Conditions for cross-border business in Asia Pacific 2019-2020

PwC's Asia Pacific Business Leaders Survey

pwc

Conditions for cross-border business in Asia Pacific, 2019-2020

Finding pathways to sustainable growth as trade barriers rise

Escalating tariffs between the US-China no longer tell the full story of cross-border business conditions for companies with operations spanning the Pacific Ocean. Companies based throughout the Asia Pacific Economic Cooperation (APEC) region are experiencing rising constraints on a range of day-to-day cross-border activities.

At the same time, they are channeling new investments into economies that support strategies to diversify, as well as into advanced technologies. Automation is leading 25% of surveyed companies to redefine employee roles. Business leaders are mindful of a fast-evolving global arena. They are forging ahead in the face of continuing policy fragmentation, especially relating to data security and privacy.

We believe this survey, in its tenth year, reflects business sentiment in the region; on average, respondents are investors in six other APEC economies.

PwC surveyed 1,014 business leaders from 31 May to 16 July 2019. Survey results include responses from each of the 21 APEC economies that collectively account for half of the world trade and more than half of world GDP.

Welcome to PwC's 10th report on conditions for cross-border business in Asia Pacific

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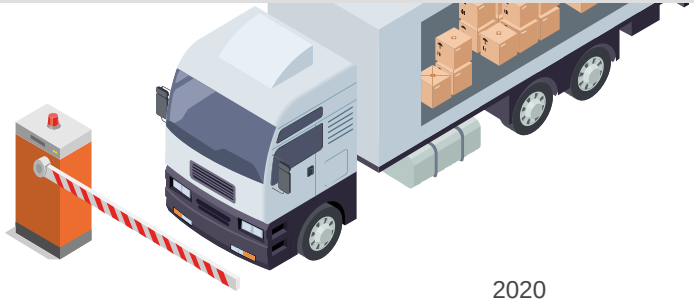
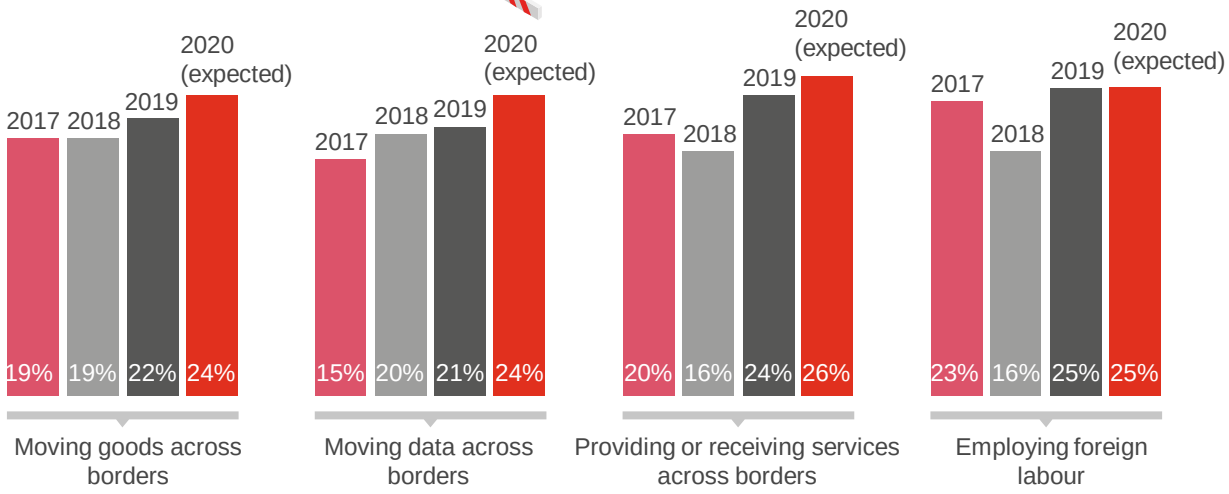
1 Trade barriers accelerating changes to global operations

Tariffs are the biggest disruptors to cross border trade in Asia Pacific, but other types of protectionism are also on the rise

a) Considering your organisation's cross border activities only, have you experienced an increase in the last 12 months?

b) do you expect to experience an increase in the next 12 months?





Base: 2019 970 respondents. 2018 1154. 2017 1375.
Source: PwC's APEC Business Leaders Survey, 2019

