

# What's on the minds of CEOs in Papua New Guinea

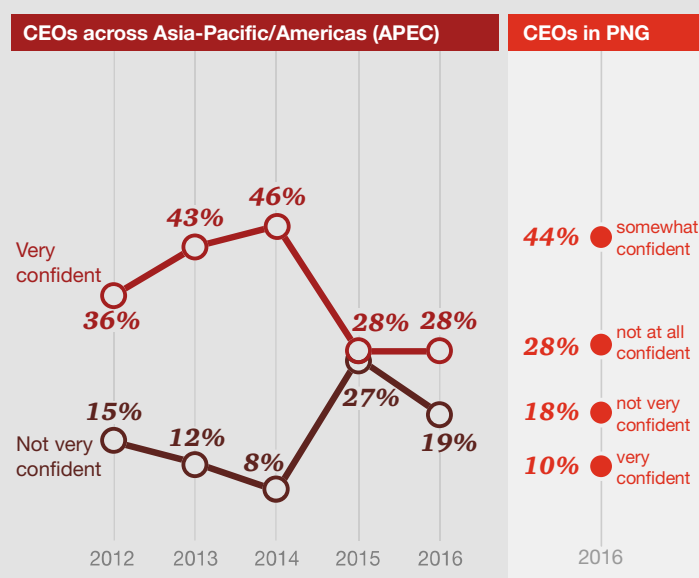
## Positioning for a changing business environment

Business leaders in Papua New Guinea (PNG) are navigating some of the most challenging conditions in Asia Pacific. Global demand for PNG's natural resources is no longer fueling outsized economic growth. Domestic GDP growth is forecast by the World Bank to decelerate sharply this year, reflecting the swift downturn in oil and gas prices. The near-term headwinds are evident: business leaders in PNG are among the most pessimistic in APEC about revenue growth in 2016-2017. They are positioning for a changing business environment. Barring major developments for commodities exporters, PNG's growth and foreign business investor interest will shift to different drivers and sectors. This is drawing PNG's economic relationships with the region into sharper focus for PNG business leaders: most see momentum on economic integration slowing or stalling. At the same time, most expect regulatory conditions to become more important to cross-border investment decisions.

This report reflects the perspectives of 39 business leaders in PNG compared with all 1,154 business leaders (APEC CEOs), surveyed

## Reliable revenue growth recedes: Few CEOs in Papua New Guinea 'very confident' of gains in 2016-17

Prospects for revenue growth in 2016-17



Q: How confident are you about your organisation's prospects for revenue growth ... over the next 12 months?  
 Base: 2016: 1,154, 39 (Papua New Guinea), 2015: 800, 2014: 635, 2013: 467, 2012: 362 (includes don't know responses)  
 Source: PwC's APEC CEO Survey, 2016-17

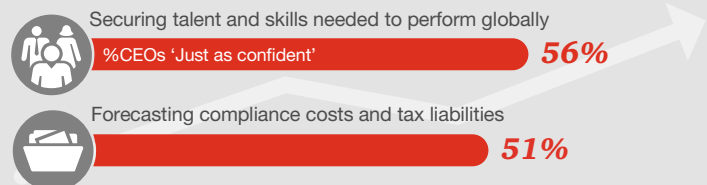
from May-July 2016. For seven years, as Knowledge Partner to APEC CEO Summit, PwC has conducted this survey to sharpen understanding of what's driving business growth and investment in the region. This year, over half of all respondents are in organisations with over US\$1bln in annual revenue.

## Challenges for 2016-2017: Generating returns from innovation

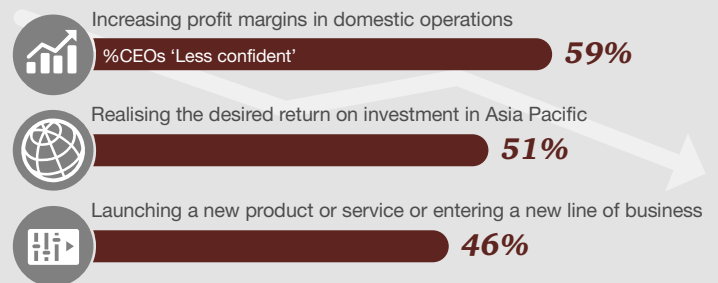
Pressure on margins are apparent, reflecting a slower growth trajectory in PNG. Moreover, 46% half of PNG business leaders are now 'less confident' than they were a year ago that they can innovate to adapt and thrive as the economic outlook changes in PNG and elsewhere in Asia Pacific. They see smaller economies like PNG bearing the brunt of uncertainties afflicting the various regional economic integration efforts, even though some of these, like the Trans-Pacific Partnership (TPP), exclude PNG. Most (64%) believe progress towards free trade across the Asia Pacific has been slow or has stalled over the past year. Their assessments are often blunt: "I believe that most countries really do not want free trade in the Asia Pacific region, particularly the smaller countries," said one PNG respondent. Some see protectionist tendencies on the rise across the region, including in advanced economies. The trend, in another respondent's view, is "slowing progress to a fairer global economy."

