



APEC
CHINA 2014
CEO SUMMIT

PwC 2014 APEC CEO Survey

New vision for Asia Pacific

Connectivity creating new platforms for growth



www.pwc.co.nz/apec



Welcome to our 2014 APEC CEO survey. Thank you to the New Zealand chief executives who took the time to participate in this year's survey. Your insight helps to shape the dialogue among the business community, policymakers and thought leaders across the region.

About this report

This year marks the 25-year anniversary of the Asia-Pacific Economic Cooperation, and PwC is proud to be the exclusive knowledge partner of the APEC CEO Summit 2014 in Beijing.

The economic, financial and business landscape in Asia Pacific has undergone tremendous changes since APEC was established 25 years ago. We have come a long way, but the environment in which organisations operate has evolved to present new challenges.

We've certainly seen transformation here in New Zealand – a founding member of APEC – which has seen exports to these countries grow from \$9.77 billion in 1989 to \$34.49 billion in 2013.

Undeniably, much of that growth has come from China, which surpassed Australia as our largest trading partner last year and accounted for \$9.94 billion of New Zealand's exports. While we continue to strengthen our ties with the burgeoning Chinese market, we must remain diligent in our ability to adapt, compete and connect to other economies throughout the region.

This year's survey shows that Chinese executives (84 per cent) are confident in the prospects of launching and growing new products and services in their domestic market. More than 80 per cent are also confident they can grow Chinese-made products and services in international markets.

In addition to protecting our market share for traditional exports, such as dairy and beef, this confidence highlights the opportunities for innovative New Zealand firms to partner with Chinese firms, which are poised for growth.

More than 40 per cent of respondents say they are likely to explore alliances outside of their core industry in the next three years. These companies are increasingly willing to share resources, employees, market insights and even intellectual property with the right partner to remain agile and competitive in today's fast-paced economy.

Growth and prosperity is not without challenge. Connectivity continues to be a key obstacle to realising growth potential in the APEC region. While 15 per cent of this year's respondents say progress has been significant towards APEC's goal of free trade, 55 per cent have said progress in the past year has been slow.

Inconsistent regulations and standards continue to be the single biggest barrier to growth in the Asia Pacific region. Varying rules for products and services in different economies greatly increase the complexity of scaling operations across national borders.

The survey findings on the following pages provide governments and the business community with insights from key decision makers in the APEC region, helping to shape the dialogue in member economies. From data analytics to private capital investments, we hope the findings on the following pages will help you to assess the forces changing the world and your own growth strategy.

Bruce R Hassall
CEO and Senior Partner
PwC New Zealand

PwC 2014 APEC CEO Survey

The business voice at the APEC CEO Summit 2014

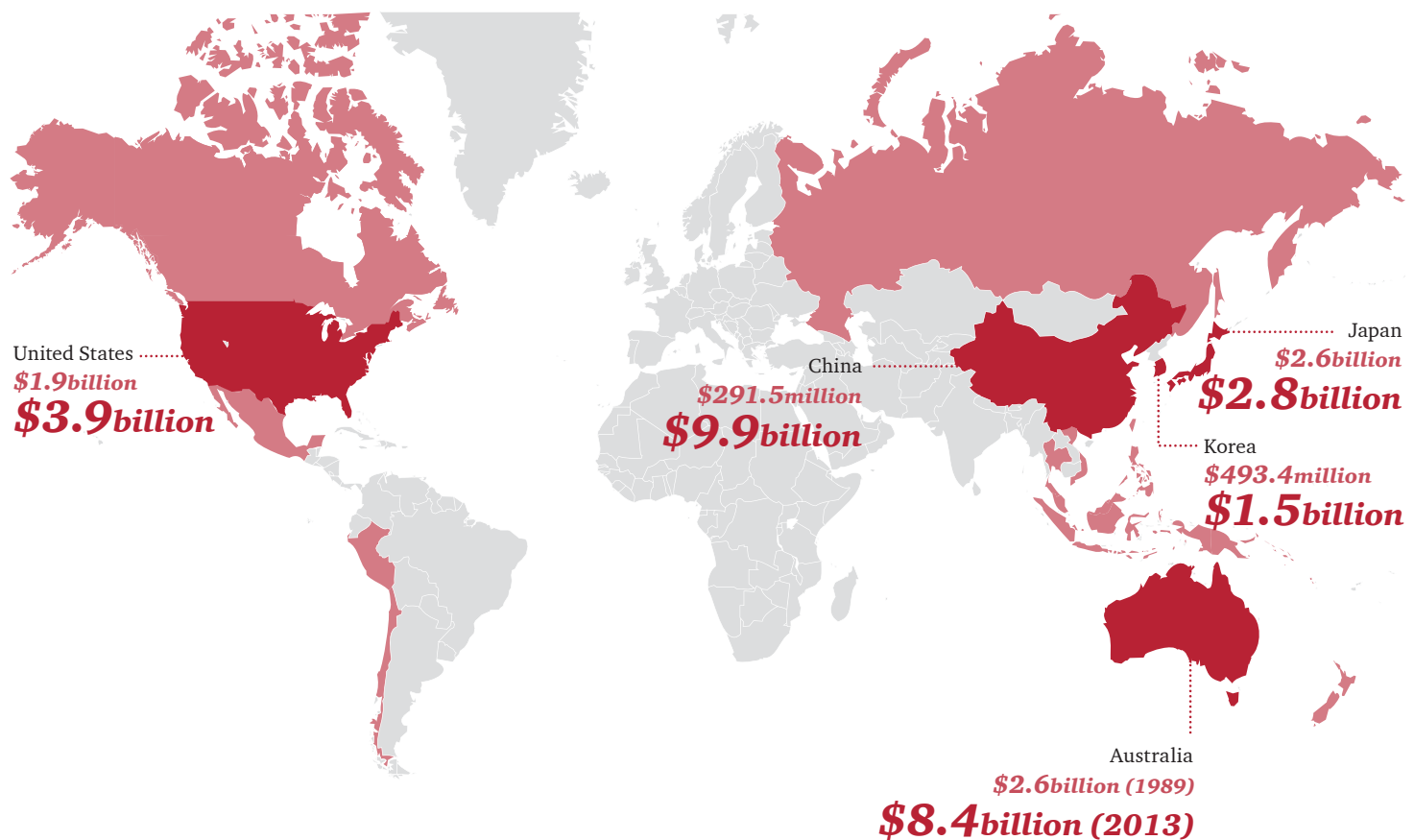
The PwC 2014 APEC CEO Survey indicates how business leaders think a more connected, more balanced region could look in **APEC: The next 10 years**.

It also explores where businesses are **building platforms for growth** in the region.

Finally, it tells us how executives see the **momentum towards free trade across the APEC region**. Considering the slower pace of global trade in 2012 and 2013, and fears in some quarters of a rise in trade protectionist measures, their answers could surprise you.