44%

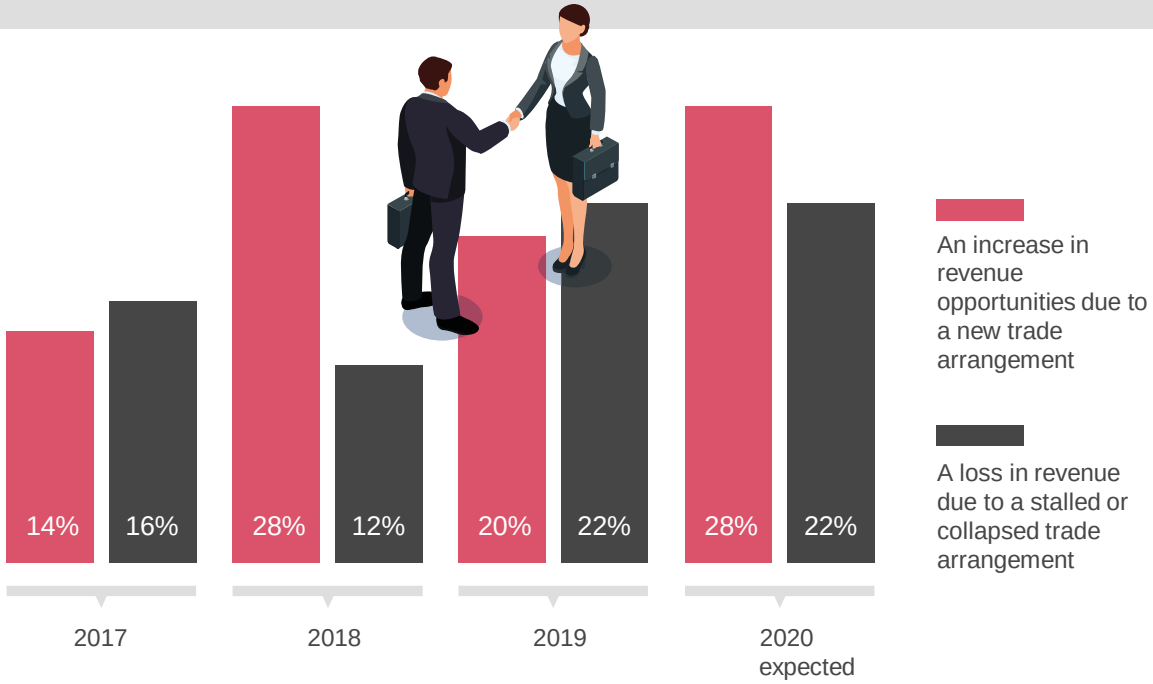
say a reduction in tariffs would have the most positive influence on business across borders

Business leaders experienced more barriers to cross-border activities than they had expected at this time last year, and expect to face similar restraints in 2020. Hiring foreign workers, and providing or receiving services across borders are increasingly difficult. When asked which "one change to policy would have the most positive impact on your ability to grow your business across borders within APEC", 44% cited a reduction in tariffs or more directly, a resolution to the US-China trade tensions.

The rest of the respondents believe improvements will stem from other types of trade policy reform, which ranged from easing trade in services to harmonising data privacy rules. For example, 7% called out barriers to hiring foreign workers as an area that is ready for change. "We need more work permits for foreign expertise within APEC," offered an executive from Indonesia.

Even though trade agreements fell short of expectations in 2019, some see brighter prospects over the next 12 months

Considering your organisation's cross border activities only, a) have you experienced in the last 12 months; b) do you expect to experience in the next 12 months?



Base: 2019 970. 2018 1154. 2017 1375.
Source: PwC's APEC Business Leaders Survey, 2019

Why is that?

Some have high hopes from new multilateral or bilateral trade resolutions – particularly in regions and economies crafting those agreements. For example, 42% of respondents in Mexico and 37% in Japan expect an increase in revenue opportunities in 2020 resulting from trade arrangements compared with 28% of all respondents. Trade policymakers in many economies are actively seeking to diversify their trade portfolios and strengthen existing arrangements.

Trade barriers impact real economic activity with a lag. The official statistics mirror the business executives experience: Global trade contracted[1] over the first seven months of 2019 as global manufacturing production stalled, while the slowdown in goods trade appeared to spread into global trade in services (e.g. financial and IT services, passenger flights) through the second quarter.

Survey findings suggest that 2020 will belong to companies that find new pathways around barriers to cross-border business, whether it’s flow of data, talent or capital. Many are starting to implement changes that may help mitigate trade policy unpredictability, including by diversifying operations, strategic upskilling or influencing policy in nascent areas.

