 17 Sustainable Development Goals (SDGs) to reach by 2030. Businesses were involved in crafting the new goals. Some have already started to take action: 71% of respondents to a recent PwC survey say they are already planning how they will engage with the SDGs.¹⁵

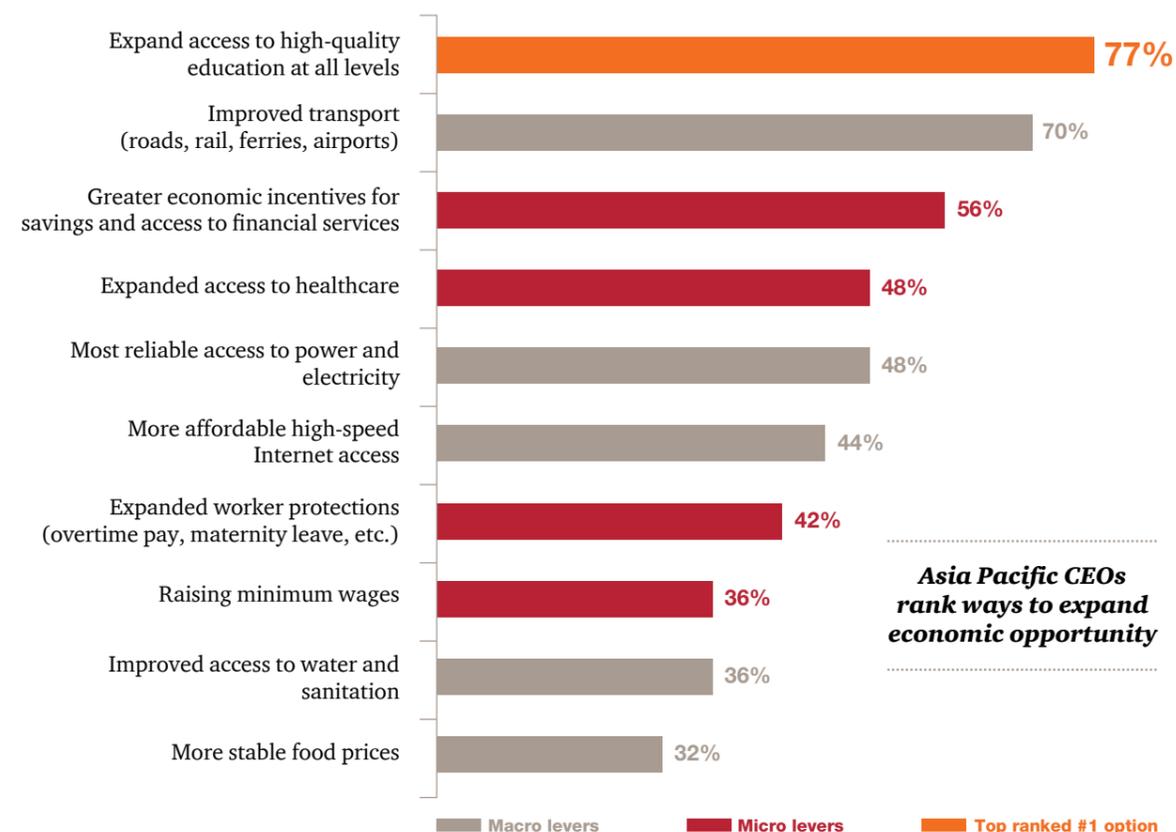
Most believe business can have the greatest impact in creating 'decent work', which the UN defines as "quality jobs along with social protection and respect for rights at work." A growing workforce is good news for both companies and society. After all, this lies at the heart of building a sustainable and scalable business.

"The theme of this year's APEC, 'inclusive growth' ... is a really important one. If you're truly going to be able to demonstrate to the wider population the importance of free trade, you have to be able to demonstrate that everybody benefits, that it's not just something to be enjoyed and taken advantage of by those at the top. ... Only if you are able to do that can you make them feel comfortable about removing some of the barriers that can free things up."

Katherine Rich, CEO, New Zealand Food and Grocery Council

¹⁵ PwC, "Make it your business: Engaging with the Sustainable Development Goals," 2015. (http://www.pwc.com/gx/en/sustainability/SDG/SDG%20Research_FINAL.pdf)

High-quality education for high-quality economic growth



Asia Pacific CEOs rank ways to expand economic opportunity

Q: Which factors would enable people currently on the margins of your economy to participate in and benefit from growth and trade in APEC?
 Base: 665. Data based on frequency ranked 1-5 for each option.
 Source: PwC 2015 APEC CEO Survey. www.pwc.com/apec

The talent challenge in Asia Pacific



20% of CEOs are more confident in securing talent



72% of CEOs plan to expand workforces in next 3-5 years

Q: Compared to a year ago, how has your confidence changed about ... securing the talent and skills needed to perform globally?
 Q: Over the next 3-5 years, what do you expect to happen to your organisation's headcount in the Asia Pacific region?
 Base: 800
 Source: PwC 2015 APEC CEO Survey. www.pwc.com/apec

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Research methodology

This is the PwC 2015 APEC CEO Survey.

We surveyed industry leaders from 23 June to 21 August 2015 for the PwC 2015 APEC CEO Survey. We also conducted 18 in-depth interviews with CEOs and other top corporate officers and business specialists.

We used an online and paper methodology to achieve 800 valid responses from CEOs and industry leaders across 52 economies, with responses scored from each of the 21 APEC economies. The 21 APEC member economies are: Australia, Brunei Darussalam, Canada, Chile, People's Republic of China; Hong Kong, China; Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, The Philippines, Russia, Singapore, Chinese Taipei, Thailand, The United States and Viet Nam.

We grouped respondents by the APEC economy for which they have primary responsibility. China has the highest representation with 14.1% of respondents, followed by 13.8% in the Philippines; 8% in Japan; 7.3% in the US and 6.9% in Peru. By sector, 33% of respondents are in industrials, 19% in consumer; 14% in financial services; 12% in technology; 8% in professional services and 14% are in other industries.

This multilingual survey was made available in six languages: English, Simplified Chinese, Traditional Chinese, Japanese, Korean and Spanish. Responses to the Survey were given on a confidential and unattributable basis. Insights from the in-depth interviews are quoted in this report, and video selections are available at www.pwc.com/apec, as is further information on the data and the graphics.

Note: Not all figures add up to 100% due to rounding. An overall rank order was produced for questions where respondents were asked to provide a ranked response in order from high to low.

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