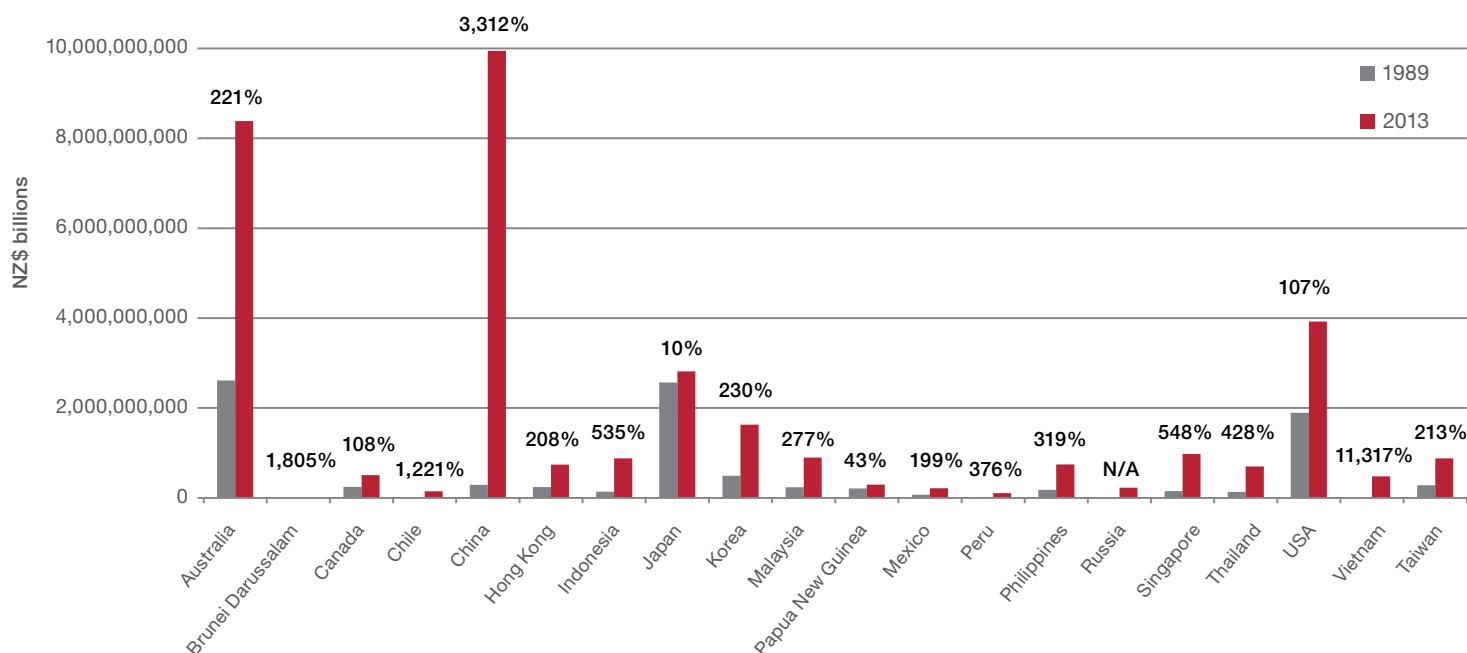
New Zealand exports: Top five APEC destinations

It's been 25 years since a dozen economies, including New Zealand, founded the Asia-Pacific Economic Cooperation. During this time, New Zealand has seen exports to APEC nations soar from \$9.78 billion in 1989 to \$34.49 billion in 2013. However, there are still barriers to connectivity in some markets, including high tariffs, inconsistent product labelling rules and other customs chokepoints. The map below shows the growth in today's top export markets since signing the cooperative agreement a quarter-century ago.



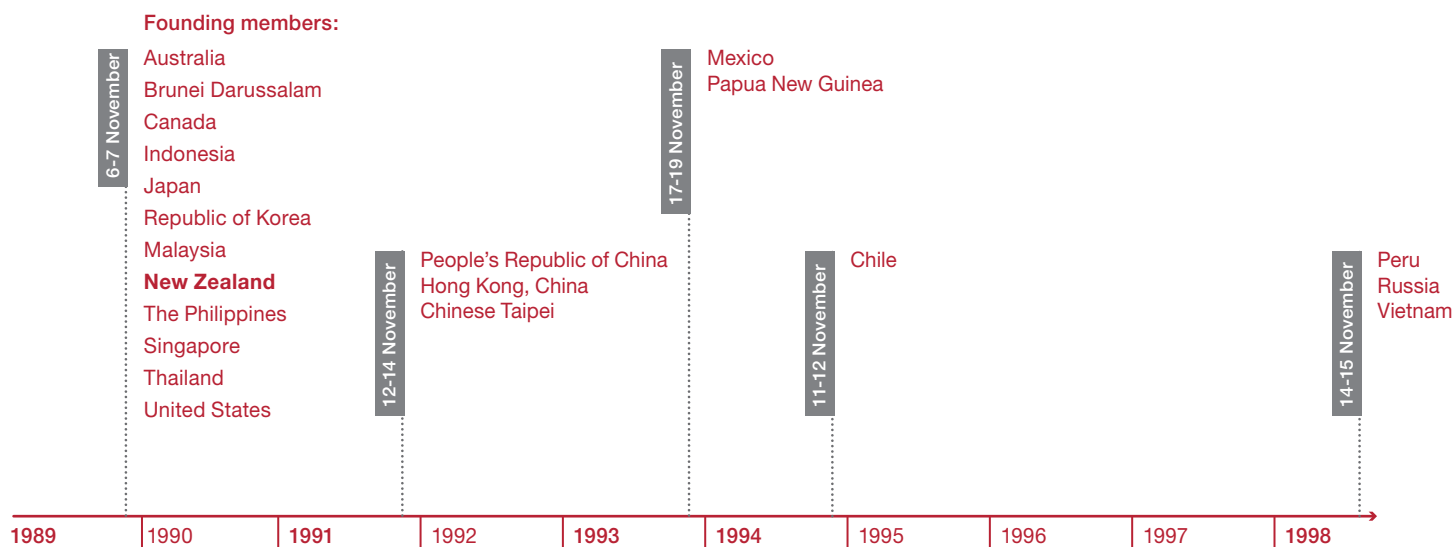
Source: Statistics NZ

Growth in New Zealand exports to APEC economies



Source: Statistics NZ

Timeline of APEC's 21 member economies



Key findings

This year Asia-Pacific Economic Cooperation (APEC) celebrates its 25th anniversary. It's a good time to look back at the transformations ushered in via closer trade and virtual links, and to think ahead. What will the next decade bring?

PwC polled 635 executives with operations in APEC economies between June and August 2014. This is our fourth consecutive annual Survey on doing business in Asia Pacific.

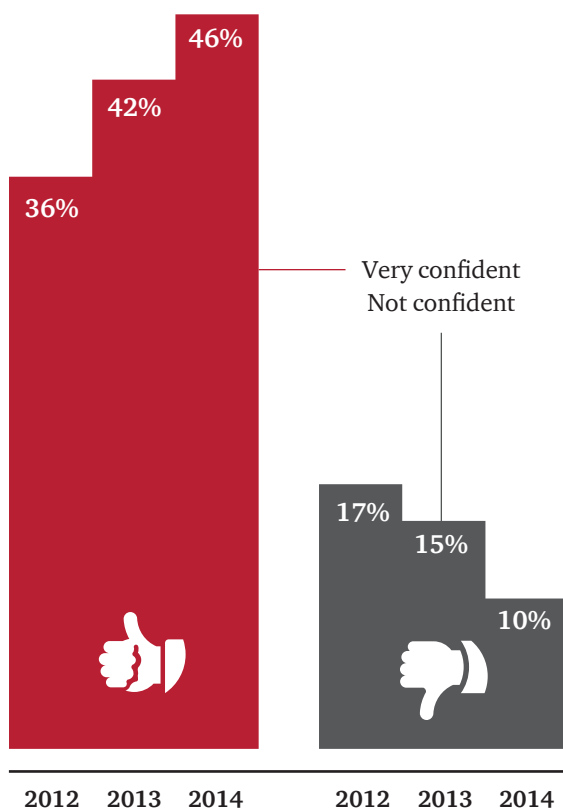
Investments are increasing: a tangible sign of rising confidence in the region

Confidence in revenue growth has incrementally improved each year as this region shoulders more of the world's economic activity. This year is no exception: 46% of executives are 'very confident' in revenue growth over the next 12 months, up from 36% in 2012. This is despite slowing growth in China, the economic engine of this region and indeed, for much of the world.

What's more, investments are set to rise across the region. In each of APEC's 21 member economies, there are more respondents who plan to step up investments compared with those who are pulling back. In all, 67% say their investments in APEC economies will increase over the next 12 months.

As more people and organisations participate in the region's growth, business leaders see local expansion opportunities unfolding. And, as the movement of intermediate goods from one economy to the other rises, global ambitions will likely take root for more local businesses.

More executives in Asia Pacific confident about near-term revenue growth



Q: How confident are you about your organisation's prospects for revenue growth ... over the next 12 months?

Base: 2014: 635, 2013: 478, 2012: 356

Source: PwC 2014, 2013, 2012 APEC CEO Surveys

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“Roughly one billion people from developing countries are now entering the market for the goods and services they see on display in the developed world, setting the stage for a new boom in global e-commerce.”

David Abney, CEO, UPS

More connected Asia Pacific

Supporting much of this confidence is a vision of a more connected Asia Pacific, physically and virtually, and an outlook for more balanced regional growth. And that’s where the risks lie, too. Barriers to business growth have not receded over the past four years. In fact, some are amplified as businesses anticipate greater connectivity.