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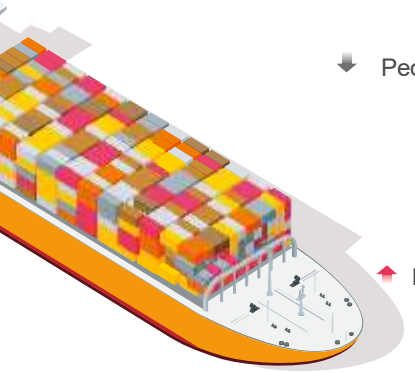
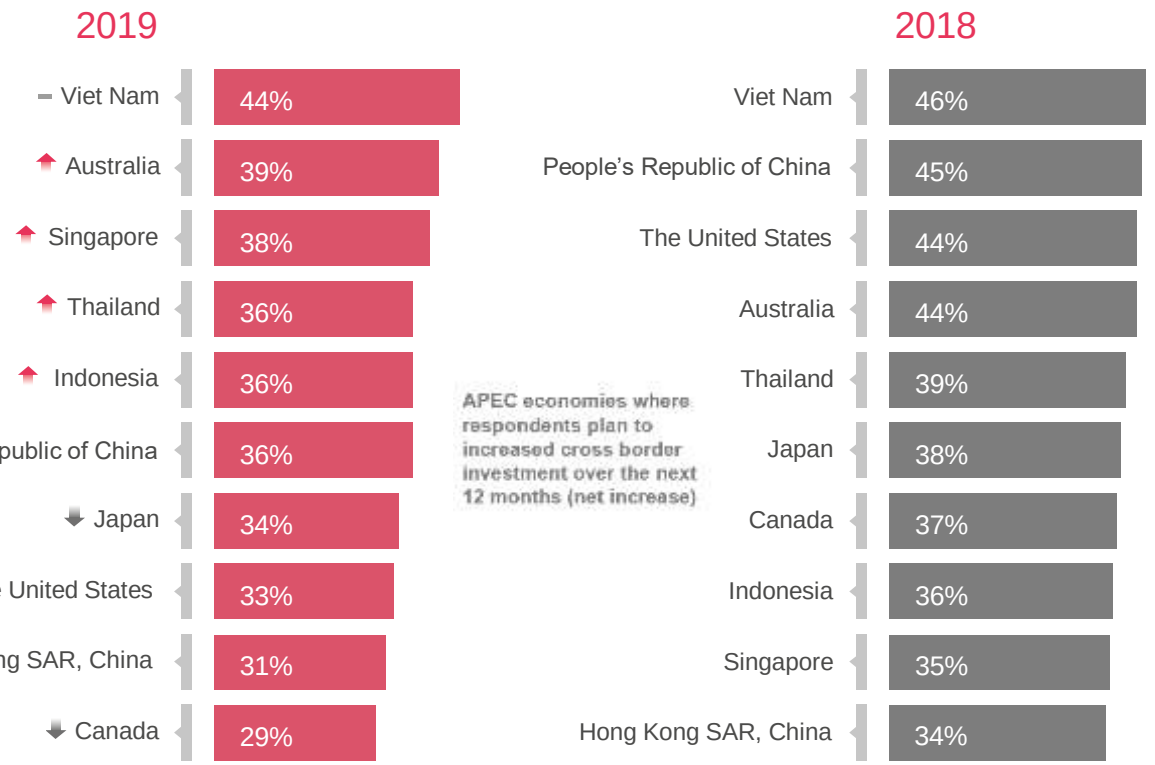
Top ten APEC economies targeted for planned increases in investments

Thinking of your footprint in APEC economies, will your business investments increase, stay the same or decrease over the next 12 months?

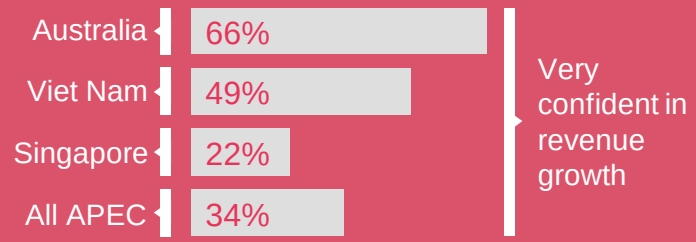




Base: 2019 288-359, 2018 310-493 'Net increase' refers to % 'increasing' their investment minus % 'decreasing' their investment. 'Increasing' includes those currently investing in the economy with plans to increase AND those planning to invest in the economy for the first time minus those who will decrease their investment. Percentages recalculated on respondents with a footprint in each relevant economy only.
Source: PwC's APEC Business Leaders' Survey, 2019

Portfolio diversification away from China and the US picks up speed.

Within APEC, Viet Nam, Australia and Singapore are the most favoured among respondents for net increase in cross-border investment over the next 12 months. Business leaders in Viet Nam and Australia are also more likely to be optimistic than their peers in the region.



Findings this year mark the first time China and the US are not in the top five since PwC began analysing net future investment targets across borders in APEC economies in 2015.

Among other factors, these investment intentions likely signal continued supply chain re-configuring. Over the past year, Viet Nam, Chile and Malaysia[2] have emerged as early beneficiaries of trade diversion. Australia's commodity exports to[3] China have soared as China acted to boost domestic economic activity to cushion the pinch of US tariffs.

Shifting trade winds are pushing companies to rethink their footprint, and as they do so they are looking at an expanded set of considerations that include risk, components, trade laws, rising labour costs, barriers to business direct investment and shortening of supply chains because of digitisation, as well as how to secure future growth prospects.

How can businesses adapt to barriers to the flow of talent, data, goods and services?

Here are some shifts PwC is starting to see:

A more nimble global footprint

Facing the trade policy rollercoaster, the only two choices for companies need not be wait-and-watch or lift- and-shift operations. Businesses reinventing supply chains for greater operational efficiencies can build in resilience to respond to disruptions and opportunities. For example, the Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union is helping to contain costs for some Canadian businesses.[4] With an eye on where future growth lies, some companies are moving toward dual supply chains, one in China to serve China – and the broader Asian market, and the other oriented toward North and South America. Still others are scouting for alternatives and back-up suppliers to change their product flow if there's a sudden policy shift, without needing to overhaul their physical footprint.

