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Headline: Apec needs better connections physically and digitally to thrive

Apec needs better connections physically and digitally to thrive

By **Wanant Kerdchuen**

● As trade and investment opportunities rise across Asia Pacific, the 21 members of the Asia Pacific Economic Cooperation (Apec) forum are pursuing tighter connections, physically and virtually, to maintain balanced regional growth.

As a result, each individual country is becoming more interdependent socially, economically and technologically with others in the bloc. A more connected Asia Pacific is also seen as improving investors' confidence in business opportunities.

The number of Asia Pacific executives who are "very confident" in revenue growth over the next 12 months has risen to 46% from 42% last year and 36% in 2012. This is despite slowing growth in China, according to a recent survey by PricewaterhouseCoopers, the global corporate audit, tax and consulting firm.

According to the report, the slowdown in China to more moderate economic growth of 6.5% is offset by two other important developments: the steady pace of growth in developing Apec countries in Southeast Asia such as the Philippines, Indonesia and Vietnam, and improving growth in the mature Apec economies such as the United States, Japan, Canada and Mexico.

The PwC report entitled "New Vision for Asia Pacific Connectivity: Creating Platforms for Growth" sought opinions from 635 business leaders from 39 countries in Asia Pacific including all 21 Apec members. It was released during the recent Apec meeting in Beijing last week.

The report said 67% of executives in Apec countries were planning to step up investments from next year onward. New capital projects will focus on expanding consumer markets, spreading distribution reach and strengthening the digital economy. Facilities such as data centres, warehouses and retail outlets will be added. The combined capital spending in these areas exceeds the sums expected to be spent building or expanding manufacturing facilities.

As well, 57% of CEOs said they would push for facility expansion in the region over the next three to five years, increasing the need for infrastructure, where bottlenecks remain a problem.

Connected infrastructure development is vital as the region seeks to maintain a steady economic growth rate. Better connectivity in terms of infrastructure and cross-border regulation is seen as a decisive factor that could draw more investment.

"Apec economies should cooperate in

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Indonesian President Joko Widodo gestures as he delivers a speech at the Apec CEO Summit in Beijing last week.

building more infrastructure that links our different economies, people, commodities and trading activity. ... We are looking forward to more accessible facilities to support economic growth in this region," said Frank Gaoning Ning, chairman of Cofco Corp and one of the respondents in the PwC report.

With improvements in physical connectivity slow to materialise, corporations are counting on digital connectivity to move beyond domestic markets.

However, despite the enthusiasm for the digital era and the big role that e-commerce now plays, only 12% of executives surveyed by PwC are confident they are profiting from their social network investment. Many see physical connections and tangible commercial activities across borders as delivering more predictable results.

Inclusive growth in Apec countries has contributed greatly to a more positive global economic outlook because they represent about 40% of the world's population, 55% of GDP and 44% of global trade.

"An interconnected global economy is more easily supported by a foundation of integrated and healthy regional economies," said Raymond McDaniel, CEO of Moody's, in a speech at the recent Apec CEO Summit in Beijing.

"At the same time, there are two important caveats to this assertion: first, public policy should encourage constructive working relationships and networks both within and among regions; and, second the business community has an increasingly important role to play in the debate regarding the future of the international economy, and it should take that role very seriously."

The CEO survey indicates that China (72%), the US (61%) and Indonesia (57%) are the top three investment destinations over the next three to five years. They are followed by the Asian financial centres Hong Kong (51%) and Singapore (50%), and the Philippines. Thailand, despite recent political upheavals, remains in the top 10 in a tie with Malaysia and Japan at 43%, but slightly behind Vietnam (45%).

Apec as a whole can expect to benefit from a global economic recovery. The PwC report forecasts GDP over the next 10 years averaging 3.5% a year between 2013 and 2023, compared with 3.2% in the previous 10 years.

While regional growth and demand for investment are promising, financing and regulation in some countries remain question marks.

In many parts of Asia, "the current financial market infrastructure is insufficient to support the next stage of economic growth or to meet the huge challenges of financing essential urban development", said Mr McDaniel of Moody's.

He said that Asian financial markets, particularly the bond market, were less developed and less integrated with one another compared to those of western markets. Accordingly, the flow of resources from one economy to another is sometimes hindered because of differences in legal and administrative systems or regulatory regimes.

Ivan Tan, director in charge of Singapore and Malaysia banks at Standard & Poor's Rating Services, said the first step toward Asean financial integration should be domestic consolidation to produce a stronger banking system in each individual country. Then liberalisation can follow more smoothly.

"The proposed 2020 timeline for Asean financial sector integration has no near and immediate solution, and it will definitely be a long road," he added.