What helps in a more tightly integrated region is the ability to predict and weigh multiple outcomes, which helps make operations more flexible. Survey respondents who believe they’re on top of their information foundation and, at the same time, are more responsive to changing demands are far more likely to be ‘very confident’ of revenue growth in the next 12 months (63%) than the average of their peers in APEC (46%).

Virtual connectivity and new kinds of partnership are driving growth

As mobile usage spreads, the world’s biggest e-commerce market is shifting to Asia. In China alone, mobile Internet users at the end of June 2014 rose to 527 million, topping access to the Internet by a PC for the first time.¹ “We’ve become very close to our smart phones. It’s as if they are an extension of our bodies,” Pony Ma, chairman and CEO of Tencent Holdings Limited, told PwC.

Twenty-five years since the World Wide Web was conceived, the playing field is levelling anew on the back of advances in connectivity technologies and Big Data analytics. To Ming-Kai Tsai, chairman and CEO of wireless chipmaker MediaTek Inc., the real business value in the age of connected devices and cloud computing lies in services. Thus for MediaTek, the “next challenge is adjusting its business model,” he told PwC. “To increase the value of our services, we need to find the best partnership model.”

Approaches to alliances are changing as technology advances in connected devices and elsewhere blur traditional industry boundaries. With a mandate to innovate, a majority of executives (59%) are now more willing to share market insights and resources—including employees—with business partners to speed product development and market access. And 42% say it’s likely their organisation will enter a business combination outside of their core industry.

“APEC economies should cooperate in building more infrastructure that link our different economies, people, commodities, and trading activity. Commercial activity is enabled through infrastructure and as part of the business community, we are looking forward to more accessible facilities to support economic growth in this region.”

Frank Gaoning Ning, Chairman, COFCO Corporation

¹ China Internet Network Information Centre (CNNIC)

Implications for economic and business leaders

This region is showing all the signs of accelerating complexity. Expect more specialisation to take root in more places, more demands on infrastructure that connects the region, and more focus on talent and innovation to take businesses and economies to the next stage for growth.

At the same time, uncertainty around regulations guiding cross-border physical and virtual trade creates more and more of a ‘tax’ on this increasingly vibrant economic arena.

In the next decade, economic and business leaders will need to manage APEC at two levels: intra-APEC and APEC’s relationships with the rest of the world.

What can policymakers and business leaders do to build these platforms for robust growth in coming years?

1. Adopt a regional perspective for future infrastructure development. Integrated infrastructure—and the services that will follow—has the potential to create new opportunities for small and medium-sized enterprises beyond domestic markets.
2. Realise that the faster barriers can be lowered, the faster these economies can grow. ‘Soft’ barriers around customs rules or in sharing data across borders create additional costs that make Asia’s economies less competitive. The cost of slow action or inaction is increasing. Developing APEC economies depend on momentum in free trade to escape the middle income trap, while others need it to progress towards the innovation-driven stage of development. The ASEAN economies hope to address some of these barriers by making trade easier, thereby reducing costs and expanding the available workforce in the region.
3. Invest in the skills that businesses need to compete today. A majority of respondents are putting more resources into their training programmes. But more can be done by both the public and private sectors to further develop and better connect the greatest resource this region has — its people.

APEC: The next 10 years

“Trade flow patterns and capital flow patterns in Asia are integrating rapidly. There is tremendous opportunity with the growth of the new Asian multinationals as the small and medium-sized enterprise segment is now willing to spread its wings and go from country to country and to make a big shift to digital.”

Piyush Gupta, CEO, DBS Group

A more balanced and closely connected Asia Pacific

The great China-US dynamic will remain APEC’s dominant feature over the next decade, but the two powers should expect to share more of the stage.

Projections from the International Monetary Fund in October suggested China’s economy this year will surpass the US economy, based on purchasing power parity. Meanwhile, a natural rebalancing within China’s economy is happening: it is projected to slow from a 10% average annual growth rate in 2003-2013 to a more moderated pace of 6.5% in 2013-2023, according to an analysis of regional growth trends conducted by Oxford Economics for PwC.

Offsetting the impact of the moderation in China’s growth are two important developments: improving growth in the US, Japan, Canada, and Mexico and an expected steady pace of growth for developing APEC economies like the Philippines and Viet Nam. “We expect Asia to continue to demonstrate disproportionate growth relative to the rest of the world,” said Jonathan Larsen, global head of retail banking and Asia Pacific head of consumer banking, Citibank, N.A. “We expect the growth of the consumer economy to be an important factor in driving that growth. We expect growth of the middle class, the concentration of wealth, and the concentration of spending and savings power.”

APEC as a whole can expect to see its growth pick up over the next 10 years, from an annual average of 3.2% in 2003-2013 to 3.5% over 2013-2023. China’s transition towards an ever-larger consumer of finished goods, rather than just a producer, will drive a lot of the transformations expected in the region over the next decade. Specialisation is underway within the Asia Pacific region, and a more complex, more integrated picture of growth is evolving for APEC’s 21 member economies.

Intra-APEC trade will remain more robust than APEC’s trade with the rest of the world or the growth of global trade overall. (In 2012 and 2013, world trade grew at the same pace as global GDP growth amid flat import growth in developed economies, among other reasons.)²

A more complex production chain is evolving: goods are re-imported and re-exported many times over before the finished product is traded. One clear implication is that unexpected delays at the border add costs that are difficult for many to quantify, let alone manage. Thus customs chokepoints are back on the business agenda this year even as trade policy moves on to tackle thorny ‘behind the border’ issues like conflicting regulations.

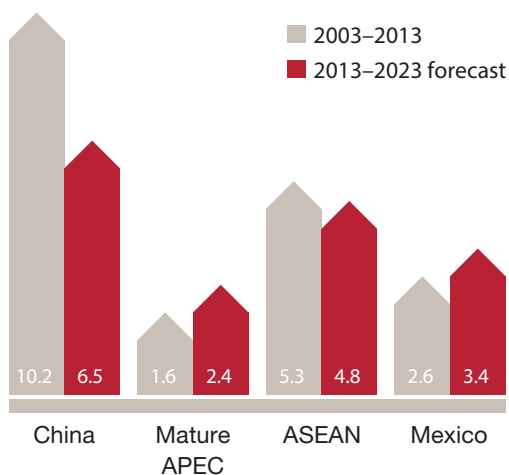
² “Modest trade growth anticipated for 2014 and 2015 following two year slump,” WTO release, April 2014

APEC: The next 10 years

Tighter economic integration is giving rise to balanced growth in Asia Pacific and a changing mix of specialisation. Businesses are spreading investments to capitalise on the widening opportunities.

More balanced

Average annualised GDP growth rates, %



Average annualised GDP growth rates for selected APEC economies from 2003 to 2013 and projected 2013–2023, in 2010 constant prices and exchange rates.

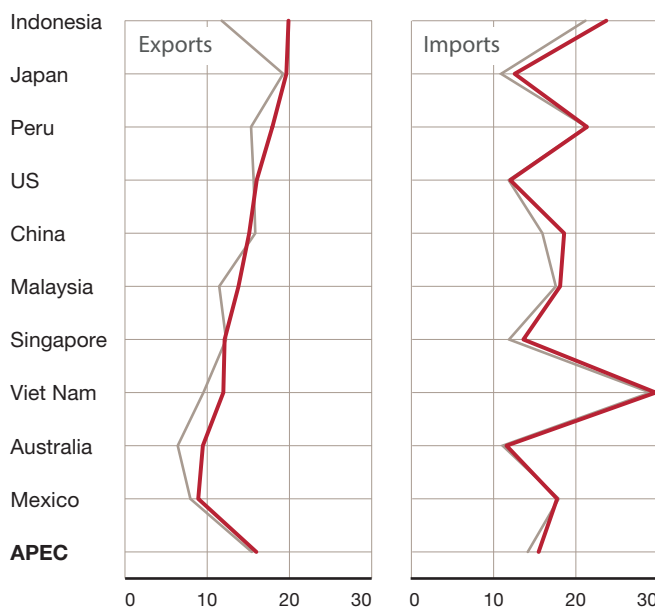
Mature APEC economies are Australia, Canada, Japan, New Zealand, and the US.