Trade automation tools

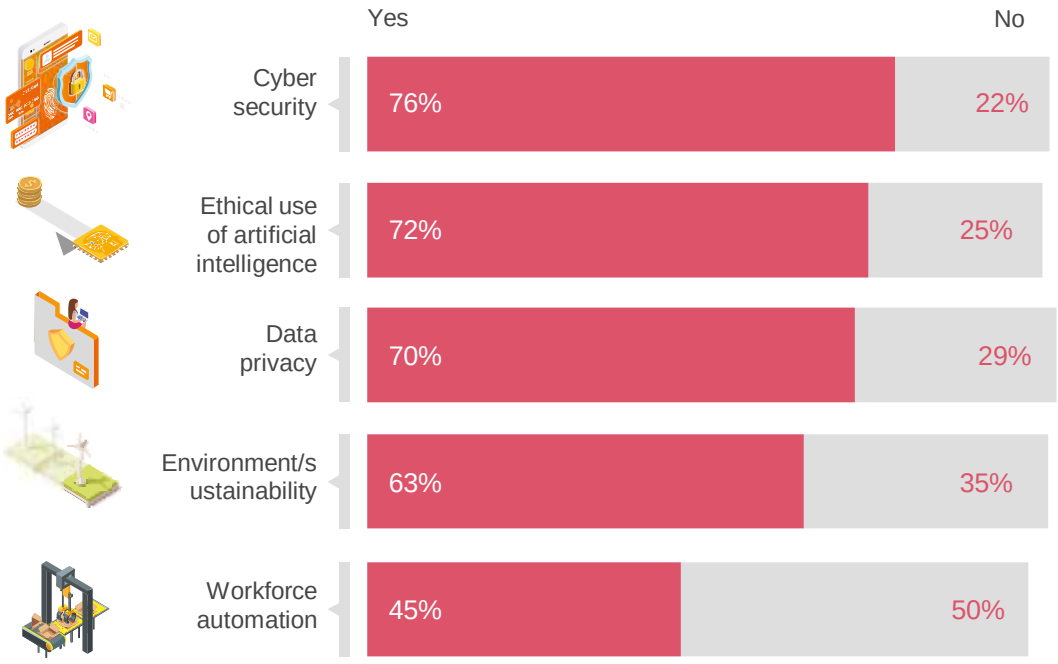
Manual, scattered trade processes are ill-equipped for new or emerging trade agreements that are more detailed and prescriptive than before - and whose enforcement is becoming more sophisticated given greater transparency in trade data. For example, the United States-Mexico-Canada Agreement (USMCA) creates opportunities for North American border authorities to collaborate on whether companies within the region meet content rules for products to qualify for preferences. Robotic process automation (RPA) in international trade finance can simplify trade and customs documentation and automate order processing and payments. Trade automation solutions can help manage regulatory volatility by screening every transaction against pre-defined criteria such as sanctions, import and export licenses, and tariffs classification. But compliance is not the only reason to integrate automation into trade – and business – strategy. There are a multitude of Free-Trade Agreements (FTAs) in APEC for reduced duty or free duty entry. Automation can streamline to drive better decisions. With more visibility into trade data, it's easier to calculate duty and tariff costs while restructuring supply chains or take advantage of duty drawbacks.

New leadership on policy

There's momentum in the region behind the adoption of advanced automation and Artificial Intelligence (AI) across industries. A majority of business leaders surveyed see advanced technologies like these are improving trust relationships with their customers with more mixed results among other stakeholders. Yet they know they need to strengthen trust over data usage and protection.

APEC business leaders agree additional regulation is needed to increase public trust in cybersecurity, AI and data privacy

In your view, do we or do we not need additional regulation to enhance public trust in the following areas?



Base: 926. Don't know 1%-4%
Source: PwC's APEC Business Leaders Survey, 2019

Business leaders don't often call for more regulation, but many are asking for regulation in areas like AI. Over 70% of respondents say additional regulation is needed, especially around cyber-privacy rules and to promote ethical use of AI.

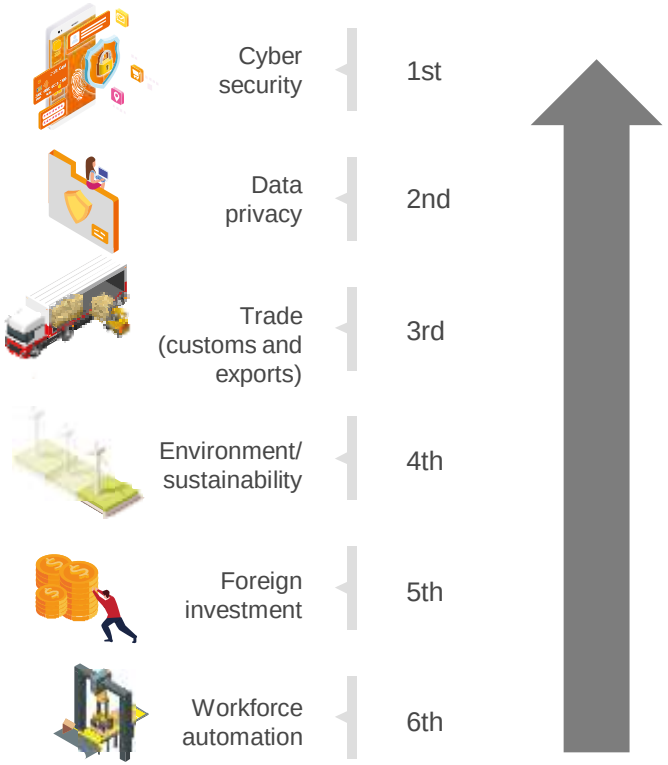
Companies are acutely aware of the risk of disconnected AI policy obstructing their ambition to innovate and grow in the digital economy. As they pursue investment opportunities, business leaders want oversight, guidance and predictability.