## What's changed with CEO confidence in Papua New Guinea?

### Where conditions are about the same as last year



### What's become more challenging



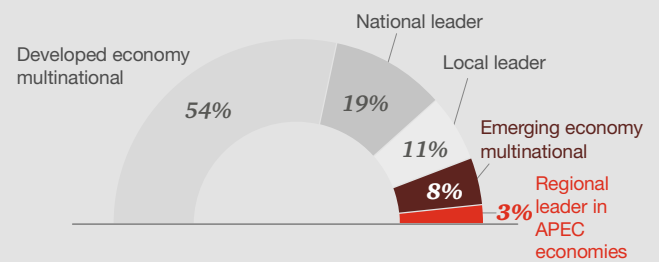
Q: Compared to a year ago, how has your confidence changed about...?  
Base: 39 business leaders in PNG. Showing 'Just as confident' or 'Less confident' responses only.  
Source: PwC's APEC CEO Survey, 2016-17

## Investing for future business growth

APEC CEOs continue to invest in their businesses and into economies across the region to seed future growth. Among those with oversight for markets in PNG, 41% expect to increase investments over the next year. This compares with 53% of CEOs across APEC, which is unchanged from levels a year ago.

Regional capabilities are becoming the benchmark for APEC CEOs: 38% identify a regional leader in APEC or a multinational company from an emerging economy as their leading rival. This signals a changed competitive arena that's underlying the investment flows. Two years ago, 41% of APEC CEOs identified a multinational company from a developed economy as their leading rival.

### For Papua New Guinea business leaders, leading rivals are multinationals from developed APEC economies



Q: Thinking about your competition over the next 3-5 years, which would you characterise as the leading company in your competitive set?  
Base: 37 (Papua New Guinea), not showing 'Don't Know' or 'None of the above' responses.  
Source: PwC's APEC CEO Survey, 2016-17

# We note two investment trends that indicate expectations for future drivers of business growth

## 1) Expand across borders with targeted investment

On average, APEC CEOs are investing in seven other APEC economies. This suggests a continued, strong competitive arena, reflected in the rise in global foreign direct investment (FDI) flows in 2015. Business investment capital is pushing across borders to accelerate growth and, as a result, often bumping into freshly emerging regulatory matters. CEOs today say they balance policy and market factors in cross-border decisions. These perspectives suggest cross-border business investment will increasingly flow to regulatory conditions that most favor business expansion.

### Top four factors for CEOs investing across APEC economies



Q: What matters the most in your business decisions to invest in APEC economies outside of your principal economy?  
 Base: 29 (Papua New Guinea), 1,052 (APEC)  
 Source: PwC's APEC CEO Survey, 2016-17

### Will regulatory conditions matter more in the future?

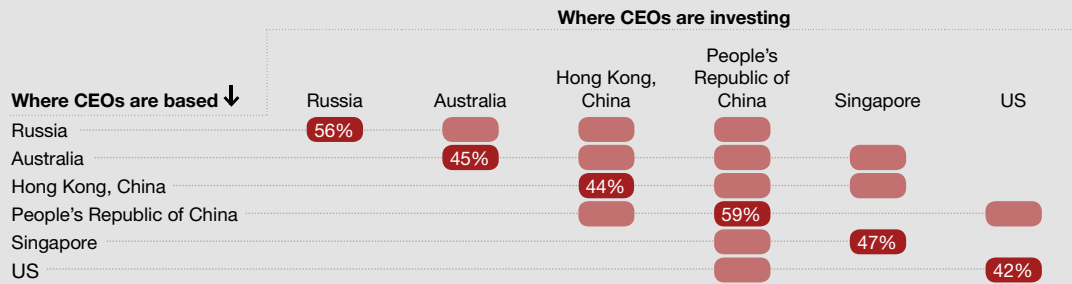


Q: What influence do you expect the regulatory environment (transparent rules, lack of corruption) to have on your investment decision making in APEC economies over the next 3-5 years compared to now?  
 Base: 39 (Papua New Guinea CEOs), 1,079 (rest of APEC), showing 'More influence' responses only.  
 Source: PwC's APEC CEO Survey, 2016-17

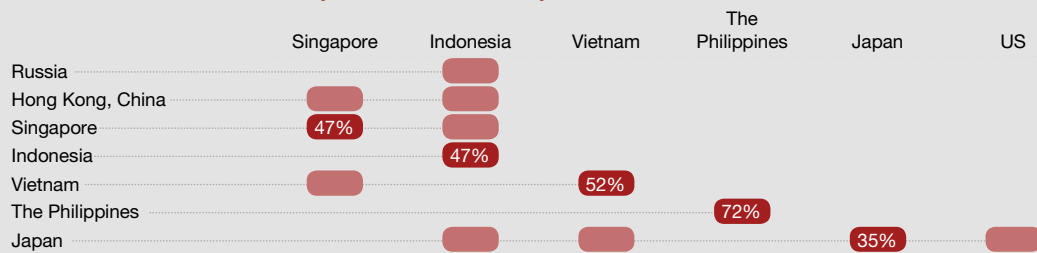
## Most APEC CEOs plan to raise investment at home, but diversification is also apparent for 2016-2017