Source: Oxford Economics

More specialised

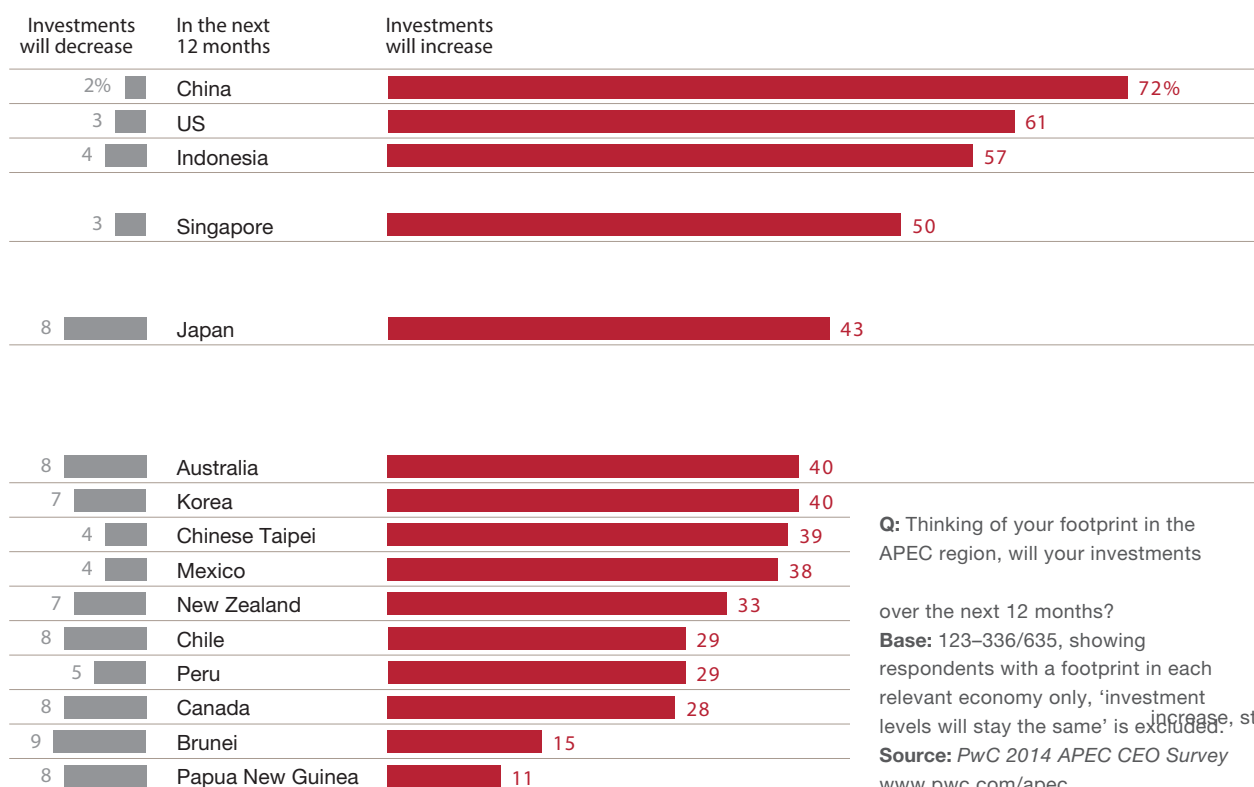
Intermediate goods, imports and exports, as a % of totals

— 2013 — 2023 forecast



Source: Oxford Economics

Business investment rising across APEC



Q: Thinking of your footprint in the APEC region, will your investments

over the next 12 months?

Base: 123–336/635, showing respondents with a footprint in each relevant economy only, 'investment levels will stay the same' is excluded.

Source: PwC 2014 APEC CEO Survey
www.pwc.com/apec

Business leaders reflect the tighter integration within APEC in their investment plans in the region.

Investments are set to rise in each of APEC's 21 member economies. "Everybody now realises that it's too risky to concentrate all of production in one location," Dr. Twatchai Yongkittikul, secretary general of The Thai Bankers' Association, told PwC. "Big companies in Thailand have already invested a lot in this part of the world. The next wave (of investors) will be medium-sized companies. They are also finding that the opportunities are there."

The outward investment focus for Globe Telecom, Inc. is a case in point. The company has built up expertise in the Philippines and is "now thinking of ways to leverage that further in emerging economies," President and CEO Ernest Cu told PwC. "Globe knows how to deal with emerging markets and vastly prepaid types of population. We know and understand what it's like to work in an under-banked country ... Those are the things that we look for. And we will look for white spaces within ASEAN and Asia on where to leverage the skills we've built over time."

There's a lot going on that transcends national boundaries, such as the growth in digital technologies.

As Mikhail Skorokhod, president of Russia's Eurocement Group, told PwC, "not a single enterprise could stand up to the increasing competition, no matter what industry they're in, including the cement industry, without using digital technologies to enhance productivity."

As Diane Wang, founder and CEO of DHgate.com, an e-commerce platform that connects business to suppliers in China, notes, "we've seen very clearly that international trade is gradually changing from a container-based business model to a more fragmented small-order, small-volume business model, which offers the benefits of shorter turnaround time and greater flexibility."

Over the course of the year, 57% of respondents grew more confident their organisations could effectively respond to marketplace changes. Half say they're now more skilful at forecasting demand. Greater use of data to fortify predictive models plays a role. Globally, companies rate data mining as the most important strategic digital technology for their business in the next three to five years, a 2014 PwC study found.³

Data-driven changes are coming fast. Australian oil and gas producer Santos Ltd. expects to process more data in 2014 than they have processed in the whole of the company's last 60 years, CEO and Managing Director David Knox told PwC. "Because we process massive amounts of data, we're investing heavily in our own big data management systems, computer systems, data storage, and processing power within the company."

Among respondents, those who believe they're on top of their information foundation and, at the same time, are more responsive to changing demands, are far more likely to be 'very confident' of revenue growth in the next 12 months (63%) than the average of their peers in APEC (46%).

"We are all in the midst of transformation, in which information and speed are key drivers of success. We are competing, not only on the quality of our services, but also on the speed at which we provide these services," said Noppadol Dej-Udom, group chief financial officer of Thailand telecommunications business, True Corporation Plc. "Enterprises will need more and more connectivity and a better flow of information to survive in this digital era or they will be replaced."

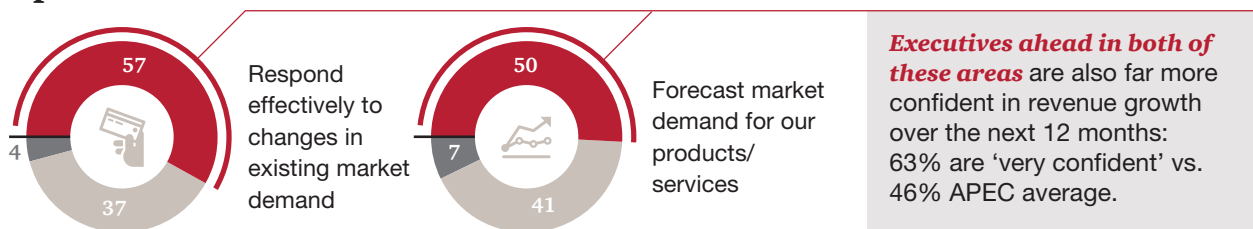
³ PwC's 6th Annual Digital IQ Survey, PwC, March 2014

Asia Pacific businesses are improving at responding to fast-changing market demands

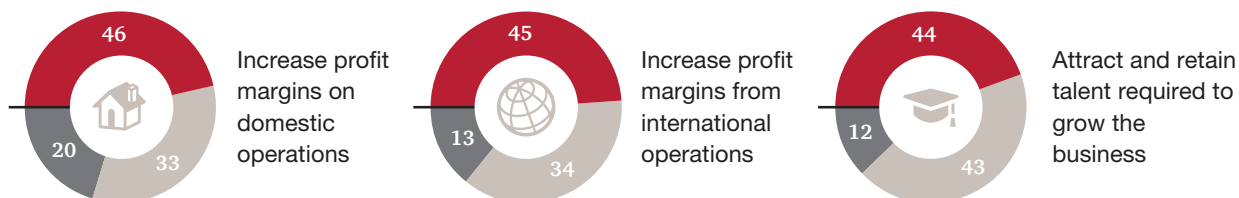
% respondents who say that compared to a year ago, CEO confidence is:

■ Improving ■ Unchanged ■ Decreasing

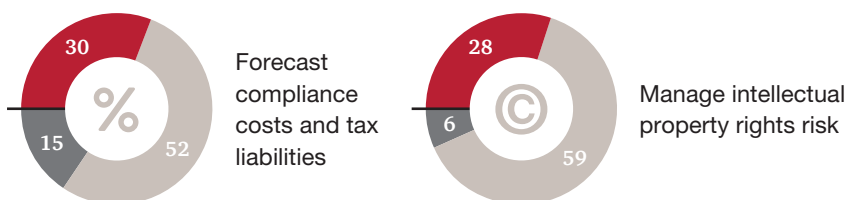
Operations



Market



Business environment



Q: Thinking about your prospects for business growth, how has your confidence changed in the following areas compared to a year ago?