In the US, CEO members of the Business Roundtable in Sept. called on Congress[5] to pass a national consumer data privacy law that strengthens protections for consumers, and achieves "global interoperability". Business leaders are also aware that consumers increasingly value privacy rights. A recent global consumer survey[6] found that citizens do not trust companies or governments to use their personal data in the right way.[3]

> As an executive in the consumer business from Thailand put it, "data flowing more smoothly between countries will enhance digital development, and change how we are learning from one another and finding new opportunities."

Increase in regulation relating to cyber-security and data privacy are expected most

Where do you expect policy or regulatory activity to increase the most in the next two years in your principal economy?



Note: Showing ranked based on index analysis, excludes 'don't know' and 'other' responses
Base: 900
Source: PwC's APEC Business Leaders Survey, 2019

The past two years have seen a flurry of privacy and data legislation around the world. Now a slew of national AI strategies are in the works, for example, in Japan, Korea, China, and (by Executive Order) in the US, each focusing on different aspects of AI, from research to ethics to skills to digital infrastructure.

Policy making on AI is only in the early phases. Policy makers around the world are still working to understand the impact of advanced automation and trying to find the right balance between regulation and a more laissez-faire approach. Now is a good time for companies to build "responsible AI" and help shape regulatory approaches that are principles-based without taking an overly prescriptive approach.

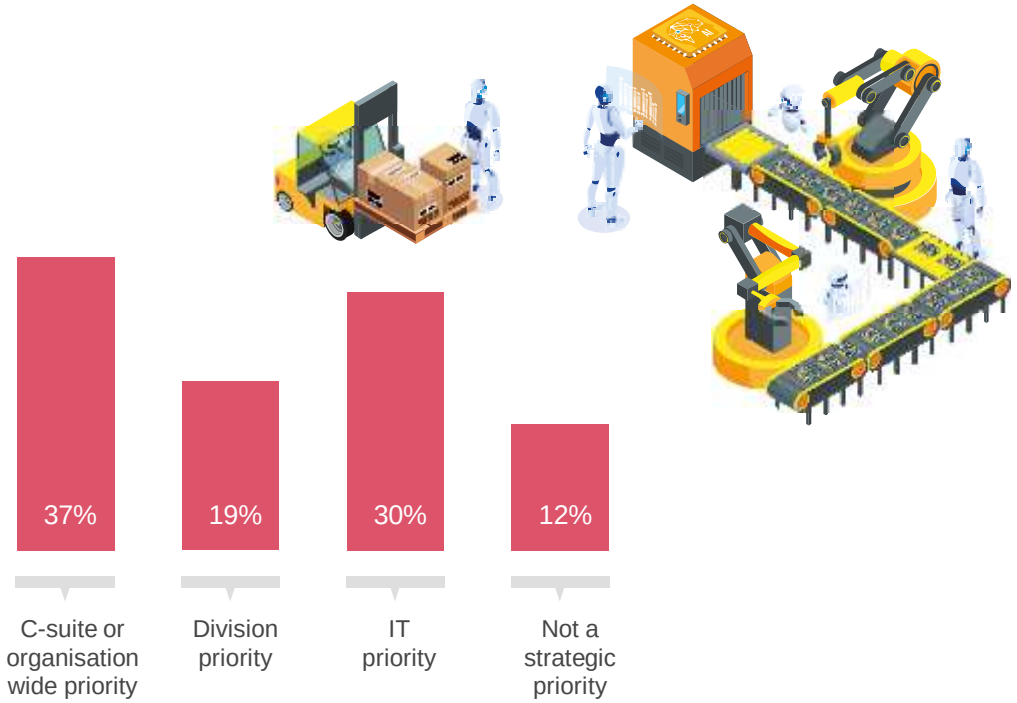
The stakes are high and the timing is critical. APEC provides a ready forum to collectively frame standards that support innovation, along with responsible and inclusive AI. Together, business and policy makers can help ensure that fragmented AI policies don't become a new digital barrier to progress in the APEC region.

2 Advancing automation through the workforce

Building out advanced technologies are business priorities

Investment in automation and artificial intelligence (AI) is rising, and reshaping workforces. Business leaders see applications of these technologies, which can range from factory-floor robotics to automated customer chats, accelerating in their industries.

To what extent is advanced automation and AI a strategic priority for your organisation in the next two years?