- % of CEOs surveyed who will increase investment in own economy
- Select APEC destinations drawing investment increases from at least 20% of origin CEOs

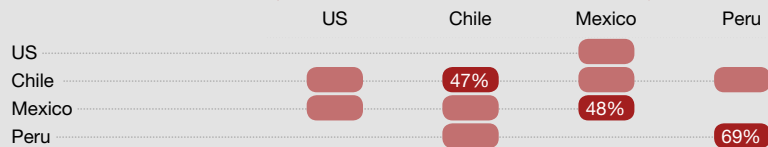
### China, US remain top destinations for more APEC CEOs increasing investment



### ASEAN is next to attract fresh investment from more APEC CEOs



### In the Americas, Pacific Alliance cross-investment flows are taking shape

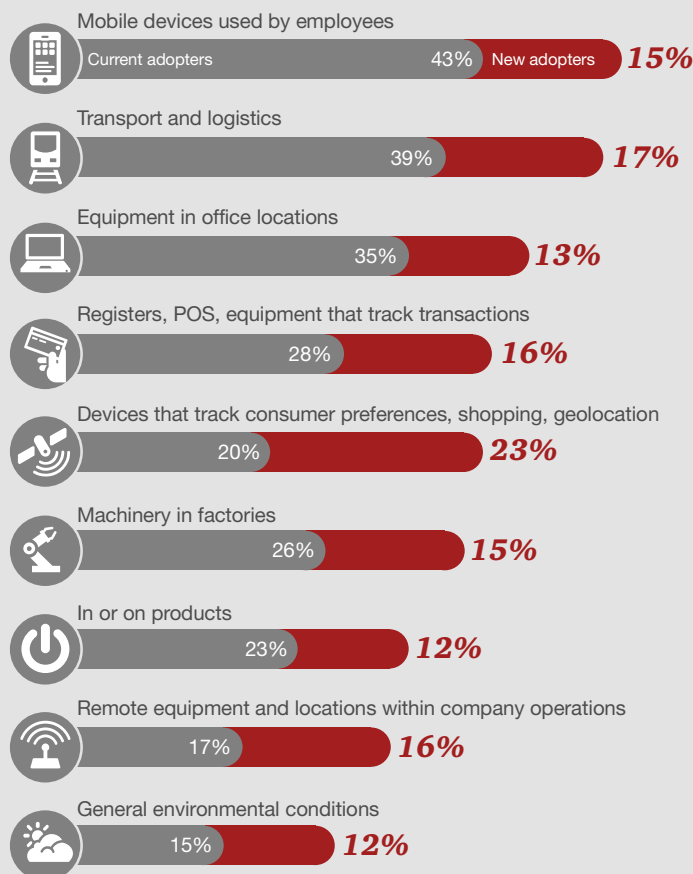


Q: Now thinking of your footprint in APEC economies, will your business investments increase, stay the same or decrease over the next 12 months?  
 Base: 172-517, includes those currently investing in the economy with plans to increase AND those planning to invest in the economy for the first time.  
 Source: PwC's APEC CEO Survey, 2016-17

## 2) Expand data touchpoints inside and outside the business

The Internet of Things (IoT) is opening up new business models and forging new and closer relationships with customers and supply-chain partners. A first wave of this connectivity, largely driven by industrial and utility industries, was the digitization of operations (e.g., smart meters for electric utilities, sensors and robotics and smart fleets for industrials). Now, we're seeing the applications of IoT proliferate in other sectors from agriculture (tracking cattle with sensors) to smart homes (thermostats that know you're in the room) to retail (athletic clothing that sends biometric data to the cloud for real-time analysis) as well as banking and insurance. IoT technology adoption has reached a tipping point.

### Data-collecting devices will be ubiquitous throughout the enterprise in next three years



Q13 In what parts of your operation have you embedded real time or near-real time data and information collection today .... And in the next three years?  
 Base: Current adopters 1,081, New adopters 1,040. New adopters – not currently using it but plan to in the next 3 years  
 Source: PwC's APEC CEO Survey, 2016-17

Our survey of APEC CEOs indicates that, over the next three years, there will be more APEC companies deploying IoT technology than those which aren't. Emerging data-based services and products crossing APEC's borders will continue to change the idea of trade, as servers become the new ports. The twin aims of facilitating free trade of data—and keeping that data secure—will likely persist as jurisdictions grapple with keeping laws and regulations on cross-border data transfers in step with, or ahead of, IoT advancements and wider adoption of the technology.

### **Where PNG CEOs expect the greatest benefit from Internet of Things investment**



74%

Operational efficiencies or cost reduction



57%

Customer experience and relationships



54%

Employee performance



49%

Safety and security/risk mitigation

Q: Thinking about new places for data collection, in which of the following areas do you expect to see the greatest benefit to your business over the next three years?

Base: 35, showing % responses ranked 1-5

Source: PwC's APEC CEO Survey, 2016-17

## **Contact**

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