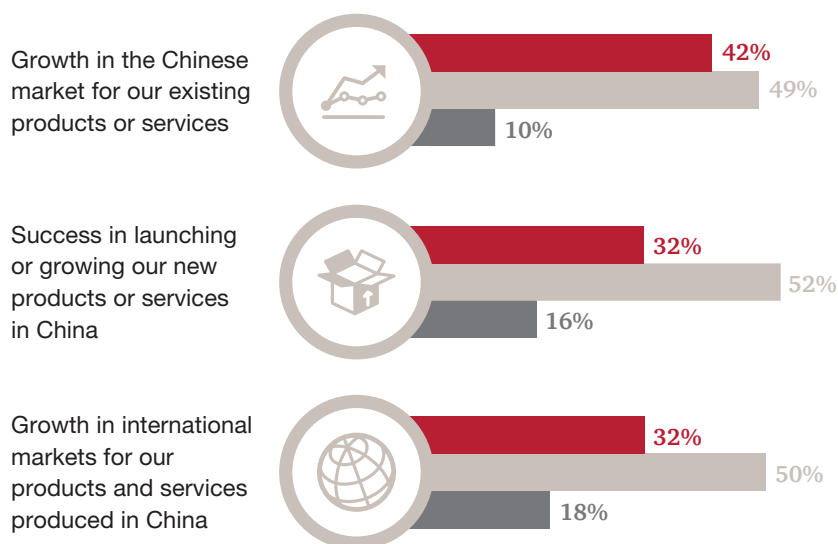
Base: 635 (includes 'Don't know' responses); base 226, those whose confidence both in responding/forecasting demand is improving

Source: PwC 2014 APEC CEO Survey. www.pwc.com/apec

Where executives in China see growth opportunities

More confident in domestic market

■ Very confident ■ Somewhat confident ■ Not confident



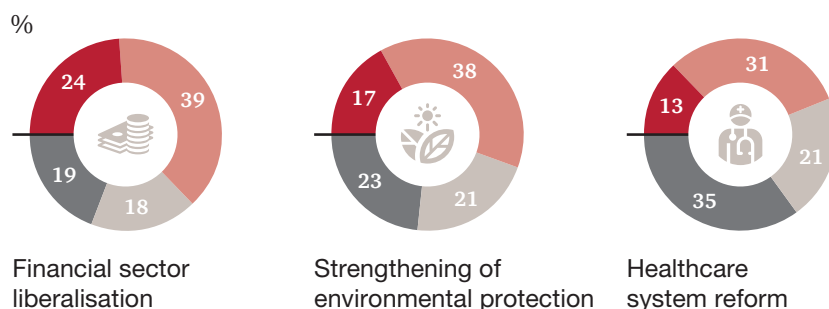
Q: Thinking about your business investments in China, how confident are you about achieving these goals?

Base: 230–310, respondents whose investments will increase or stay the same in China. Excludes 'not applicable.'

Source: PwC 2014 APEC CEO Survey. www.pwc.com/apec

Opportunities anticipated in three key areas

■ In the next 12 months ■ Not sure
■ In the next 2–5 years ■ Not a driver of opportunity



Q: Do the following features of China's economic and social reform plans present opportunities for your business growth in China?

Base: 328, respondents whose investments will increase or stay the same in China

Source: PwC 2014 APEC CEO Survey. www.pwc.com/apec

Business leaders see multifaceted opportunities in China.

Overall, those executives who are investing in China are no more or less confident about revenue growth over the next 12 months than their peers elsewhere in APEC.

Taking a closer look at what's driving their outlook for growth, 42% are 'very confident' in the domestic market for existing products or services.

Yet most executives investing in China are also confident about innovating for the China market, of which a third (32%) are 'very confident.' The growth of e-commerce plays an important role. The industry, which today accounts for 4.4% of China's GDP, is still in the early stages. Only 20–25% of small businesses in China have Internet connections, compared to 75% in the US, according to research from Oxford Analytica. This is likely to change quickly. China is upgrading its telecom networks faster than anywhere else in the world, the researcher noted.

E-commerce in China is prompting a rethinking of distribution as more customers access suppliers directly through digital networks. "We are quickly learning that our old model of going to a distributor or supermarket chain to distribute our meat is probably the wrong way to do it," said Keith Cooper, CEO of New

Zealand meat processor Silver Fern Farms Ltd. "We see many of the APEC economies, like China, Malaysia, and Indonesia leaping from traditional food supply channels like open-air wet markets to home delivery and buying on the Internet and e-commerce. They are almost missing out on a generation of evolution."

The e-commerce boom has spurred a great deal of business model innovation in China. Financial services are in the vanguard with mobile payments driving the development of a host of business applications. There is more to come in China. As Jonathan Zhu, managing director of Bain Capital, told PwC, "reform is all about creating new models, and in the recent past, with the emergence of the Internet and e-commerce, business model creativity has also been driving economic growth. Over the next several years this creativity will probably remain a significant driver."

A majority of executives with business investments in China expect financial sector liberalisation will create opportunities for their business over the next one to five years. Over a third also see prospects for their companies from healthcare system reforms. "The Chinese population is aging rapidly, and China historically has probably underspent on healthcare," said Zhu. "As the population ages and demand for healthcare increases, we will see significant growth in this sector."

"We want to extend our supply chain beyond China into APEC economies or even beyond APEC economies. We are investing in areas like agriculture, from farming to origination of agricultural products, and trading facilities, such as ports and railways, as well as trading networks."

*Frank Gaoning Ning,
Chairman, COFCO Corporation*

Building platforms for growth in Asia Pacific

In a sign of the growth to come, private sector capital spending plans in the region are no longer dominated by manufacturing.

Businesses are investing to grow in a different Asia Pacific. The shape of this future is already apparent: Rising middle-income consumers will extend their influence on products and demand new services from business and their governments. Millions more will move into cities, which are becoming economic power centres of their own. And underpinning it all are new demands—and new industries—driven by technology advancements.

In this section, we look at four areas of business planning and investment to help them to get there.

New capital projects to put new demands on infrastructure:

We asked executives to detail new projects that represent both long-term and significant investments to build or improve on a facility for their business. We believe our Survey captures around US\$56 billion in capital projects over the next three to five years.⁴ Overall spending on infrastructure in Asia Pacific will dwarf this figure; the market is projected to grow by around 7–8% a year over the coming decade, approaching US\$5.3 trillion by 2025.⁵ But these private sector commitments captured in our Survey provide a window into where businesses see their futures in Asia Pacific.

Building tomorrow's workforce:

Beyond wages, what are the priorities among employers in Asia Pacific? Businesses can deploy a range of benefits-related programmes to improve productivity as well as recruitment and retention rates.

Upgrading partnership approaches:

As access to faster-growing domestic markets becomes more important, and as more businesses seek a global footing, cross-border alliances are likely due for some upgrades. How willing are executives to change their approaches?

Moving up the digital curve:

There are many ways to gauge digital competitiveness today. We look at one aspect—social networks—and whether businesses are seeing returns from their investments in this vibrant arena.

4 For those investing under \$100 million, we set a reasonable assumption that they could average at \$10 million investments; for those at \$100-\$500 million, we set the mid-point at \$300 million; and for those over \$500 million, we conservatively set \$500 million as the average investment. The resulting values were multiplied by the number of respondents in each and added together for the total investment.

5 "Capital project and infrastructure spending: Outlook to 2025," PwC, 2014

Where private sector capital spending is going in Asia Pacific in the next 3–5 years

Business plans reveal a changing Asia Pacific and the need for connected infrastructure development

57%

of respondents are building or expanding facilities in APEC economies in the next 3–5 years

What are they building? In their own words...