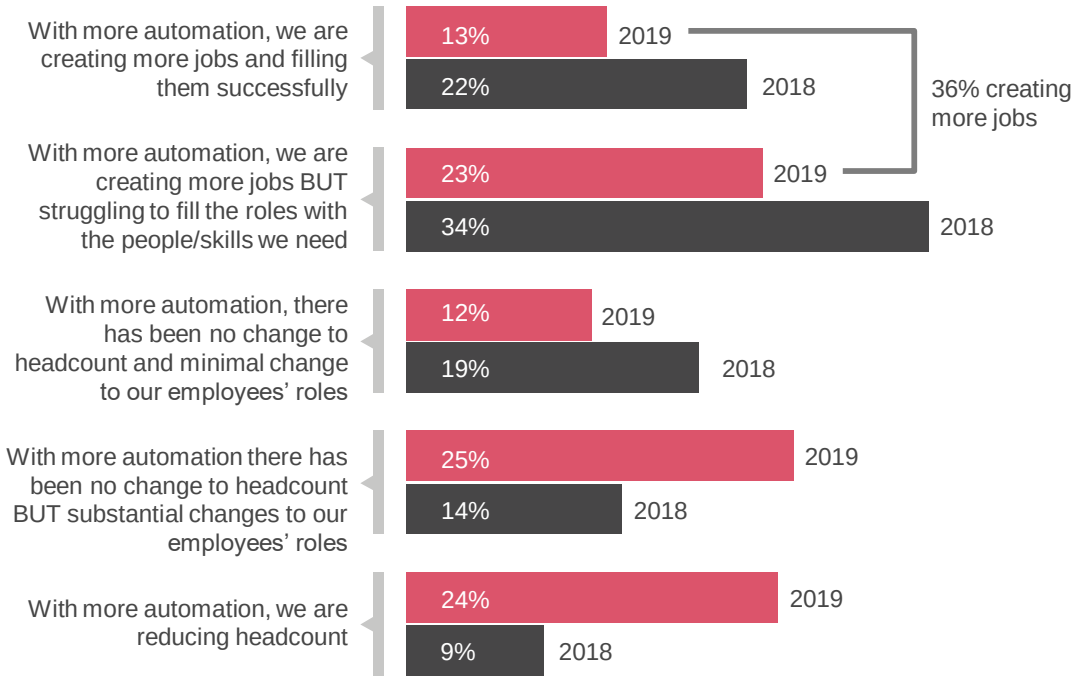


Base: 2019 946, Don't know 2%
Source: PwC's APEC Business Leaders Survey, 2019

"Consolidating data from multiple sources and across borders will have a positive impact on business," offered a technology executive in Singapore. "Big data, AI, business intelligence are converging, and keeping consolidation of multi-sourced data simple and easy to use is key to growth."

Employee roles being redefined as automation and AI advances in workforces

Which statement best describes the consequences of increased automation in your organisation today?



Note: Question in 2018 was asked 'Which statement best describes the impact of technology (e.g. increased automation, new business models, etc.) on jobs in your organisation today?'
Base: 2019 750. 2018 1108.
Source: PwC's APEC Business Leaders Survey, 2019

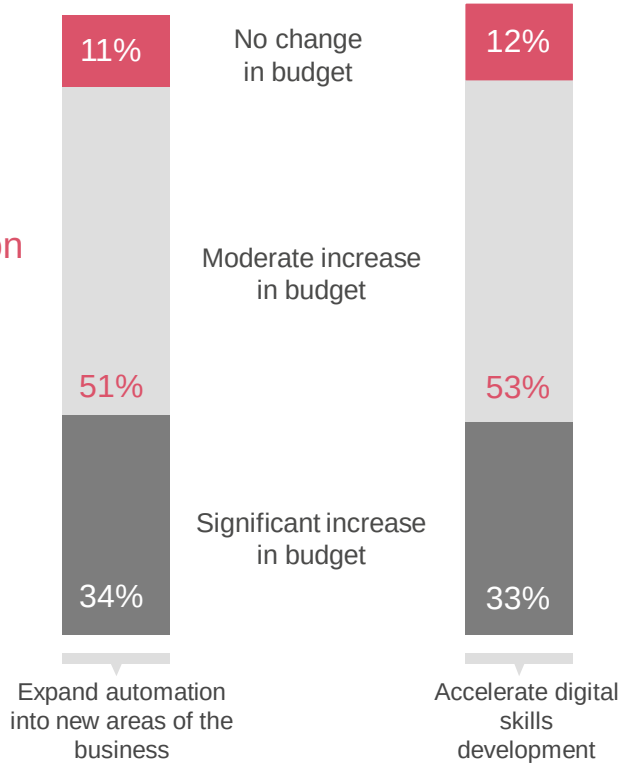
Jobs are being displaced at a faster rate this year than last year. But survey findings also suggest that more jobs continue to be added than eliminated. This year, over a third of respondents say automation is creating new jobs, compared to 24% who are reducing headcount. Simultaneously, automation is leading a quarter of companies who answered the survey to redefine employee roles.

These are still early days. Most studies show workforce impact thus far is occupation and industry specific. For example, a three-year review of millions of openings[7] found that new technologies don't necessarily replace jobs, but often spur industry growth and job creation. Among our survey respondents, 9%of those based in technology companies are reducing headcount as a result of AI/ automation. This compares with 29% of respondents in industrial businesses reducing headcount.

Over the longer term, PwC estimates 30% of jobs are at potential risk of automation by mid-2030s. For example, in the US automation may displace 24.7 million jobs by 2027 with new technology creating 14.9 million jobs.

A majority of businesses are prioritising both automation and upskilling

How will your organisation allocate budget to reflect this priority in the next 2 years?



Note: Asked to those who selected advanced automation and AI as a priority
Base: 811, Don't know 2%-4%
Source: PwC's APEC Business Leaders Survey, 2019

It's encouraging that a majority of APEC businesses are prioritising both automation and upskilling. Our own research shows that artificial intelligence (AI) has the potential to infuse up to US$15.7 trillion into the global economy by 2030 –and that labour productivity improvements will account for more than half of all GDP gains from AI.

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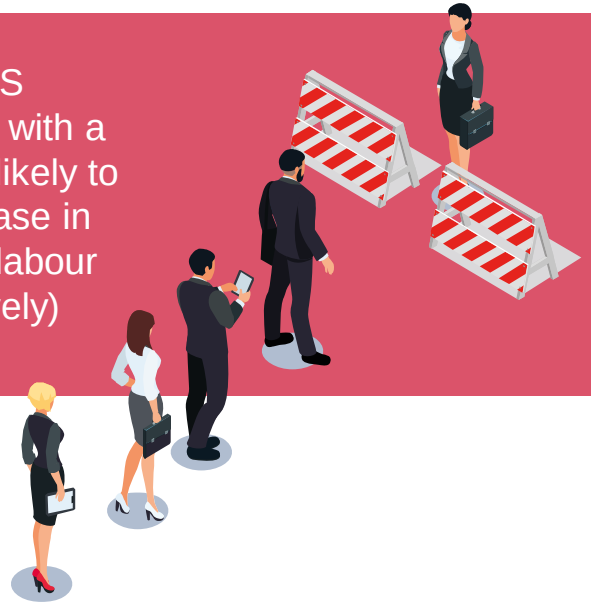
Unfortunately, immigration restrictions are increasing. In the US, immigration[8] processing times in some categories are becoming lengthier, increasing 46% between 2016 and 2018; in Singapore[9], foreign worker quotas are set to decrease; and in Australia[10], the government is cutting visas and restricting the flow of migrants in the largest cities. Surveyed business leaders in these three economies, accustomed to drawing the best of global talent, are more acutely feeling the constraints, as are large businesses that rely on global workforce.

In this restrictive environment, APEC's focus on closing the digital skills[11] gap by 2025 is a welcome step, and one which business leaders would almost certainly like to build on.

Australia, Singapore and US business leaders and firms with a revenue of $5b+ are more likely to have experienced an increase in barriers employing foreign labour (40%, 35%, 38%, respectively)



Here are how some companies are starting to modify their upskilling and talent strategies

Remote work as an alternative to mobility

Companies are increasingly looking to assemble remote teams with the right mix of talent, irrespective of its location. This requires designing effective virtual workplaces and collaboration hubs, as well as keeping abreast with evolving laws.

Employee buy in for change

APEC's diverse, multi-generational and increasingly educated and digitally-savvy workforce is demanding good work, whose attributes include fair pay, tolerable levels of change, and fulfilling roles. Upskilling for a digital economy requires creating a workplace where people want to work every day. The digital economy will realise its potential if employees are provided the training, tools and resources to test-drive solutions, grow cross-functional skills, and are rewarded for change. People are demanding honest answers about their future and want to feel like they are in control of their own progress. For mobile and remote workers, new technologies, from bots to blockchain, can offer smart mobility solutions that improve their experience and reduce costs for business.

Partnership with policymakers

Policymakers are signaling an interest in shaping the future of work. For example, labour provisions are not only at the core of USMCA, they are the strongest-ever seen in a US trade treaty. There are many economy-level frameworks for upskilling throughout APEC, be it as part of Digital Malaysia, The Philippines' Information Technology and Business Process Management (IT-BPM) Roadmap or Singapore's Skills Future. Every labour market is unique, and nowhere can governments —or businesses—do it alone. Reskilling people on a massive scale requires cross-industry, public-private collaboration across regions. According to the World Economic Forum[12], when reskilling resources are pooled, costs and timelines reduce significantly, making it profitable for businesses to help people transition to new jobs. It may cost almost US$25,000 per person to retrain displaced workers in the United States, but larger intra-industry or regional efforts may lower the costs to US$5,000 or US$10,000 per person, while generating concrete ROI.

3 Message for APEC economic and business leaders

Pathways to sustainable growth

The survey results suggest that business wants to see: reduce policy uncertainty and fragmentation. And work with businesses that are rising to the challenges of policy, technological and workforce changes by modifying their own strategies and operations.

Over a third (37%) of surveyed business leaders in the region are managing automation as a strategic C-suite priority. Where others are making moderate investments – in integrating data and systems and accelerating skills – those managing automation as a top priority are significantly increasing their spend. They are more eager for regulatory clarity in areas that support AI adoption like cybersecurity and ethical use of AI.

These leaders are creating more jobs, underscoring the link between skills development and employment growth. Their focus on laying a solid data foundation is likely improving trust inside as well as outside their organisations, with suppliers and investors.

Strategic stewardship of automation grows jobs and trust

Those with advanced AI agendas are more likely to:

- Significantly increase their budgets in increasing automation, integrating data & systems and accelerating digital skills (compared to moderate increases on average)
- Create more jobs
- Improve trust all around, but especially with suppliers and investors
- Ask for more regulation on AI and cybersecurity

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4 Profile of survey respondents and methodology

Methodology

We surveyed industry leaders from 31st May to 16th July 2019 for the PwC 2019 APEC Business Leaders Survey.

We used an online and paper methodology to achieve 1,014 valid responses from CEOs and industry leaders, 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.

This multilingual survey was made available in seven languages: English, Simplified Chinese, Vietnamese, Japanese, Korean, Russian and Spanish.

Responses to the survey were given on a confidential and unattributable basis.

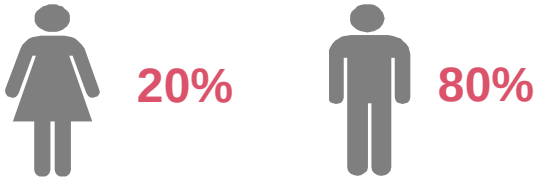
Note: Not all figures in this report add up to 100% due to rounding.