Industrial

Assembly, manufacturing, chemical and paper plants



Operations/capacity

Air cargo, ports capacity, distribution centres, warehouses, office space, service centres



Consumer

Bank network, retail outlets, movie production, hotels, outpatient clinics, casinos, retirement village



Digital economy

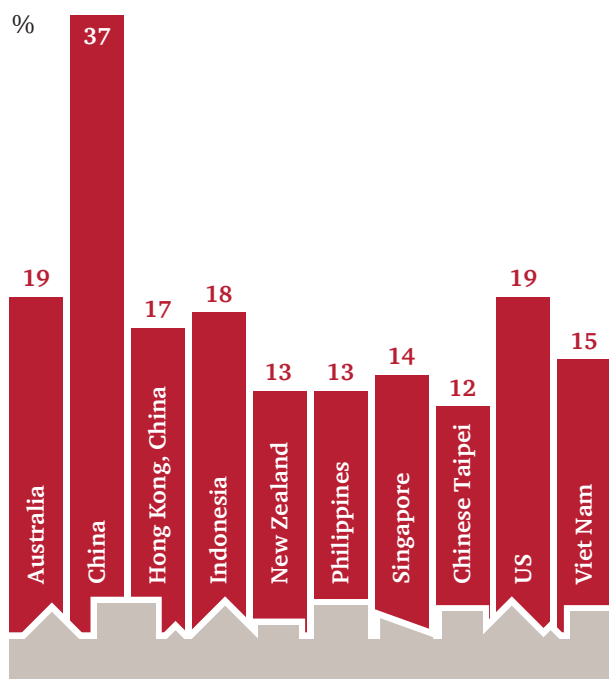
Data centres, communications infrastructure, automation and efficiency technologies



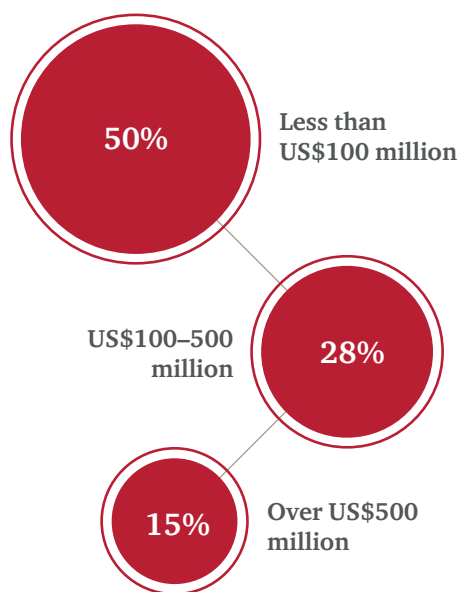
Basic material/power

Bauxite mine, coal processing plant, gas production and flowlines, wind farms

Where are they building?



How much are they spending?



Q: Is your organisation intending to invest in new facilities or capital projects in an APEC economy over the next 3–5 years?

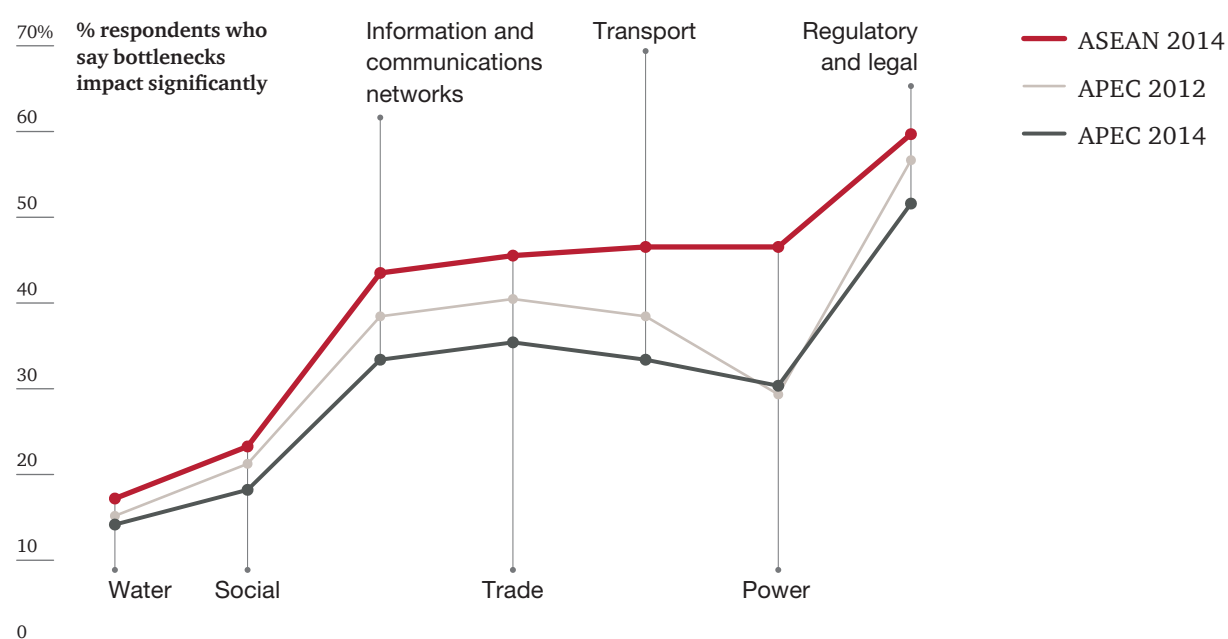
Base: 610

Q: What is the size of the total investment(s)? In which APEC economy(ies) do you intend to invest in those new facilities? Describe the type of new facilities.

Base: 345, respondents who selected 'Yes', 'Don't know' responses not displayed, and bar chart shows the top 10 economies for investment only.

Source: PwC 2014 APEC CEO Survey. www.pwc.com/apec

Infrastructure bottlenecks subsiding in Asia Pacific, but not fast enough for businesses in ASEAN economies



Q: To what degree are bottlenecks in the following infrastructure categories directly impacting the operation and growth of your organisation in APEC economies?

Base: 607 (APEC 2014); 166 (ASEAN 2014); 333–361 (APEC 2012). ASEAN economies represented: Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Viet Nam.

Source: PwC 2014 APEC CEO Survey, PwC 2012 APEC CEO Survey. www.pwc.com/apec

New capital projects presage the kind of growth expected in the region

In a sign of the growth to come, capital spending plans in the region are no longer dominated by manufacturing. Businesses are investing to expand in consumer markets, spread their distribution reach and increase their heft in the digital economy. Combined, capital spending plans in these areas far outnumber the plans to build or expand on manufacturing facilities.

In all, 57% of respondents are intending to invest in capital projects in Asia Pacific over the next three to five years. China is the dominant destination—37% of those investing in large-scale projects are building or expanding facilities in China. But the plans also underscore a more prominent specialisation pattern in the region. Capital projects are being planned in each of APEC's 21 economies. For example, one respondent detailed plans to build a new production plant in Malaysia, and a distribution centre in Korea and finally, an office expansion in Singapore to accommodate new headcount.

Crucially, more business leaders are seeing incremental improvements in technology and trade infrastructures since 2012. Substantial investments in the region over the past decade are bearing fruit.

Nonetheless, improvements in basic infrastructures are not seen as coming fast enough. Executives who are either based in APEC economies within ASEAN or have oversight there are more likely to experience a 'significant impact' on their operations and growth prospects as a result of infrastructure bottlenecks compared with two years ago.

The findings underpin the importance of future infrastructure build-outs that are designed with regional integration in mind. Doris Ho, president and CEO of A. Magsaysay, Inc. in the Philippines, believes that once integration is understood "as an opportunity to create a continuous pipeline with continuous services all the way through, regardless of borders or the ocean between us, then it's a different business growth model and it's very exciting."

Integrated infrastructure—and the services that follow—has the potential to create opportunities for small and medium-sized enterprises beyond domestic markets. "When people start to see great successes even in their little town, then perhaps people can put the energy towards really making the idea of regional integration become a reality," she told PwC.

The private sector capital project plans captured also reflect the evolution in some Asia Pacific economies towards middle-income

status (GDP per capita between US\$4,000 and US\$12,000). Businesses recognise the need for more social spending that accompanies growing wealth. For example, Indonesia's PT Indika Energy Tbk. is focusing more on services. "We need more hospitals, schools and housing. We will have the opportunity to grow our business because of domestic consumption" in Indonesia, President Director and Group CEO Wishnu Wardhana told PwC.

In advanced Asian economies—with the exception of Australia—social and transportation spending tend to account for over half of infrastructure investment. By contrast, in emerging Asia, social and transportation investment contributes a much lower share of total infrastructure spending, around 30–40% on average. Yet even in the youngest economies in Asia Pacific, demographic trends are likely to push government resources towards health and other social investments.⁶

6 *ibid*

Demographic changes prompt higher priority on healthy, skilled workforces

As a recent study of workforce productivity trends in six APEC economies notes, the young and healthy workforce that drove rapid industrialisation in the region

is changing, with ramifications for employers and overall economic growth trajectories.⁷

The working age population in key geographies is aging and there is a rising incidence of chronic diseases across the region. Thus health and wellness are critical issues for future

prosperity in Asia Pacific. Investments that businesses are making today to upgrade skills and promote health reflect this reality. Most respondents (75%) already have employee training/retraining programmes in place. Add that to the 17% who plan to implement a skills programme,

Skills training tops workforce investments in Asia Pacific

A healthy, skilled workforce is now a high priority for majority of employers

■ Programme in place ■ Plans to implement ■ No plans to implement



Q: Over the next three years, how would you describe your organisation's aspirations for any of the following employee productivity or benefits-related programmes?

Base: 614

Q: Of those programmes you have in place, how would you see your resource requirements changing over the next three years?

Base: 291-464, respondents with programmes in place, 'Don't know' not displayed

Source: PwC 2014 APEC CEO Survey. www.pwc.com/apec

⁷ Victoria Institute of Strategic Economic Studies, "The Impact of Health on Worker Attendance and Productivity in the APEC Region," 2014. The six APEC economies studied: Australia, China, Malaysia, the Philippines, Peru, and the US.

and the business commitment to upgrading skills is nearing 100%.

Investments will continue in this area: 62% of those employers who already have training programmes say they see a need to increase resources over the next three years.

Wellness promotion programmes are a second priority with one in four respondents surveyed (27%) planning to implement one. These programmes involve incentives that encourage employees to stay healthy and typically include smoking cessation, annual health physicals or screenings and other measures to help employees manage non-communicable diseases (NCDs) like diabetes or obesity.

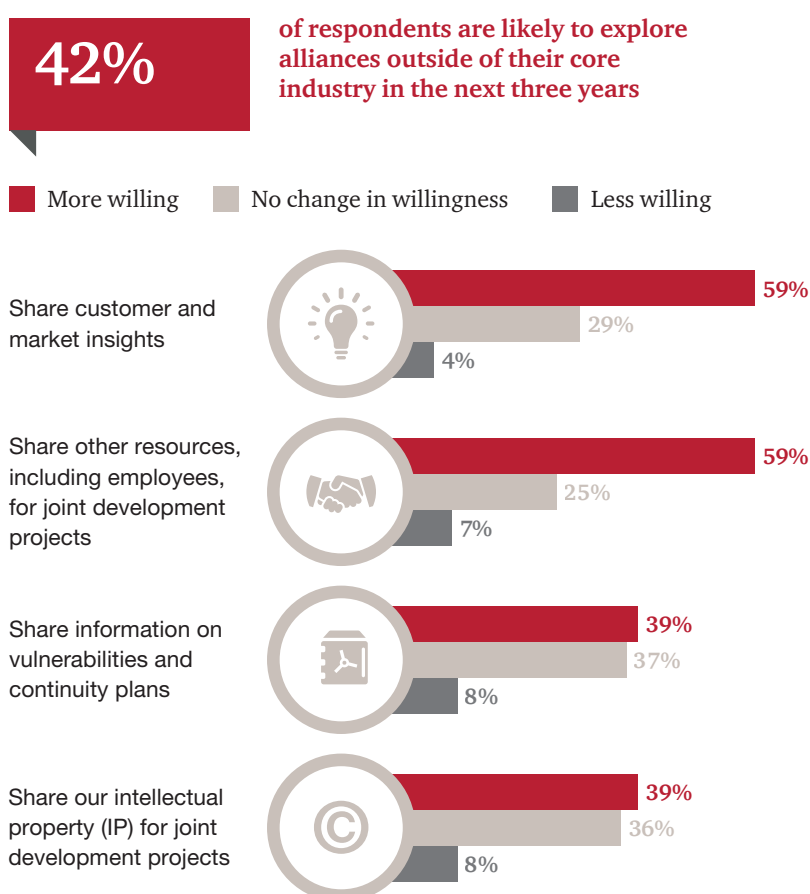
Industry boundaries are shifting as companies re-configure around better customer outcomes using better technologies

Consider how sensors embedded in everyday items will change the industry models for how healthcare is delivered today. Or in another example, consider the mobile payments and lending markets where Internet companies, device makers, and other non-financial firms are competing with banks.

As technologies break down industry barriers, executives are looking for opportunities to expand in these evolving markets: 42% of respondents say they're likely to explore an alliance outside of their core industry in the next three years. In fact, close to one in five (19%) technology executives say such a move is 'critical' to their company's future prospects.

Executives aspire to do more—and to get more—from business alliances

New approaches taking shape in Asia Pacific

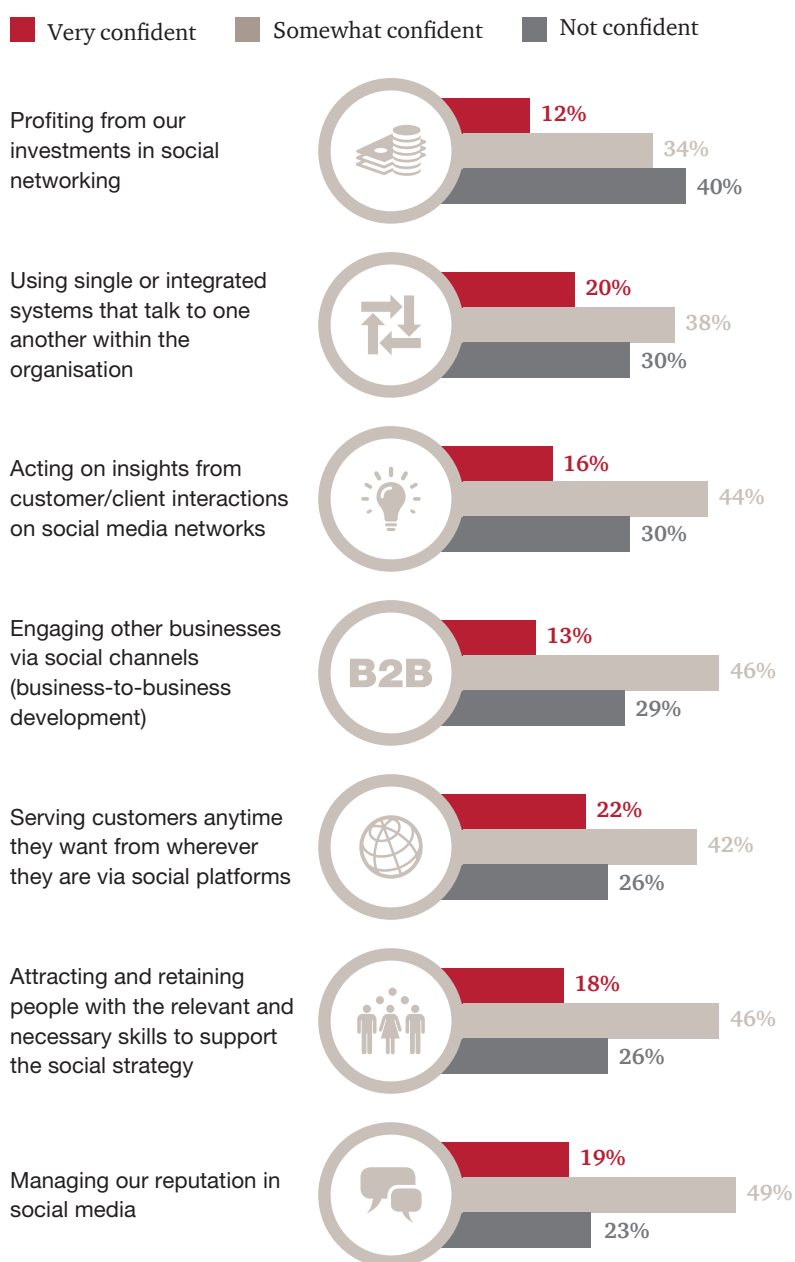


Q: Thinking about forming alliances with other businesses that are based outside of your principal APEC market, please indicate the extent of your organisation's willingness to:

Base: 256, respondents who plan to enter an alliance or acquisition outside their core industry, 'don't know'/'not applicable' not displayed

Source: PwC 2014 APEC CEO Survey. www.pwc.com/apec

What's holding back returns on social network investments in Asia Pacific?