Breakdown of responses by economy

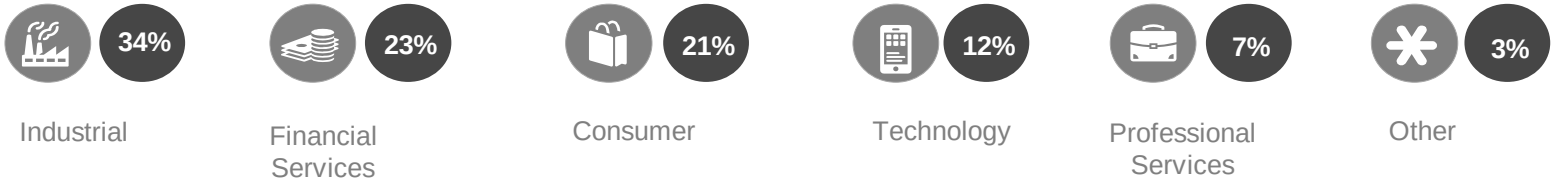
	2019 - 1,014 responses
	Proportion of overall responses
The United States	11%
People's Republic of China	10%
Indonesia	8%
Singapore	8%
Hong Kong, SAR	7%
Mexico	7%
Viet Nam	7%
Peru	6%
Malaysia	6%
Chile	6%
Japan	6%
Australia	5%
The Philippines	4%
Papua New Guinea	3%
Canada	2%
Thailand	1%
New Zealand	1%
Republic of Korea	1%
Chinese Taipei	1%
Russia	1%
Brunei Darussalam	<1%

Profile of survey respondents

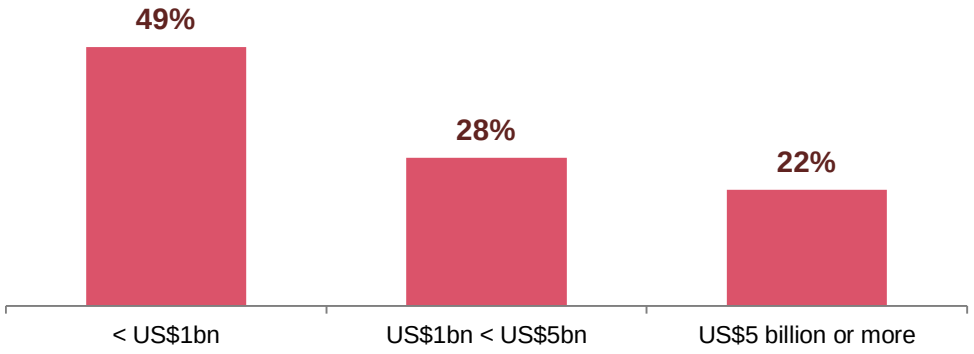
Gender



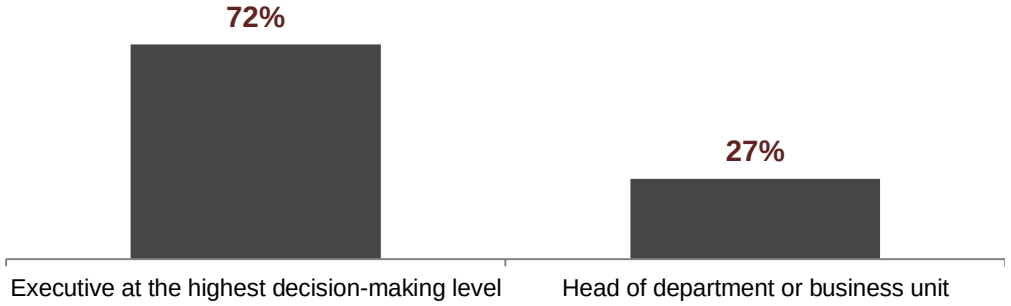
Sector



Annual revenue



Principal role



Footnotes

1 “Global manufacturing contraction stretches to longest in 7 years", Financial Times, Oct. 1, 2019

2 “These economies are the winners of the China-US trade war,” US News & World Report, Aug. 23, 2019

3 “As U.S. and China Australia Seizes Trade Opportunities", Wall Street Journal, Sept. 8, 2019

4 “How some Canadian multinational retail firms are finding ways to get around global trade chaos," Financial Post, Aug. 30, 2019

5 “Framework for consumer privacy legislation," Business Roundtable, accessed Nov. 10, 2019

6 “Ignorance and Distrust Prevail about What Companies and Governments Do with Personal Data”, Ipsos, Jan. 25, 2019

7 "Study Uses Big Data to Quantify Shifting Demand for Jobs and Skills," Burning Glass Technologies, Sept. 12, 2019

8 Historical National Average Processing Time for All USCIS Offices, US Citizenship and Immigration Services, accessed Nov. 2019

9 “Singapore Boosts Spending, Curbs Foreign-Worker Rules in Budget," Bloomberg News, Feb. 18, 2019

10 "Why Has Australia Fallen Out of Love With Immigration?", New York Times, April 22, 2019

11 “Close the Digital Skills Gap by 2025 through Collaboration”, APEC Human Resources Development Working Group APEC, July 19, 2019

12 "Towards a Reskilling Revolution Industry-Led Action for the Future of Work Centre", World Economic Forum, Jan. 2019