Q: Considering connections via social networks for your business growth, how confident are you of your organisation's capabilities in the following?

Base: 595, 'don't know' and 'not applicable' not displayed

Source: PwC 2014 APEC CEO Survey. www.pwc.com/apec

Given this dynamic, how might the classic sales-driven, cross-border partnership in the region change? Survey responses suggest closer and more collaborative alliances in product and market development are in the making. Nonetheless, executives are not as willing to share intellectual property with their business partners. Nor are they as prepared to share information on perceived vulnerabilities within their networks.

Digital skills, analytics gaps confound business growth in social platforms

Social networks, often exclusively accessed via mobile devices, are an increasingly important platform for business growth. "If you look at the majority of the small and medium-sized businesses in Brunei, they no longer have websites. They use social networks such as Instagram, Facebook, or Twitter to actually display their goods and services," said Haslina Taib, CEO of outsourcing and technology consultancy BAG Networks in Brunei Darussalam.

Survey responses suggest many businesses are in the early stages of social engagement. Just 12% are 'very confident' they're profiting from their social network investments even as more of their customers, in business-to-consumer (B2C) and increasingly business-to-business (B2B), congregate on these platforms.

Tellingly, around a third of executives are struggling to act on insights they can glean from social interactions. This is the 'next leg' of engagement: Building relationships and business models from data generated by virtual connections.

Doing business over social networks is a step change away from maintaining a brand presence on digital channels. Taib learned the power of social networks to shape how an organisation creates and delivers products by running eBunda, a collaborative platform to encourage women in business. Her experience with eBunda has been "one of the things that really helps me in transforming a very traditional IT delivery business" in Brunei, she said.

Thanks to the rapid pace of mobile adoption, applications are taking hold in Asia first, noted Peggy Johnson, executive vice president of business development at Microsoft Corporation. "We've seen quite innovative leaps and bounds in the app world with mobile banking, for instance," she told PwC.⁸ "Many of the different social networks that have started in Asia started first on the mobile platform, not on the fixed, plugged-into-the-wall platform." Close to a billion people are believed to be active users of social networks in Asia Pacific, representing a market penetration of 25%. While rates vary in the region, the trend is up, according to an analysis by global agency We Are Social.

DBS Group, the Singapore-based banking group, created a social platform to inform its designs for new branch capacity, said CEO Piyush Gupta. "The networks of people, how people behave and operate is extremely important. We are seeing increasingly, even in our business, that nobody makes a purchase decision without having compared, contrasted, and received feedback from their social network," he said. "If you are not part of the social network phenomenon, you will not be relevant to people, and you will lose business."

Between 12% and 22% of Survey respondents are 'very confident' across a range of social network capabilities. These include making use of integrated systems, data from the networks, and customer feedback.

Wider adoption will come. Mobile banking customers are changing the way banks think, said Wayne Golding, OBE, executive chairman of 2G Development Co. Limited and director shareholder of Kina Securities Limited in Papua New Guinea. "Most of the money flowing in the country used to come from the city. Now, people anywhere just get their phone to transfer funds, buy and sell things and do whatever they like. The big issue now is how do we expand, to be more inclusive and more importantly, deal with the securitisation of the data."

⁸ Interviewed on 9 July 2014

APEC at 25

Progress on free trade, but momentum is slowing

Trade between APEC members has increased sevenfold since 1990, in part because of measures promoted by APEC to reduce barriers at the border. For example, applied tariffs have dropped by more than half since 1989 to under 6% in 2011. Moreover, many APEC economies have negotiated free trade agreements with one another, further reducing or eliminating the duties payable on many products traded between them.

While the trade agenda is expanding

Reductions in tariffs help, but businesses are looking for more clarity and consistency in product labelling, data sharing, and local content rules among a host of ‘non-tariff trade barriers’ to their business growth.

We do see some evidence that process barriers like these can be as material as economic tariffs. That’s to be expected in a more connected region with growing trade flows. The World Economic Forum believes improvements to administrative, transport and communications barriers at every border could generate more global economic growth than eliminating all tariffs.⁹ And while experts disagree about the total impact, it’s clear that pressure is building on businesses to get their products to customers as

quickly as possible. In an age where raw materials and semi-finished products are exported and imported many times over before a product is finished, unexpected delays at the border add costs that are difficult for many to quantify, let alone manage.

Businesses are also seeking access to services, the fastest-growing sector in many APEC economies and where much innovation in products and business models are taking place.

Yet ‘new age’ trade priorities—like better access to domestic services—are widely viewed as more difficult to tackle. For one, many more regulators are often involved in these issues. As Anthony Nightingale, CMG, SBS, JP, director of Jardine Matheson Holdings Limited, and with long experience in APEC puts it, “services are immensely complicated. It’s going to take years before we see the kind of access that is needed to grow that side of business.”

Import tariffs and customs chokepoints are back in focus

Executives ranked these barriers 2 and 3, respectively, in terms of the impact of a change for their business. Despite the proliferation of preferential trade agreements in the region, supply chain managers still think that there is room to reduce customs duty costs.¹⁰

Trust and transparency on customs processes on both sides—business and government—could go a long way. The creation of trusted trade partner programmes, usually referred to as Authorised Economic Operator schemes in many APEC economies, provide companies the option of having more certainty around issues like clearance times and inspection rates.

Globally, APEC can play a leadership role in paving the way towards solutions, said Peter M. Robinson, president and CEO, United States Council for International Business (USCIB). “Work done by APEC on customs modernisation and trade facilitation has provided a framework and a path forward for the World Trade Organization.”

⁹ “Enabling Trade, Valuing Growth Opportunities,” World Economic Forum, 2013.

¹⁰ “Managing customs and international trade in Asia: Benchmarking best practices in 2014,” PwC, 2014

How do business leaders assess the progress on free trade?

A majority of executives still see momentum towards APEC's long-time goal of a Free Trade Area of the Asia Pacific (FTAAP). But most also believe that progress has slowed over the past year. We asked them why. We received many thoughtful replies, too many to show here. In their own words (slightly edited), here's a taste:

Q: How would you assess the progress that has been made towards free trade across the Asia Pacific region in the last 12 months?

Base: 595, 17% 'don't know'

Progress has reversed/stalled

11%

- Emerging political tensions in the APEC region
- We still see patchy implementation with too many economy-specific requirements
- Limited success in TPP negotiations
- Emerging cross-border data-flow restrictions
- ASEAN nations are adapting laws and regulations to reduce free trade
- Political turmoil and protectionism in many economies

Progress has slowed

55%

- Competing trade narratives TPP vs. Regional Comprehensive Economic Partnership (RCEP)
- Complexity of the agreements
- Misaligned economic and development objectives
- Bureaucracy and protectionism rising
- TPP progress has been slow. We need a breakthrough
- Regional tensions

Progress has been significant

15%

- Trade is developing because of the good connectivity and exchanges of cultures and people
- Free trade agreements (FTAs) in Australia and Mexico, Free Trade Zone in Shanghai
- Improving global growth
- Increased specialisation of products/services among APEC economies promotes free trade
- Technology has been a big enabler of free trade
- Globalisation is happening fast

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Research methodology

This is the *PwC 2014 APEC CEO Survey*.

We surveyed industry leaders from 18 June to 20 August 2014 for the *PwC 2014 APEC CEO Survey*. We also conducted 21 in-depth interviews with CEOs and other top corporate officers and business specialists.

We used an online and paper methodology to achieve 635 valid responses from CEOs and industry leaders across 39 economies, with a key focus on 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 15% of respondents, followed by 11% in the Philippines; 9% in Hong Kong, China, 8% in Japan, 7% in Australia and 6% in the US. Twenty of APEC's 21 economies are represented in the results. By sector, 33% of respondents are in industrials, 19% in consumer; 17% in financial services; 13% in technology; 11% in professional services and 8% are in other industries.

This multilingual survey was made available in four languages: English, Simplified Chinese, Japanese and Korean. 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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